

# Statutory and Discretionary Reserve Policy



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## 1. Purpose

This policy is to establish requirements around the creation of Reserves, transfer to Reserves and subsequent expenditure of funds from these Reserves. In addition, this policy serves to ensure that sufficient cash is available to fund Reserve projects.

## 2. Scope

This policy is applicable to both Discretionary and Statutory Financial Reserves of 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.

## 3. 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, Reserve Funds may be used to assist funding specific projects and are not designed to assist in the 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 will form part of the Annual Budget program as approved by Council, or as resolved by Council, Chief Executive Officer or Directors from time to time.

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.

### 3.1. Creation of Reserves

As a general rule, income and expenditure will be budgeted in the financial year in which it occurs and will not be set aside in Reserves for future use. However, Council will, in some instances, create 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.
- There is a legal or legislative requirement.

Discretionary Reserves will not be created where it is expected that the balance of the Reserve will not reach \$25,000.

## 3.2. 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.
- Budget transfers - transfers determined as part of the budget process.
- Uncompleted Works - all capital, special and operational projects approved by Council for carry forward will be transferred to the Reserve each year and then reversed on 1 July.
- Unspent Grants - all grants identified as unspent and not tied to a carry forward project at year end, will be transferred to the Reserve and then reversed on 1 July, if there are acquittal requirements associated with those grant funds.
- Energy and Water Saving transfers - 100% of the annual energy and water savings generated from projects funded by the Reserve will be transferred to the Reserve. This process will be repeated over subsequent years until 125% of the initial cost of the project has been 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 (EUA) that is endorsed for each specific project.

New Reserve amounts transferred to the Reserve must be from the sources outlined above.

## 3.3. 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 Reserve which are less than 10% and \$20,000 variance to budget, a Directors 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

- In the instance where 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 or a Council resolution.
  - For transfers from Reserve which are less than \$20,000 or relate to operational or developer contribution reserves that Council has previously approved expenditure from, the CEO must approve the transfer.
  - In cases where the transfer from Reserve is more than \$20,000 or do not relate to operational or developer contribution reserves that Council has previously approved expenditure from, transfers must be approved by Council resolution.

## Transfer of funds due to an Environmental Upgrade Agreement (EUA)

- Funds can be transferred from the Energy and Water Savings Reserve if the Executive approves an Environmental Upgrade Agreement (EUA) to fund projects that reduce energy or water usage.

## 4. Definitions of Abbreviations Used

A table of terms and their definitions as they relate to the policy

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

	<p>may be varied from time to time where expenditure commitments may be created and retired.</p> <p>Council may also create program specific Reserves (e.g. Waste) where capital purchases occurring across multiple financial years are funded by operational surpluses generated by these assets.</p>
Asset Revaluation Reserve	Records the change in asset values (revaluations of land, buildings, drains, roads, footpaths, kerb and channel and bridges), rather than the collection of funds.
Environmental Upgrade Agreement (EUA)	An Environmental Upgrade Agreement (EUA) is an agreement to improve the environmental performance of a building.

## 5. Human Rights Statement

### Human Rights Statement

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights and Responsibilities Act (2006).