9.10 Financial Reserves Policy Review

RECOMMENDATION

That Council:

1. receive the report by the Manager Financial Planning on the Financial Reserves Policy Review;

2. place the revised Financial Reserves Policy on public exhibition for 28 days to receive any public submissions; and

3. adopt the revised Financial Reserves Policy if no submissions are received.

Executive summary

Council’s Finance department have conducted a review of the Financial Reserves Policy, resulting in a revised policy. A copy of the current Financial Reserves Policy is attached to this report with tracked changes.

Disclosure of Interest

Nil.

Detailed report

The Financial Reserves Policy revision proposes to add a new internal reserve called Community Plan Reserve. This reserve will accumulate surplus funds to set aside funding for Community initiatives identified in the Integrated Planning and Reporting strategies and plans. It is also recommended to remove the Elections Reserve target balance due to increasing cost of elections.

Community Plan implications

<table>
<thead>
<tr>
<th>Theme</th>
<th>Good Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>An effective and efficient organisation</td>
</tr>
<tr>
<td>Strategy</td>
<td>Prudently manage risks association with all Council activities</td>
</tr>
</tbody>
</table>

Strategic implications

Council Strategies

Not applicable.

Council Policies

The Financial Reserves Policy is proposed to be amended.

Legislation
Not applicable.

Financial implications
Not applicable.

Associated Risks
Not applicable.

NEIL BUNGATE
MANAGER FINANCIAL PLANNING

LEONIE JOHNSON
CHIEF FINANCIAL OFFICER

1 April 2020


APPROVED FOR SUBMISSION:

BRAD CAM
GENERAL MANAGER
Objective

To provide a framework for the establishment and ongoing management of Financial Reserves.

Legislative requirements

- Local Government Act 1993
- Local Government (General) Regulation 2005

Related policies and plans

Reserves are established to set aside funds for Council to allocate to specific projects, as required. Prior to the creation of a Reserve, Council shall adopt operating parameters in relation to the Reserve which are to set out:

- The purpose of the Reserve;
- The basis of calculation for any transfer to the Reserve;
- The basis of calculation for any transfer from the Reserve; and
- The proposed allocation of any unexpended balance remaining in the Reserve following completion of the project.

Every Reserve created should have a specific purpose, and relate back to the adopted Integrating Planning and Reporting (IP&R) strategies and plans of Council. There should be a clear link between this policy, the Operational Plan/Delivery Program, and Council’s Asset Management Plans and Community Plans.

Expenditure from and transfers to Reserves can only be authorised by resolution of Council, which must specify the amount. No transfer from any Reserve shall exceed the amount of the existing balance of the Reserve at the time of transfer, unless the Reserve overdraft has been approved by resolution of Council with the full impact of such overdraft taken into account for any financial management plans, and there is 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 and interest is specified in the Reserve information as set out in the Authorised Reserves listing below.

Each Quarterly Budget Review Statement is to include a schedule of Reserves, showing:

- Opening Balance at 1 July;
- Estimated Transfer to Reserves;
- Estimated Transfer from Reserves;
- Estimated Closing Balance at 30 June; and
- Current Balance.
Authorised Reserves of Mid-Western Regional Council

INTERNALLY RESTRICTED RESERVES

Internally Restricted Reserves are funds that Council has determined will be used for a specific purpose. Council may resolve to change the purpose of these funds.

**RESERVE NAME**  **EMPLOYEE LEAVE ENTITLEMENTS RESERVE**

**Purpose:** To ensure that adequate funds are available to finance employee leave entitlements such as long service leave, vesting sick leave, annual leave and redundancies.

**Calculation Basis:** Transfers to and from the Reserve will be based upon projected end of year liabilities relating to employee leave entitlements. The calculation of such liabilities takes into consideration the anticipated timing of employee leave entitlement payments based on a number of factors, including age demographics of employees.

**Target Balance:** The target balance will be based upon the age and anticipated payout date for each employee. The following levels of funding will be held to fund various age bands, based on expected employee leave liabilities at financial year end.

<table>
<thead>
<tr>
<th>AGE BAND</th>
<th>% FUNDING 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>40%</td>
</tr>
<tr>
<td>45-50</td>
<td>20%</td>
</tr>
<tr>
<td>&lt;45</td>
<td>10%</td>
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</tbody>
</table>

**RESERVE NAME**  **LAND DEVELOPMENT RESERVE**

**Purpose:** To set aside funds for the costs associated with development and sale of land surplus to Council’s requirements and development of commercial property portfolio based upon the endorsed Fit For the Future Business Improvement Plan.

**Calculation Basis:** Transfers to and from the Reserve are based upon expenses related to specific land development endorsed by Council. This includes the purchase of land. Surplus balance may be transferred to unrestricted cash when endorsed by Council.

**Target Balance:** Funds are only to accumulate based on specific purpose requirements.
# Reserve Name: Elections Reserve

**Purpose:** To finance the costs of elections.

**Calculation Basis:** Transfers to and from the Reserve are based upon the estimated costs of conducting elections every four years.

**Target Balance:** Sufficient to ensure funding of the next scheduled election. Building up to a maximum of $250,000 over each four-year period and reviewed after each election.

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# Reserve Name: Plant Replacement Reserve

**Purpose:** To ensure adequate funds are available to purchase a responsive and modern plant fleet at the optimum replacement point.

**Calculation Basis:** Transfers to and from the Reserve are based upon:
- Plant operating results
- Plant depreciation
- Plant purchases as per the approved plant replacement schedule
- Profit/loss on sales of plant

**Target Balance:** Operating Surplus + Depreciation + Profit on DOA – Purchases. This Reserve must maintain a minimum balance of $250,000.

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# Reserve Name: Asset Replacement Reserve – General Fund

**Purpose:** To ensure adequate funds are available to replace existing assets to their previous level of service. Assets include infrastructure, office equipment and furniture.

**Calculation Basis:** Transfers to and from the Reserve are based upon projects adopted in the IP&R strategies and plans.

**Target Balance:** Sufficient to ensure funding of related projects as per IP&R strategies and plans.

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# Reserve Name: Capital Program Reserve

**Purpose:** To provide funding for capital projects and Council initiatives not specifically identified in other reserves.

**Calculation Basis:** Transfers to and from the Reserve are based on the existence of, or proposal for, an annual budget allocation for an identified specific capital project or Council initiative.

**Target Balance:** Funds are only to accumulate based on specific purpose requirements.
<table>
<thead>
<tr>
<th>RESERVE NAME</th>
<th>LIVESTOCK EXCHANGE RESERVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose:</td>
<td>To provide funding for the development and enhancement of saleyards assets.</td>
</tr>
<tr>
<td>Calculation Basis:</td>
<td>Transfers to and from the Reserve are based upon operating surpluses of the Saleyards Fund, together with identified projects in the Saleyards Asset Management Plan.</td>
</tr>
<tr>
<td>Target Balance:</td>
<td>Sufficient to ensure funding of saleyards related projects as per the Management Plan of the saleyards facility.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>RESERVE NAME</th>
<th>STATE ROADS WARRANTY RESERVE</th>
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</thead>
<tbody>
<tr>
<td>Purpose:</td>
<td>To provide a quasi self-insurance for State Road works contracts, should cost of contracts exceed agreed Roads and Maritime Services (RMS) contributions or road failures need repair as per RMS contract requirements.</td>
</tr>
<tr>
<td>Calculation Basis:</td>
<td>Transfers from the Reserve are only permitted where State Road actuals fail to achieve budgeted results by a significant amount, impacting Council’s levels of unrestricted working capital.</td>
</tr>
<tr>
<td>Target Balance:</td>
<td>$400,000 maximum.</td>
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<table>
<thead>
<tr>
<th>RESERVE NAME</th>
<th>FUTURE FUND RESERVE</th>
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<tbody>
<tr>
<td>Purpose:</td>
<td>To set aside funds in order to invest in future employment growth opportunities to support alternate economic development to the coal industry within the Mid-Western Region.</td>
</tr>
<tr>
<td>Calculation Basis:</td>
<td>Transfers to and from the Reserve are based on the existence of or proposal for an annual budget allocation for future economic development opportunities.</td>
</tr>
<tr>
<td>Target Balance:</td>
<td>Sufficient to ensure funding of economic and job growth initiatives as they are raised.</td>
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<thead>
<tr>
<th>RESERVE NAME</th>
<th>MUDGEE BICENTENARY</th>
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<tbody>
<tr>
<td>Purpose:</td>
<td>To set aside funds for Mudgee’s Bicentenary Celebration.</td>
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<tr>
<td>Calculation Basis:</td>
<td>Transfers to and from the Reserve are based on approved funding towards events for Mudgee Bicentenary Celebrations.</td>
</tr>
<tr>
<td>Target Balance:</td>
<td>No target. Reserve to be closed once Mudgee Bicentenary Celebrations are complete.</td>
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</table>
RESERVE NAME | SEAL EXTENSION PROGRAM
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Purpose: | To set aside surplus funds from road work contributions to invest into a seal extension program
Calculation Basis: | Transfers to the Reserve are based on the risk margin achieved on capital road work projects funded by private contributions, and are to be included in the reserve at Councils discretion. Transfers from the Reserve are to be for seal extension work
Target Balance: | No target. The balance will capture surplus funds at any given time.

Reserve Name | COMMUNITY PLAN RESERVE
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Purpose: | To provide funding for Community initiatives identified in the Integrated Planning and Reporting strategies and plans.
Calculation Basis: | Transfers to the reserve are based on the existence of a surplus of unrestricted cash above operating requirements. Transfers from the reserve are based on the existence of or proposal for an annual budget allocation for an identified specific project.
Target Balance: | No target. The balance will capture surplus unrestricted cash at any given time.

**EXTERNALLY RESTRICTED RESERVES**

Externally Restricted Reserves are where legislation governs the use of the funds. These funds must be spent for the specific purpose defined and cannot be used by Council for general operations.

RESERVE NAME | WATER SUPPLY RESERVE
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Purpose: | To ensure adequate funds are available to replace existing water supply assets to their previous level of service and upgrade assets to meet future needs.
Calculation Basis: | Transfers to and from the Water Supply Reserve will be in accordance with the adopted 30 year financial plan for the Water Supply Fund.
Target Balance: | Sufficient to ensure adequate funding of related projects as per the IP&R strategies and plans and Councils 30 year financial plan.

RESERVE NAME | SEWER RESERVE
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Purpose: | To ensure adequate funds are available to replace existing sewerage assets
to their previous level of service and upgrade assets to meet future needs.

Calculation Basis: Transfers to and from the Sewerage Reserve will be in accordance with the adopted 30 year financial plan for the Sewerage Fund.

Target Balance: Sufficient to ensure funding of related projects as per the IP&R strategies and plans and Council’s 30 year financial plan.

RESERVE NAME WASTE MANAGEMENT RESERVE

Purpose: To ensure adequate funds are available to replace existing waste management assets to their previous level of service and upgrade assets to meet future needs.

Calculation Basis: Transfers to and from the Waste Management Reserve will be in accordance with the adopted 30 year financial plan for the Waste Management Fund.

Target Balance: Sufficient to ensure funding of related projects as per the IP&R strategies and plans and Council’s 30 year financial plan.

RESERVE NAME COMMUNITY SERVICES RESERVE

Purpose: To carry out Community Services projects and capture any operating surpluses of specific community service programs.

Calculation Basis: Funds transferred to and from Reserves will represent any surplus or deficit operating results (excluding surplus grant income), and savings to carry out specific planned capital projects.

Target Balance: $100,000 maximum.

RESERVE NAME COMMUNITY TRANSPORT VEHICLE RESERVE

Purpose: To set aside funds for the purchase and replacement of Community Transports vehicle fleet, including necessary upgrades to make vehicles fit for purpose as required under the Community Transport Funding Agreement.

Calculation Basis: Funds transferred to and from Reserves will represent any surplus or deficit operating results (excluding specific purpose surplus grant income), and savings to carry out vehicle fleet replacement.
Target Balance: Sufficient to ensure funds are available to purchase vehicles as required under the Community Transport Funding Agreement.

RESERVE NAME COMMUNITY TENANCY SCHEME

Purpose: To carry out asset replacement and upgrades of existing properties held under the Community Tenancy Scheme or additional housing under the scheme, in accordance with the associated Deed of Agreement.

Calculation Basis: Funds transferred to and from the Reserve will represent any surplus or deficit operating results (excluding surplus grant income), and savings to carry out specific planned capital projects.

Target Balance: Maximum $300,000.

RESERVE NAME BEQUEST – SIMPKINS PARK

Purpose: To preserve in trust the funds bequeathed to Council from the Estate of Phyllis Leeton Simpkins until such time as the expiration of the period limited by Perpetuity Act 1984 (estimated date of expiration is 2086).

Calculation Basis: Funds may only be transferred from the Reserve upon the expiration period (2086), and are restricted to use for further improvements and beautification of Simpkins Park.

Target Balance: No target. Interest on reserve is allocated annually and added to the principal funds. This is preserved until the expiration date.

RESERVE NAME ULAN ROAD STRATEGY RESERVE

Purpose: To carry out Ulan Road Strategy projects and capture any operating surpluses or cash payments towards Ulan Road Strategy works, as designated in the relevant mine and grant funding agreements.

Calculation Basis: Funds transferred to and from Reserves will represent any surplus or deficit annual results (excluding surplus grant income), and Councils designated operating contributions.

Target Balance: As required to capture surplus funds at any given time.
RESERVE NAME: FAMILY DAY CARE

Purpose: To ensure adequate funds are available to replace existing Family Day Care assets to their previous level of service.

Calculation Basis: Funds transferred to and from Reserves will represent any surplus or deficit annual results (excluding surplus grant income), and Councils designated operating contributions.

Target Balance: As required to capture surplus funds at any given time.

RESERVE NAME: PUBLIC ROAD CLOSURE COMPENSATION

Purpose: To ensure the compensation received from the disposal of public roads is recorded and expenditure is restricted for use on public roads as required under the Roads Act 1993.

Calculation Basis: All compensation received from the disposal of a public road is to be transferred to the Reserve. Funds transferred from Reserves will represent any approved expenditure for acquiring land for public roads or for carrying out road work on public roads.

Target Balance: No target.