

Title	Financial Reserve Management Policy
Category	Administrative Policy
Number & Version	SVC-FIN-PO-056-01
Owner	Divisional Manager – Finance & IT
Status	FINAL
Endorsed by	Executive Leadership Team
Approved by	Council – 13 June 2019
Effective date	13 June 2019
Due date for review	September 2020
Keywords	Financial, Cash, Reserve, Restricted, Unrestricted

Disclaimer

*Please note that this policy may not be current as Snowy Valleys Council (Council) regularly reviews and updates its policies and procedures. The latest controlled version can be found in Council's Records Management System or contact Council's Coordinator Governance and Risk on policy@svc.nsw.gov.au for a hard copy of the latest version. **A hard copy of this electronic document is uncontrolled.***

Where there is a delegation identified in this policy, the reader will need to confirm if an alternative delegation exists in the Delegations Register. To the extent that there is any conflict perceived between the delegation/s identified in this policy and of those contained in the Delegations Register, then the delegation/s in the Delegations Register takes precedence. The General Manager will, if necessary, be the sole arbiter in resolving any issues of conflict.

1 PURPOSE

To provide the framework for the establishment and management of externally and internally restricted financial Reserves and unrestricted cash.

2 SCOPE AND APPLICATION

This policy covers both Statutory and Discretionary Financial Reserves.

This policy also covers unrestricted cash.

This policy excludes the Asset Revaluation Reserve that arises under the Australian Accounting Standards as it reflects the increments or decrements of fixed asset values as a result of an asset revaluation.

3 DEFINITIONS

Cash Backed – Money available in the form of liquid cash held in bank accounts or as investments.

Externally Restricted Financial Reserves – Reserves that are subject to external restrictions in their purpose. These Reserves are cash backed.

Internally Restricted Financial Reserves – Reserves established by Council to ensure that sufficient funds are available when required for a specific purpose. These Reserves are cash backed.

Unrestricted Cash – These are funds which are available to be used to cover unexpected or emergency expenses not provided for in the annual budget and not covered by an available internal restriction.

4 STATEMENT

The establishment and management of reserves for specific purposes are a sound and prudent management strategy. All Reserves must be cash backed and included in Council's investment portfolio.

4.1 CLASSIFICATION OF FINANCIAL RESERVES

4.1.1 Externally Restricted Reserves

The purpose of each external cash restriction is contained on Schedule 2.

The following criteria apply to externally restricted Reserves:

- a) The Reserve is subject to legal requirements that govern the use of the funds.
- b) A Reserve will be established for any value if there is a legal requirement or a requirement under Australian Accounting standards.
- c) Transfer of funds are restricted by the individual funding agreements. Council must authorise transfers by Council resolution.
- d) The Reserve includes funds that have not been utilised for the purpose for which they were received, and an obligation or requirement to return funds to the contributor exist.

4.1.2 Internally Restricted Reserves

The purpose of each internal cash restriction is contained on Schedule 1.

The following criteria apply to internally restricted Reserves:

- a) The Reserve is not subject to legal requirements that govern the use of the funds.
- b) The establishment of a new Reserve must be for a specific internal purpose authorised by a Council resolution and shall not be established for an amount less than \$50,000.
- c) Transfer of funds are restricted by the internal purpose of the Reserve. All transfers must be authorised by Council resolution.
- d) The Reserve has been established for a specific internal purpose, however, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to other purposes.

4.1.3 Unrestricted cash

Unrestricted cash refers to monies that are not tied to a particular use. Unrestricted cash can be used for any purpose since it is not earmarked for a specific use and it is taken as an instant reservoir of the cash that can be used for the sudden monetary requirements. Unrestricted cash is extremely liquid that is why it can be use readily for any purpose when required.

An unrestricted cash amount of approximately \$2,000,000 will be held at years' end subject to Council resolution.

4.2 INTEREST ON RESTRICTED CASH

Interest must be applied to external cash restrictions where required by legislation or otherwise, such as section 94 developer charges. Interest is added to the balance in the relevant cash restriction. The rate of interest is equal to the average return on investments for the financial year.

If interest is paid on internally restricted cash, the interest is paid into the General Fund.

4.3 BORROWINGS FROM RESTRICTED CASH

Council may borrow from internally restricted cash, (but not from externally restricted cash without consent from the Minister of Local Government). Any such borrowing must be authorised by resolution of Council and the full impact of the borrowing disclosed. Interest must be paid on any such borrowings.

4.4 TRANSFERS TO AND FROM RESTRICTED CASH

Funds may only be transferred into or transferred out of a cash restriction, by resolution of Council. The authority for such transfers may be given:

- a) By specific resolution in the case of a particular project the subject of a Council resolution, or
- b) In the budget process, by virtue of the adoption of the Annual Budget, or
- c) In the Quarterly Budget Review Statement, by virtue of the adoption of that statement by Council, or
- d) By the adoption of the annual financial statements containing a schedule of restricted cash showing transfers in and out.

A transfer contained in a Quarterly Budget Review Statement must show the restricted cash item audited opening balance, the amount transferred in or out and the estimated closing balance.

4.5 REPORTING ON RESTRICTED CASH

The level of restricted cash shall be reported on in the Quarterly Budget Review Statement and annually in the Financial Statements.

Council must assess at least annually the adequacy of each internal cash restriction during the preparation of the Long Term Financial Plan and annual budget.

5 RESPONSIBILITIES /ACCOUNTABILITIES

Accountability for cash reserve management shall be the responsibility of the Executive Leadership Team.

Specific responsibilities are as follows:

Mayor & Councillors – the voting of money to or from a Reserve for use on Council works, services or operations.

General Manager & Directors – have a responsibility to ensure that all Reserve balance changes or Reserves to be established/removed are done in consultation with the finance team and are approved by Council resolution.

Divisional Manager Finance & IT and Finance Officers – have a responsibility to ensure Reserve balances are appropriately accounted for in accordance with Council resolutions in the financial accounts and balances are reported to Council quarterly.

6 RELEVANT LEGISLATION

Local Government Act, 1993
Australian Accounting Standards
Code of Accounting Practice

7 RELATED POLICIES/DOCUMENTS

Investment Policy SVC-COR-PO-067
Annual Financial Statements
Long Term Financial Plan
Quarterly Budget Reviews

8 RELATED FORMS

NIL

9 SUPERSEDING POLICY / PROCEDURE NUMBER AND TITLE

NIL

10 REVISION HISTORY

Date	Version Number	Activity log	Resolution Number	Resolution date
21.05.2019	1	New		
13.06.2019	1	Adopted By Council	M148/19	13.06.2019

11 CONTACT OFFICER

Position: Divisional Manager – Finance & IT

Section: Internal Services Directorate

Name and Purpose of Internal Cash Restrictions held

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis												
Employee Leave Entitlement (ELE)	To ensure that adequate funds are available to fund employee leave entitlements such as long service leave, and annual leave.	<p>The amount of this Reserve is based on a formula calculated by reference to average brackets and total leave accruals.</p> <table border="1" data-bbox="970 535 1334 875"> <thead> <tr> <th>Age Band</th> <th>% of Gross Entitlement</th> </tr> </thead> <tbody> <tr> <td>60+</td> <td>100%</td> </tr> <tr> <td>55-60</td> <td>60%</td> </tr> <tr> <td>50-55</td> <td>30%</td> </tr> <tr> <td>45-50</td> <td>20%</td> </tr> <tr> <td><45</td> <td>10%</td> </tr> </tbody> </table>	Age Band	% of Gross Entitlement	60+	100%	55-60	60%	50-55	30%	45-50	20%	<45	10%
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Plant Replacement	To be able to internally fund replacement of plant and vehicles at the optimal time.	The amount of this Reserve is based on an internal hire rate which is determined by the actual purchase price plus operating expenditure (including depreciation) less proceeds of sales.												
Asset Replacement	To ensure adequate funds are available to replace existing assets across the Council area to their previous level of service.	<p>The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.</p> <p>The annual transfer may also consist of budget savings on completed works and budgeted projects not carried out.</p>												
Carry Over Works – General Fund	To carry over unspent funds for uncompleted capital and operational works as agreed by Council resolution.	The annual transfer to this Reserve is the remaining (allocated) unspent budget required to complete the adopted Council works in progress at financial year end.												
Insurance	To fund insurance excess amounts for public liability and property claims on Council assets.	The amount of this Reserve is based on three times the excess amount of the public liability and property insurance policies.												
Risk Management	To fund identified risk mitigation programs (staff and/or infrastructure) which are aimed at reducing Council’s liability.	The annual transfer to this Reserve is based on the value of StateWide and StateCover rebates and incentives received during the financial year.												
Legal	To fund unexpected legal expenses above the annual budgeted amount.	The amount of the Reserve is based on past legal expenses trends and maintained at a minimum of \$50,000.												
Information Technology (IT)	To fund replacement of hardware and upgrades to the current IT system.	An annual transfer to this Reserve is the equivalent value of asset depreciation as per Note 9 of the Annual Financial Statements less the												

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis
		written down value of equipment sold throughout the relevant financial year or sale proceeds whichever is the higher.
Community Services	To carry out Community Services projects.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results (excluding surplus grant income), and savings to carry out specific planned projects.
Community Transport	To set aside funds for the purchase and replacement of Community Transports vehicle fleet under the Community Transport Funding Agreement and to carry out specific projects.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results (excluding surplus grant income), and savings to carry out specific planned projects.
Telecentre	To fund ongoing operations of the Rural Transaction Centres.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results on operations for the financial year.
Scholarships	To fund donations towards recipients of Council scholarships to Charles Sturt University.	An annual transfer to this reserve is for the allowance of two scholarships per annum.
Quarries	To fund the remediation and improvement of quarries across the Council area.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results on operations for the financial year.
Waste Management	To fund future transfer stations and landfill new cell development and remediation.	Funds transferred to and from this Reserve represent any surplus or deficit operating results on operations for the financial year.
Aboriginal Brungle Reserve	Funds held to expend on Aboriginal Brungle Reserve and Aboriginal Projects.	Funds transferred to and from this Reserve represent any surplus or deficit operating results on operations for the financial year.
Section 355 Committees	To hold funds on behalf of s355 Committees.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results on operations for the financial year for respective s355 Committees.
Deposits, Retentions and Bonds	Funds that are temporarily held under Council policy arrangements.	Funds transferred to and from this Reserve represent deposits, retentions and bonds as part of Council's ongoing operations.

Name and Purpose of External Cash Restrictions held

Name of External Cash Restriction	Purpose of Restriction	Purpose
Developer Contributions	This Reserve contains section 94 and section 64 contributions received from developers in accordance with conditions applied to development applications, subject to constraints imposed by other legislation.	Funds will be allocated as part of the annual budget process, any unspent funds received within any financial periods will be constrained for future use.
Unexpended Government Grants and Contributions	This Reserve includes funds received from State or Federal Governments by way of a specific advance or grant or a contribution that is constrained or tied to a specific project or purpose, subject to contractual obligations or other legislation.	Funds will be expensed in line with funding conditions and individual funding agreements.
Water Supplies	This Reserve consists of funds set aside for future replacement of water related assets across the Council area and water capital works projects not completed in previous years.	Any surplus generated by the water business, after allowing for operating and capital expenses, will be added to this reserve on an annual basis. The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.
Sewerage Services	This reserve consists of funds set aside for future replacement of sewer related assets across the Council area and sewer capital works projects not completed in previous years.	Any surplus generated by the sewer business, after allowing for operating and capital expenses, will be added to this reserve on an annual basis. The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.
Domestic Waste	This reserve consists of funds set aside for future replacement of domestic waste related assets across the Council area and domestic waste capital works projects not completed in previous years.	Any surplus generated by the sewer business, after allowing for operating and capital expenses, will be added to this reserve on an annual basis. The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.
Retirement Village	To fund the future operation and replacement of retirement facilities.	Funds transferred to and from this Reserve will represent any surplus or deficit operating results on operations for the financial year.