

Category:	Finance	
Adoption:	Council	Date: 23 February 2016
Review period:	Every three years	
Responsible Manager:	Manager Finance	

Purpose / Objective:

This policy is to:

- (a) ensure that the Mount Alexander Shire Council (Council) has established Reserve Funds that account for income that has been received from specific sources for a future application;
- and
- (b) establish requirements around the creation of Reserves, transfer to Reserves and subsequent expenditure of funds from these Reserves.

Scope of this Policy

This policy is applicable to both Discretionary and Statutory Reserves for Council and includes creation of Reserves, transfers of funds to Reserves and subsequent use of funds from Reserves.

This policy excludes the Asset Revaluation Reserve that arises under the Australian Accounting Standards because it relates to the change in asset values rather than the collection of funds.

Background / reasons for Policy:

This policy is required to ensure a consistent approach to the establishment requirements around the creation of Reserves, transfer to Reserves and subsequent expenditure of funds from these Reserves.

Policy content:

DEFINITIONS

For the purpose of this policy, the following definition of Reserves applies:

"Reserves" are funds that have been set aside from operating and capital incomes for future funding of projects. From an accounting perspective the value of these funds are recorded in equity balance sheet ledger accounts.

POLICY

Council will maintain both Statutory and Discretionary Reserves that acknowledge the receipt of funds from particular sources to be applied on programs that are consistent with the purposes of that Reserve Fund.

For the purposes of efficient financial management it is acknowledged that in lieu of borrowings, Reserves Funds may be used to assist funding specific projects and are not designed to assist in general operations of Council.

Reserves represent a record of future obligations, or aspirations of projects. To ensure prudent management of these funds expenditure from these Reserves should form part of the Annual Budget program as approved by Council.

As at 30 June each year the recorded cash balances will, as a minimum, be equivalent to the total of the Statutory and Discretionary Reserves balances. Appendix A is a listing of current Reserves.

STATUTORY RESERVES

The use of funds from Statutory Reserves is governed by legislation (or other legal requirements) and records Council's future expenditure commitments. Statutory Reserves are also funds collected from developers or funding bodies that represent future obligations. These are separately accounted for to ensure sound financial management of future operations.

Where statutory funds are collected to fund future infrastructure there are legal requirements that govern how the funds must be spent. This may include expending the funds in accordance with the terms and conditions of the funding or on projects in the vicinity of the developments that the funds were collected in respect of.

DISCRETIONARY RESERVES

Discretionary Reserves are funds held by Council and segregated from general revenues, based on Council directions, to finance future expenditures or to provide for a specific project so as to ensure funds are available as required. Discretionary Reserves may be varied from time to time where expenditure commitments may be created and retired.

Council may also create program specific Reserves (Waste, Plant and Fleet) where capital purchases occur across multiple financial years, funded by operational surpluses generated by these assets.

Creation of Discretionary Reserves

As a general rule, income and expenditure should be budgeted in the financial year in which it occurs and should not be "set aside" in Reserves for future use. However, Council does in some instances create Discretionary Reserves where:

- It is anticipated that extensive works will require funding over a period of time;
- Funds are collected specifically for funding of capital works; and
- There is a legal or legislative requirement.

Discretionary Reserves should not be created where it is expected that the balance of the Reserve will not reach \$25,000, and is subject to Council resolution, including within the budget process or quarterly finance report.

Transfers of Funds to Reserves

Amounts transferred to individual Discretionary and Statutory Reserves come from a variety of sources including:

- Developer contributions
 - 100% of developer contributions will be transferred to Reserves in the financial year that funding is received.
- Waste charges
 - The surplus from waste operations (including general waste charges) will be transferred to the Waste Reserve each year.
- Operational transfers;
 - Income derived from Motor Vehicle Hire and Plant Hire will be transferred to the respective Reserves each year.
- Budget transfers
 - Transfers determined as part of the budget process.
- Energy and Water Saving transfers;
 - 100% of the annual energy and water savings will be paid to the Reserve per annum from projects funded by the Reserve. This process will be repeated over subsequent years until 125% of the initial cost of the project has transferred to the Reserve. For example, if \$7,000 was spent on a solar energy system, the payback to the Reserve would be \$8,750. All assumptions about the payback period must be detailed in the Environmental Upgrade Agreement that is endorsed for each specific project.

For all Reserves currently in existence at the date of approval of this policy, the sources of funds paid into the Reserves are current balances of Reserves. New Reserve amounts transferred to the Reserve must be from the sources outlined above.

Transfers of Funds from Reserves

All transfers of funds from a reserve must be for the agreed purposes for which the Reserve was created. Reserve transfers will be reported as part of quarterly finance report presented to an ordinary meeting of Council.

Transfers Approved As Part of the Budget Process

In most cases the transfer of funds from Reserves will be approved as part of the Annual Budget process. For example, Capital Works Projects need to include details of project funding, including any planned use of Reserves. Projects are then evaluated and submitted to Council for approval.

Transfers of Funds In Excess of Approved Budget

In cases where a transfer of funds from a Reserve was approved in the budget but subsequently a higher level of funding is required from Reserves, approval must be sought before transfers are made.

For transfers from Reserves which are less than 10% and \$20,000 variance to budget, Director Corporate Support approval is required. In cases where the difference to budget is more than 10% and \$20,000 the CEO must approve the transfer.

Transfers of Funds not Approved as Part of the 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. Any such transfer from a Reserve for purposes outside of the budget must be approved by the CEO.

Transfer of Funds due to Environmental Upgrade Agreement

Funds can be transferred from the Energy and Water Savings Reserve if the Leadership Group approves an Environmental Upgrade Agreement to fund projects that reduce energy or water usage.

Related Policies:

Nil.

Relevant Legislation:

Local Government Act 1989
Australian Accounting Standards