

FINANCIAL RESERVE FUNDS POLICY (COMMUNITY POLICY)

1. Scope

This Policy applies to the creation and maintenance of equity-based reserves, except for the Asset Revaluation Reserve.

2. Purpose

The purpose of this policy is to document the process for maintaining financial cash reserves for future operating and capital expenditure.

3. References (legislation/related documents)

Legislative reference

Local Government Act 2009

Related documents

AASB 15 Revenue from Contract with Customers

AASB 107 Cash Flow Statements

AASB 1058 Income of Not-for-Profit Entities

Debt Policy

Investment Policy

Financial Guiding Principles

Local Government Infrastructure Plan

4. Definitions

To assist in interpretation, the following definitions shall apply:

Non-profit or non-competitive activities	Services or activities delivered by Council that are not, or do not have the potential to be, delivered by a private sector firm for the purpose of earning profits in the absence of Council's involvement
Prescribed business activity	A business activity is prescribed for section 47(7) of the <i>Local Government Act 2009</i> for a financial year if the amount of current expenditure for the business activity exceeds the threshold as determined by the <i>Local Government Regulation 2012</i> .
Reserves	Funds that are accumulated within Council to meet specific anticipated future needs.

5. Policy Statement

Livingstone Shire Council considers the creation and maintenance of reserves for specific purposes as a sound and prudent financial management strategy. All reserves must be cash backed with the cash forming part of Council's investable funds in accordance with the Investment Policy.

Council maintains and operates reserves for each of the identified prescribed business activities that are adopted as part of the annual budget meeting. All other non-profit or non-competitive activities are combined and accounted for as the general fund.

Individual reserves are held in the following funds:

- General fund reserves (refer to section 6.1)
- Waste fund reserves (refer to section 6.2)
- Water fund reserves (refer to section 6.3)
- Sewerage fund reserves (refer to section 6.4)

The reserves held in the above funds are classified as either internally allocated or externally imposed reserves. Alternatively, these reserves can also be described as internally restricted or externally restricted.

Externally restricted (or externally imposed) reserves relate to cash received for a specific purpose and cannot be used for discretionary spending or for a purpose that it was not originally intended. There may also be legislative requirements restricting the use of the cash.

Internally restricted (or internally allocated) reserve represents cash that is under no external or legally imposed restrictions.

In principle, the surplus generated each year by the individual funds should be applied in the following order:

- 1) Transfer restricted cash to the relevant restricted reserve;
- 2) Payment of debt redemption;
- 3) Payment of tax equivalent to the general fund;
- 4) Reduction of debt if considered a sound financial decision and in accordance with the guidance provided in Council's Debt Policy; and
- 5) Transfer of remaining retained surplus/deficit to the appropriate reserve for future use.

Business units may pay a dividend (tax equivalent) to the general fund in accordance with Council's application of competition policy, and at the discretion of the Chief Financial Officer, depending on the requirements of Council in that year. In accordance with the application of competition policy, the water, sewerage and waste businesses are considered significant business activities.

Where a fund has made a deficit in the financial year, cash held in internally restricted reserves, should be used to offset this loss. If there is insufficient cash held in the internally restricted reserves, the retained deficit will need to be carried forward and recovered in future years.

In some instances, the Chief Financial Officer may make a decision to transfer from working capital to the general fund if there are insufficient reserves available to cover a retained deficit in the financial year.

Internal short-term loans of internally restricted funds only between the general fund and the business unit funds may be utilised when the following exception circumstances are met:

- It can be guaranteed that the funds would not be required in the short term for the original reserve purposes;
- Full whole of life costing has been completed for the identified project and cash flow model completed that identifies the funds will be repaid within the designated timeframes; and
- When all other applicable methods of financing had been proven to be less advantageous when viewed from a whole of council perspective.

6. Description of Individual Reserves by Fund

6.1 General Fund Reserves

6.1.1 Externally restricted (externally imposed) reserves

- **Constrained grants and subsidies reserve (capital and operating)** consists of two separate reserves are maintained for both capital and operating unspent grants, subsidies or donations received in a prior financial year that relate to a specific project and must be spent for the intended purpose. These reserves will account for entire unspent funding sources, regardless of which fund the underlying expenditure is associated with.
- **Roads and drainage contribution reserve** consists of unspent infrastructure charges contributions received for the development of road and stormwater trunk infrastructure and be used in accordance with Council's local government infrastructure plan (LGIP) schedule of works.
- **Parks and community facilities reserve** consists of unspent infrastructure charges contributions received for the development of park and community facilities and to be used in accordance with Council's local government infrastructure plan (LGIP) schedule of works.

6.2 Waste Fund Reserves

6.2.1 Internally restricted (internally allocated) reserves

- **Waste business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. Tax equivalents may be paid to the general fund on an annual basis depending on the requirements of the Council in that year. The payment and quantum of the internal charge will be at the discretion of the Chief Financial Officer.
- **Waste management landfill rehabilitation** consist of cash set aside for future landfill rehabilitation obligations.
- **Unspent loan reserve** consists of the proceeds of loan borrowings unspent from a prior financial year for future capital works.

6.3 Water Fund Reserves

6.3.1 Internally restricted (internally allocated) reserves

- **Water business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. Tax equivalents may be paid to the general fund on an annual basis depending on the requirements of the Council in that year. The payment and quantum of the internal charge will be at the discretion of the Chief Financial Officer.
- **Unspent loan reserve** consists of the proceeds of loan borrowings unspent from a prior financial year for future capital works.

6.3.2 Externally restricted (externally imposed) reserves

- **Water contribution reserve** consists of unspent infrastructure charges contributions received for the development of water infrastructure and to be used in accordance with council's local government infrastructure plan (LGIP) schedule of works.

6.4 Sewerage Fund Reserves

6.4.1 Internally restricted (internally allocated) reserves

- **Sewerage business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. Tax equivalents may be paid to the general fund on an annual basis depending on the requirements of the Council in that year. The payment and quantum of the internal charge will be at the discretion of the Chief Financial Officer.
- **Unspent loan reserve** consists of the proceeds of loan borrowings unspent from a prior financial year for future capital works.

6.4.2 Externally restricted (externally imposed) reserves

- **Sewerage contribution reserve** consists of unspent infrastructure charges contributions received for the development of sewerage infrastructure and to be used in accordance with council's local government infrastructure plan (LGIP) schedule of works.

6. Changes to this Policy

This Policy is to remain in force until any of the following occur:

1. The related information is amended/replaced; or
2. Other circumstances as determined from time to time by the Council

7. Repeals/Amendments

Version	Date	Action
1.0	21/06/2022	New Policy – Adopted by Council

CALE DENDLE
CHIEF EXECUTIVE OFFICER