



**muswellbrook  
shire council**

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# **Financial Reserve Management Policy MSC20E**

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## **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 as operating capital or to cover unexpected or emergency expenses not provided for in the annual budget that is 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.
- e) All Reserves must be fully cash backed.

#### **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 by Council resolution.
- e) All Reserves must be fully cash backed.

#### **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 \$1,000,000 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 7.11 developer charges.

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 & MANEX** – 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.

**Chief Financial Officer 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 (Financial Securities) Policy I20-1

Annual Financial Statements

Long Term Financial Plan

Quarterly Budget Reviews

## Authorisation Details

|                          |  |
|--------------------------|--|
| <b>Authorised by:</b>    | Corporate Policy and Planning Committee                    |
| <b>Minute No:</b>        |  |
| <b>Date:</b>             |  |
| <b>Review timeframe:</b> | Within the first 12 months of the term of each new Council |
| <b>Department:</b>       | Finance  |
| <b>Document Owner:</b>   | Chief Financial Officer                                    |

## Details History

| Version No. | Date changed | Modified by       | Amendments made |
|-------------|--------------|-------------------|-----------------|
| V1          |              | Council Minute no |                 |
|             |              |                   |                 |
|             |              |                   |                 |
|             |              |                   |                 |

## Schedule 1

### 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><tr><th>Age Band</th><th>% of Gross Entitlement</th></tr><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>&lt;45</td><td>10%</td></tr></table> | Age Band | % of Gross Entitlement | 60+ | 100% | 55-60 | 60% | 50-55 | 30% | 45-50 | 20% | <45 | 10% |
| Age Band                          | % of Gross Entitlement   |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 60+                               | 100%   |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 55-60                             | 60%  |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 50-55                             | 30%  |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 45-50                             | 20%  |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| <45                               | 10%  |   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 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&amp;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>   |          |                        |     |      |       |     |       |     |       |     |     |     |
| Future Fund                       | This Reserve consists of funds set aside for the acquisition, development, demolition or disposal of commercial property assets and to sponsor projects and initiatives to create jobs and improve education and training outcomes in the local community. | <p>Any surplus generated by the future fund business, after allowing for operating and capital expenses, will be added to this reserve on an annual basis.</p> <p>The annual transfer to this Reserve is based upon projects adopted in the IP&amp;R strategies and plans.</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.   |          |                        |     |      |       |     |       |     |       |     |     |     |
| 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.   |          |                        |     |      |       |     |       |     |       |     |     |     |

| Name of Internal Cash Restriction | Purpose of Restriction   | Calculation Basis  |
|-----------------------------------|--|--|
| 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 written down value of equipment sold throughout the relevant financial year or sale proceeds whichever is the higher. |
| 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.  |
| 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.   |



## Schedule 2

### Name and Purpose of External Cash Restrictions held

| Name of External Cash Restriction              | Purpose of Restriction  | Calculation Basis   |
|--|---|---|
| Developer Contributions                        | This Reserve contains section 7.11 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.<br><br>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.<br><br>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.<br><br>The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans. |