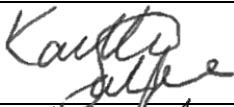





Murrumbidgee
COUNCIL

Financial Reserves Policy (Revision 0.1)

| | Name | Position | Signature | Date |
|---------------------|----------------|-------------------------|--|----------------|
| Responsible Officer | Kaitlin Salzke | Chief Financial Officer |  | September 2023 |
| Authorised By | John Scarce | General Manager |  | September 2023 |

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Contents

| | |
|---|---|
| 1. Background | 3 |
| 2. Objectives | 3 |
| 3. Classification of Financial Reserves | 3 |
| 4. Creation, Alteration & Cessation of Reserves | 4 |
| 5. Transfers of Funds | 4 |
| 6. Unrestricted Funds | 5 |
| 7. Review | 5 |
| Appendix 1 – Schedule of Externally Restricted Financial Reserves | 6 |
| Appendix 2 – Schedule of Internally Restricted Financial Reserves | 8 |

1. Background

This policy is to ensure sustainable, responsible, and appropriate management of Murrumbidgee Council's cash balances and financial reserves through a consistent and transparent approach to the appropriate identification and creation, administration, and usage of externally and internally restricted financial reserve amounts.

Financial reserves are created where surplus operating cash and/or income from specific sources is allocated for committed future expenditure. The purpose of financial reserves is to stratify monies held by Council that are linked to statutory requirements and long-term organisational objectives and strategies.

2. Objectives

This policy has the following objectives:

- Ensure definitive classifications of financial reserve accounts, including unrestricted cash requirements
- Ensure the appropriate level of funds are available at the appropriate time to meet statutory and operating requirements and to prudently manage financial risk
- Ensure Council's reserve activity is in accordance with legislative, governance and prudent financial principles
- Establish processes around the creation and classification of financial reserves, as well as requirements of transfers of funds into and from these reserves
- Establish policy or processes to administer the financial reserves, including restrictions of usage of funds in reserve, internal and external reporting of usage of funds in reserve and closure of funds at end of useful life.

Every reserve created should have a clear and specific purpose and relate back to the adopted Integrated Planning and Reporting strategies and plans of Council. There should be a clear link between this Policy, and the reserves created under it, to the Operational Plan, Delivery Program, and, where appropriate, the Council's asset management plans and community plans.

The purpose of this Policy is to provide clarity and transparency in the sequestering of funds from annual operations in order to provide for longer term expenditure. That transparency encompasses the method of calculation of both the fund in total and its annual movements.

3. Classification of Financial Reserves

Asset Revaluation Reserves

These reserves are established under the requirements of the Australian Accounting Standards. They reflect the increments or decrements of fixed asset values arising from an asset revaluation, such as increase in value of properties owned by Council. These reserves cannot be used for any other function.

Externally Restricted Reserves

These reserves are created as a result of a legislative requirement governing the use of the funds. These funds must be fully expended for the specific purpose defined, and cannot be used by Council for general operations.

Internally Restricted Reserves

These reserves are funds that the Council has determined to be used for specific purposes. These reserves are not subject to legal requirements governing the use of the funds and if that purpose does not eventuate or Council changes its priorities, Council may resolve to change the purpose of these funds.

4. Creation, Alteration and Cessation of Reserves

All significant decisions in relation to Council's financial reserves are required to be by Council resolution. The creation of new reserves, alterations to existing reserves, or the cessation of any existing reserve may only be undertaken by resolution of the Council. Such a resolution should be based on a thorough and detailed report setting out all of the implications involved. Any such resolution must specify the amount of the transfer.

A schedule of existing financial reserves is appended to this policy outlining, for each reserve, its purpose, the basis on which it is calculated, its target balance, the name of the Council position/committee responsible for controlling the reserve and Council approval date/Minute No. where known. Given that they form part of an Appendix to this policy, amendments to individual reserves may be made by Council resolution without the need to amend the policy itself.

All reserves, with the exception of the Asset Revaluation Reserve, are to be 100% cash-backed.

5. Transfers of Funds

Funds may be transferred to and from reserves by Finance staff in accordance with the calculation basis set out in the appendix.

In most other cases, the transfer of funds from reserves will be approved as part of the annual 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, or to transfer funds in excess of the budgeted amount. Any such transfer must be approved by Council resolution.

No transfer from any reserve shall exceed the amount of the existing balance of the reserve at the time of transfer, unless a reserve overdraft has been approved by resolution of Council and the full impact of such overdraft taken into account for any financial management plans, and there are sufficient funds within the total reserves balance to allow a temporary overdraft.

Interest should be paid from the overdrawn reserve account if the balance is material.

6. Unrestricted Funds

These are funds which are available to be used to cover unforeseen budget shock, where expenses are not provided for in the annual budget and not covered by the external and internal restricted reserves. These funds are also available to:

- boost Council's financial liquidity in paying suppliers, providing services and retaining staff
- meet short term cash flow requirements to fund capital works projects
- meet Council's operational efficiency by covering non-budgeted discretionary expenditure, and
- support Council's long-term financial sustainability

Council has a target of at least \$1,500,000 unrestricted cash funds.

7. Review

This Policy:

- To be reviewed within the first year of the new Council term;
- May be reviewed and amended at any time at Council's discretion (or if legislative or State Government policy changes occur).

Appendix 1 – Schedule of Externally Restricted Financial Reserves

| Reserve Name | Water Fund |
|--------------------------|---|
| Purpose | Isolate cash available to water supply services to enable a continuity of operations to meet the needs and expectations of Council and the community. These funds can only be used to fund water supply operations, or projects and programs which are directly related to water supply operations. |
| Calculation Basis | Cash received for the provision and management of water supply services is transferred to this reserve and expenditure incurred for the service is transferred from this reserve. |
| Target Balance | In accordance with Council's Long Term Financial Plan. |
| Responsible | Director of Infrastructure |

| Reserve Name | Sewer Fund |
|--------------------------|---|
| Purpose | Isolate cash available to sewerage services to enable a continuity of operations to meet the needs and expectations of Council and the community. These funds can only be used to fund sewerage operations, or projects and programs which are directly related to sewerage operations. |
| Calculation Basis | Cash received for the provision and management of sewer services is transferred to this reserve and expenditure incurred for the service is transferred from this reserve. |
| Target Balance | In accordance with Council's Long Term Financial Plan. |
| Responsible | Director of Infrastructure |

| Reserve Name | Domestic Waste Management Reserve |
|--------------------------|---|
| Purpose | Section 496 of the Local Government Act 1993 (the Act) requires Council to levy an annual charge for the provision of domestic waste management services, which include garbage and recycling services. Under the legislation, Council cannot finance these services from ordinary rates so the charge must be sufficient to recover reasonable costs of providing these services. |
| Calculation Basis | Cash received for the provision and management of domestic waste services is transferred to this reserve and expenditure incurred for the service is transferred from this reserve. |
| Target Balance | In accordance with Council's Long Term Financial Plan. |
| Responsible | Director Planning, Community & Development |

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|--------------------------|---|
| Reserve Name | Developer Contributions Reserve |
| Purpose | Sections 7.11 & 7.12 of the <i>Environmental Planning & Assessment Act 1979</i> enables Council to levy contributions as a consequence of development. The Act requires Council to set these funds aside to be used specifically for the provision of these facilities. |
| Calculation Basis | 100% of developer contributions levied in accordance with Council's adopted s 7.11 and s 7.12 Developer Contributions Plans will be transferred to the reserve in the financial year that they are received. |
| Target Balance | No target. Cash to be fully expended. |
| Responsible | Director Planning, Community & Development |

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|--------------------------|--|
| Reserve Name | Coleambally Town Development Reserve |
| Purpose | In accordance with s 495 of the <i>Local Government Act 1993</i> , Council may make a special rate towards meeting the costs of any works, services, facilities or activities provided or undertaken by Council within any part of the Council's area. The special rate must be levied on rateable properties that, in Council's opinion, will benefit, contribute, or have access to the proposed works, services, facilities or activities. Until the 2020 financial year, Council levied a Town Improvement Rate on properties in Coleambally which is retained in this reserve and is proposed to be expended on future subdivision development at Coleambally. |
| Calculation Basis | No further transfers to this reserve are expected to be undertaken. Transfers from this reserve may only be undertaken by resolution of Council and/or adoption in the annual budget. |
| Target Balance | No target. Cash to be fully expended. |
| Responsible | Director Planning, Community & Development |

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|--------------------------|---|
| Reserve Name | Specific-Purpose Unexpended Grants Reserve |
| Purpose | Council receives grant funds for specific projects and purposes. It is common that grants will be expended across different financial years and this reserve allows unexpended grant funds to be isolated and retained for expenditure on the project for which the grant was received. |
| Calculation Basis | At the end of each year, specific-purpose grants received but not yet expended are transferred into this reserve. At the beginning of the next year, the amount placed into the reserve is transferred back out of the reserve. |
| Target Balance | No target – variable. |
| Responsible | Finance Manager |

Appendix 2 – Schedule of Internally Restricted Financial Reserves
(amended September 2023)

| Reserve Name | Infrastructure Replacement Reserve |
|--------------------------|--|
| Purpose | These funds are available for the replacement of Council's infrastructure. |
| Calculation Basis | Transfers to and from this reserve are to be undertaken in accordance with Council resolution and/or budget adoption. Where feasible, Council will aim to contribute unutilised depreciation funds set aside for asset renewal. However, Council acknowledges that many, if not most, of its infrastructure asset renewals are expected to be funded by grants and contributions, and, as such, accepts that depreciation may not be fully funded by Council's own cash reserves. Council has also resolved to transfer an amount of \$77,000 to the Infrastructure Replacement reserve for each of the financial years from 2024 to 2034 (to replenish funds utilised from this account for the reconstruction of Bencubbin Avenue during the 2023 financial year). |
| Target Balance | No target set. |
| Responsible | Director of Infrastructure |

| Reserve Name | Employee Leave Entitlement Reserve |
|--------------------------|---|
| Purpose | Provide funds for employee leave entitlements (such as annual leave or long service leave) which have been accrued but not yet paid. |
| Calculation Basis | Employee on-costs charged which exceed actual cash expenditure will be transferred to this reserve at 30 June each year. (These are expected to comprise, substantially, leave entitlements accrued but not taken.) Where actual leave expenditure exceeds leave accrued, Council may utilise funds from this reserve. Where possible, Council will seek to contribute additional funds to this reserve to meet its target balance. |
| Target Balance | Equal to the provision for employee entitlements (as calculated annually and reported in Council's financial statements). |
| Responsible | Finance Manager |

| Reserve Name | Carry Over Works Reserve |
|--------------------------|--|
| Purpose | Projects not completed at 30 June funded by general revenue and carried forward to following financial year. |
| Calculation Basis | Projects proposed to be carried over to the following year's budget are allocated to this reserve. Reserve cleared to zero at beginning of each financial year. |
| Target Balance | No target. |
| Responsible | Finance Manager |

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|--------------------------|---|
| Reserve Name | Plant Replacement Reserve |
| Purpose | To provide funds for the purchase of plant and fleet assets. |
| Calculation Basis | Cash received from the sale of plant and equipment is transferred to this reserve. Expenditure incurred in acquiring plant and equipment is funded as a transfer from this reserve. Internal plant hire income in excess of plant-related expenditure is allocated to this reserve; and an amount equal to depreciation expenditure on plant items is also allocated to this reserve. |
| Target Balance | Target balance to be developed in line with Plant Replacement Program. |
| Responsible | Director of Infrastructure |

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| Reserve Name | Financial Assistance Grant Advance Payment |
| Purpose | To set aside Financial Assistance Grants received in advance for the next years' general operations. |
| Calculation Basis | Any Financial Assistance Grant advance payment received is to be allocated to this reserve. On 1 July of the year to which the payment relates, it is to be transferred from the reserve. |
| Target Balance | Reserve at end of financial year must reflect FAG received in advance (if applicable) for the following financial year. |
| Responsible | Finance Manager |

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|--------------------------|---|
| Reserve Name | Darlington Point Real Estate Development Reserve |
| Purpose | To fund future real estate development at Darlington Point. As at 30 June 2023, the Young Street subdivision is underway and the next planned subdivision is Britts Road. |
| Calculation Basis | Annually, the sales price of lots sold from the Young Street subdivision (or other developments in Darlington Point) less associated cash expenditure incurred during the year, is to be transferred to this reserve. |
| Target Balance | No target. Cash to be fully expended. However, prior to expenditure, Council is to ensure that sufficient cash is retained in this reserve to fund future loan repayments to which Council is committed in relation to this development. |
| Responsible | Director Planning, Community & Development |

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| Reserve Name | Jerilderie Real Estate Development Reserve |
| Purpose | To fund future real estate development at Jerilderie. |
| Calculation Basis | Annually, the sales price of lots sold from the Wunnumurra Estate subdivision (or other developments in Jerilderie), less associated costs incurred during the year, is to be transferred to this reserve. |
| Target Balance | No target. Cash to be fully expended. |
| Responsible | Director Planning, Community & Development |

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| Reserve Name | Caravan Park Reserve |
| Purpose | Prior to and during the late-2022 flooding events, a number of cabins were sold from the Darlington Point Caravan Park. The net sale proceeds from these cabins is to be allocated to a reserve to fund future development of the caravan park and implementation of the master plan. |
| Calculation Basis | Net sale proceeds from cabins, or any other amount determined by Council, to be allocated to this fund. Funds to be expended by Council resolution and/or budget adoption. |
| Target Balance | No target. Cash to be fully expended. |
| Responsible | Director Planning, Community & Development |

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| Reserve Name | Risk Management Reserve |
| Purpose | StateCover rebates received, to be expended on risk management initiatives. |
| Calculation Basis | StateCover rebates received are transferred to this reserve. |
| Target Balance | No target. StateCover rebates to be fully expended. |
| Responsible | WHS & Risk Advisor |

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| Reserve Name | Energy Saving Initiatives Reserve |
| Purpose | To fund projects that reduce Council's billed energy consumption. |
| Calculation Basis | At 30 June each year, any budgeted electricity expenditure in excess of the actual electricity expenditure is to be reinvested in the reserve. |
| Target Balance | No target. To be fully expended. |
| Responsible | Director of Infrastructure |

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| Reserve Name | Jerilderie Monash Committee Reserve |
| Purpose | Council holds funds on behalf of the Jerilderie Monash Committee. |
| Calculation Basis | Funds donated to or raised by the Jerilderie Monash Committee are to be allocated to this reserve. Funds to be expended from this reserve at the discretion of the Jerilderie Monash Committee, subject to written confirmation by two committee members. |
| Target Balance | No target. Cash to be fully expended. |
| Responsible | Manager Corporate & Community Services |