



# muswellbrook shire council

## Draft Financial Reserve Management Policy

MSC20E

### Authorisation Details

<b>Authorised by:</b>		<b>Internal/External:</b>	External
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<b>Department:</b>	Finance		
<b>Document Owner:</b>	Chief Financial Officer		
<b>Community Strategic Plan Goal</b>	6. Collaborative and responsive community leadership that meets the expectations and anticipates the needs of the community		
<b>Community Strategic Plan Strategy</b>	6.2 Ensure Council is well managed, appropriately resourced, effective, efficient, accountable and responsive to its communities and stakeholders		
<b>Delivery Program activity</b>	6.2.1 Maintain a strong focus on financial discipline to enable Council to properly respond to the needs of the communities it serves		

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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. Risks being addressed

A Financial Reserve policy will enable Council to:

- Set funds aside to meet legislative requirements in Water Supply, Sewerage Network, and Domestic Waste Services.
- Allocate funds against future projects and operational objectives. Without a reserves policy, there may be insufficient funds for infrastructure improvements or other long-term projects. Reserves can also assist with budget shortfalls.
- Ensuring financial sustainability and manage unexpected expenses or emergencies such as natural disasters or economic downturns.
- A lack of reserves can negatively impact Council's credit rating, leading to higher borrowing costs.
- Reserves provide flexibility to respond to changing circumstances.

# 3. 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.

# 4. Definitions

Term	Definition
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.

## 5. 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.

### 5.1 Classification of Financial Reserves

#### 5.1.1 Externally Restricted Reserves

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

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.

#### 5.1.2 Internally Restricted Reserves

The purpose of each internal cash restriction is contained on Schedule 2

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) Transfer of funds are restricted by the internal purpose of the Reserve. All transfers must be authorised by Council resolution.
- c) 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.
- d) All Reserves must be fully cash backed.

#### 5.1.3 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 sudden monetary requirements. Unrestricted cash is extremely liquid, which is why it can be used readily for any purpose when required.

### 5.2 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.

### 5.3 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.

### 5.4 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 that is 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.

### 5.5 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.

## 6. Roles, Responsibilities and Delegations

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

Specific responsibilities are as follows:

Role	Responsibility
Mayor & Councillors	the voting of money to or from a Reserve for use on Council works, services or operations.
General Manager & DLG	have a responsibility to ensure that all Reserve balance changes or Reserves to be established/removed are done in consultation with the finance team.
Chief Financial Officer and Finance Officers	have a responsibility to ensure Reserve balances are appropriately accounted for in accordance with Council Budget Review resolutions, and in the financial accounts and balances as reported to Council quarterly.

## 7. Dispute Resolution

The General Manager is the interpreter of this policy and shall be the sole arbiter with respect to the application of this policy.

## 8. Related Documents

### Legislation and Guidelines

- Local Government Act 1993 (NSW)
- Local Government (General) Regulation 2021 NSW
- Australian Accounting Standards
- Local Government Code of Accounting Practice

### Policies and Procedures

- Investment (Financial Securities) Policy I20-1

### Other Supporting Documents

- Annual Financial Statements
- Long Term Financial Plan
- Quarterly Budget Reviews

## 9. Version History

Version No.	Date changed	Modified by	Amendments made
1	05/04/2022	Council Minute no 279	Adopted 05/04/22 minute number 279. Public Exhibition from 6/04/22 for 28 days, no submissions received therefore adopted by Council on 05/04/22.
2	01/05/2025	Financial Controller	Review for new Council Term 2024-2028.

## 10. Schedule 1 - Name and Purpose of External Cash Restrictions held

Name of External Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Developer Contributions</b>	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.	<p>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.</p> <p>Any unspent Voluntary Planning Agreements (VPA) funds are also part of the developer contributions reserve. VPAs are received from mining and energy companies in accordance with specific agreements on how funds will be spent. Meetings are held at least annually to decide on the proposed spending for the following year, except for Road Maintenance and Environmental Officer funding, where this funding is part of the revenue for the operating budget.</p>
<b>Domestic Waste</b>	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.	<p>Any surplus generated by the waste 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>
<b>Sewerage Services</b>	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.	<p>Any surplus generated by the sewer 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>
<b>Stormwater Management</b>	Funds allow Council to undertake significant improvements to the drainage system to provide a cleaner and safer environment for the benefit of owners, residents and visitors.	Council charges a legislated stormwater management charge in the stormwater management zone of the LGA.

Name of External Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Unexpended Government Grants and Contributions</b>	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.
<b>Water Supplies</b>	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.

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## 11. Schedule 2 - Name and Purpose of Internal Cash Restrictions held

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Carry Over Works – General Fund</b>	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.
<b>Deposits, Retentions and Bonds</b>	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.
<b>Economic Development</b>	Funds used to stimulate economic development in the LGA.	Residual funds from the formation of the Upper Hunter Economic Development Foundation.
<b>Election</b>	To set aside funds for the local government elections which are normally conducted every four years.	An annual allocation from the general fund operating budget.
<b>Employee Leave Entitlement (ELE)</b>	To ensure that adequate funds are available to fund employee leave entitlements such as long service leave, and annual leave.	The amount of this Reserve is based on a formula calculated by reference to average brackets and total leave accruals.
<b>Financial Assistance Grant</b>	To record the financial impact of receiving the Financial Assistance Grant (FAG) in advance for the following year. The FAG is paid to local councils to help them deliver services to their communities.	Funds are paid annually by the Australian Government.
<b>Financial Sustainability</b>	Funds set aside from excess non-rate revenue for significant projects, investments or initiatives to achieve key strategies of Council.	Excess earnings from investment income relative to original operating budget.

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Future Fund</b>	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.	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.  The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.
<b>Information and Communications Technology (ICT)</b>	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.
<b>Infrastructure Replacement</b>	To ensure adequate funds are available to replace existing assets across the Council area to their previous level of service.	The annual transfer to this Reserve is based upon projects adopted in the IP&R strategies and plans.  The annual transfer may also consist of budget savings on completed works and budgeted projects not carried out.
<b>Insurance</b>	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.
<b>Legal Matters</b>	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.
<b>Mine Affected Roads</b>	To fund the maintenance of roads in the LGA that are affected by the additional transport due to the local mining operations.	Surplus funds from voluntary planning agreements over prior years specific for mine affected roads.

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Mine Affected Roads Study</b>	To plan for the road network due to mining activity closing roads as part of their ongoing operations and the impact to the community.	Several mining companies have funded the study. The reserve is the residual from the original funding.
<b>Natural Disaster</b>	For emergency response expenditure in relation to the declared natural disaster: floods in 2022.	The reserve will be reimbursed by any claims received from the State and Federal Governments for emergency response.
<b>Net Zero</b>	Funds set aside for the purpose of reducing or offsetting Council's carbon emissions, including to implement energy efficiency, renewable energy, other sustainability projects, and establishing/operating a revolving energy fund for financing such projects that generate cost savings.	Funds from National Carbon Bank Australia or other designated funding.
<b>Other</b>	Primarily Projects, Sustainability Contingency and minor other funds to be used to cover unforeseen overruns in project works and other urgent expenditure where no other budget monies are available.	Surplus funds from projects and internal transfer of accounts.
<b>Plant &amp; Vehicle Replacement</b>	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.
<b>Risk Management</b>	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.

Name of Internal Cash Restriction	Purpose of Restriction	Calculation Basis
<b>Road</b>	To fund road infrastructure in the LGA.	Sale of road assets in the LGA. and is maintained at a minimum of \$500k as a contingency. Any surplus funds from Road Maintenance Contracts.
<b>Special Rate Variation 2019/2020</b>	To address funding gaps for essential services and infrastructure maintenance that cannot be met within the standard rate peg limits.	An increase to the general income above the rate peg set by IPART.  SRV financial year 2019/2020 allocated as approved.
<b>Sustainability Transition</b>	Funds cover staff time and associated costs related to renewable energy projects. Funds will also be used to support temporary staff, contractors and consultants to ensure that critical projects included within and outside the renewable energy focus continue to progress efficiently.	Funding is received from EnergyCo to deliver renewable energy transition project work (operating expenditure).
<b>Waste Management Centre</b>	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.