



# Financial Reserves Policy

<b>Version No.</b>	0.2 November 2021
<b>Endorsement</b>	Executive
<b>Authorisation</b>	Policy Review Panel- 30 November 2021 Council- 13 December 2021
<b>Expiry date:</b>	30 June 2024
<b>Responsible officer:</b>	Manager Finance
<b>Policy owner</b>	Coordinator Accounting Services

## 1. Purpose

To ensure Council sets aside and maintains monies in specific general financial reserve funds to meet specific legal and non-legal liabilities.

## 2. Scope

This policy is applicable to both Discretionary and Statutory Reserves for Council and includes creation of Reserves, transfers of funds to Reserves and subsequent use of funds from Reserves.

This policy excludes the Asset Revaluation Reserve that arises under the Australian Accounting Standards because it relates to the change in asset values rather than the collection of funds.

This policy applies to Councillors and Council Officers and staff

## 3. Definitions

Word/Term	Definition
Reserves	Are funds that have been set aside from operating and capital incomes for future funding of projects. From an accounting perspective the value of these funds are recorded in equity balance sheet ledger accounts.
Statutory Reserves	Statutory Reserves are those required by legislation to record Councils future expenditure commitments.
Discretionary Reserves	Discretionary Reserves are those developed by Council to record Councils future expenditure commitments.
Developer Contributions	Developer contributions are payments made by developers towards costs associated with essential infrastructure.

## 4. Policy

This policy is required to ensure a consistent and formalised process around the creation of Reserves, transfer to Reserves and subsequent expenditure of funds from these Reserves.

Council will maintain both Statutory and Discretionary Reserves that acknowledge the receipt of funds from particular sources to be applied on programs that are consistent with the purposes of that Reserve Fund.

For the purposes of efficient financial management it is acknowledged that in lieu of borrowings, Reserves Funds may be used to assist funding specific projects and are not designed to assist in general operations of Council.

Reserves represent a record of future obligations, or aspirations of projects. To ensure prudent management of these funds expenditure from these Reserves should form part of the Annual Budget program as approved by Council.

As at 30 June each year the recorded cash balances will, as a minimum, be equivalent to the total of the Statutory and Discretionary Reserves balances. Appendix A is a listing of current Reserves.

## **5. STATUTORY RESERVES**

The use of funds from Statutory Reserves is governed by legislation (or other legal requirements) and records Council's future expenditure commitments. Statutory Reserves are also funds collected from developers or funding bodies that represent future obligations. These are separately accounted for to ensure sound financial management of future operations.

Where statutory funds are collected to fund future infrastructure there are legal requirements that govern how the funds must be spent. This may include expending the funds in accordance with the terms and conditions of the funding or on projects in the vicinity of the developments that the funds were collected in respect of.

## **6. DISCRETIONARY RESERVES**

Discretionary Reserves are funds held by Council and segregated from general revenues, based on Council directions, to finance future expenditures or to provide for a specific project so as to ensure funds are available as required. Discretionary Reserves may be varied from time to time where expenditure commitments may be created and retired.

Council may also create program specific Reserves where capital purchases occur across multiple financial years, funded by operational surpluses and/or borrowings.

### **6.1 Creation of Discretionary Reserves**

As a general rule, income and expenditure should be budgeted in the financial year in which it occurs. However, Council does in some instances create Discretionary Reserves where:

- It is anticipated that extensive works will require funding over a period of time;
- Funds are collected specifically for funding of those works or other initiatives.

All new Discretionary Reserves must be established via a Council resolution or via the Council budget process.

### **6.2 Transfers of Funds to Reserves**

Amounts transferred to individual Discretionary and Statutory Reserves come from a variety of sources including:

- **Developer contributions**

100% of developer contributions will be transferred to Reserves in the financial year that funding is received.

- **Operational transfers;**

Equity - Plant Replacement Reserve; Funding derived from Motor Vehicle and Plant replacement will be transferred to the respective Reserves each year.

Carry Forward Reserve – Advance Income; Funding derived from income received in advance such as operating grants.

- **Budget transfers**

Transfers determined as part of the budget process.

- **Transfers of Funds to Statutory Reserves**

Transfers to Statutory Reserves are able to be made by Finance staff in accordance with the relevant legislative and legal requirements.

### **6.3 Transfers of Funds from Reserves**

All transfers of funds from a reserve must be for the agreed purposes for which the Reserve was created.

### **6.4 Transfers Approved As Part of the Budget Process**

In most cases the transfer of funds from Reserves will be approved as part of the Annual Budget process. For example, Capital Works Projects need to include details of project funding, including any planned use of Reserves. Projects are then evaluated and submitted to Council for approval.

### **6.5 Transfers of Funds In Excess of Approved Budget**

In cases where a transfer of funds from a Reserve was approved in the budget but subsequently a higher level of funding is required from Reserves, approval must be sought before transfers are made. Any such transfer from a Discretionary Reserve for purposes outside of the budget must be approved by the CEO up to a limit of \$250,000 and reported to Council at its the next meeting. Statutory Reserves are to be dealt with in this regard pursuant to any applicable legislation.

### **6.6 Transfers of Funds not approved as Part of the Budget Process**

From time to time there may be a requirement to transfer funds from a Reserve for purposes not foreseen when the budget was developed. Any such transfer from a Discretionary Reserve for purposes outside of the budget must be approved by the CEO up

to a limit of \$250,000 and reported to Council at its the next meeting. Statutory Reserves are to be dealt with in this regard pursuant to any applicable legislation.

### 6.7 Transfers of Funds from Statutory Reserves

Transfers from Statutory Reserves are able to be made by Finance staff in accordance with the relevant legislative and legal requirements.

## 7. Responsibility /Accountability

7.1	<b>Manager Finance</b>
	<ul style="list-style-type: none"> <li>• Responsible for managing corporate Finance system is up to date.</li> <li>• Responsible for reporting of Reserves in the financial statements.</li> </ul>
7.2	<b>Coordinator Accounting Services</b>
	<ul style="list-style-type: none"> <li>• Responsible for the day to day management of the policy.</li> </ul>

## 8. References and links to legislation and other documents

Name	Location
Local Government Act 2020	<a href="http://www.legislation.vic.gov.au">http://www.legislation.vic.gov.au</a>
Australian Accounting Standards Board (AASB)	<a href="http://www.aasb.gov.au">http://www.aasb.gov.au</a>
<ul style="list-style-type: none"> <li>- AASB 101 Presentation of Financial Statements.</li> <li>-</li> </ul>	
Victorian Auditor-General's Office	<a href="https://www.audit.vic.gov.au">https://www.audit.vic.gov.au</a>

## Appendix A

### List of Reserves

Plant Replacement Reserve

Street trees/drainage

Community infrastructure

Asset replacement

Perpetual maintenance

Public Art

Defined benefit call

Accommodation reserve

Infrastructure and strategic investment

Carry forward reserve – Advance Income