

STRATHFIELD COUNCIL

# FINANCIAL RESERVES POLICY



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<b>RESPONSIBILITY</b>	Chief Financial Officer		
<b>DATE ADOPTED</b>	27 February 2024	<b>MINUTE</b>	19/24
<b>REVISED</b>	N/A	<b>REVIEW</b>	TBC
<b>CM10 Record Number</b>	23/77647		
<b>ASSOCIATED POLICIES/ DOCUMENTS</b>	<ul style="list-style-type: none"><li>List all Strathfield Council Policies and other related internal documents</li></ul>		
<b>ASSOCIATED LEGISLATION</b>	<ul style="list-style-type: none"><li>Local Government Act, 1993</li><li>Local Government (General) Regulation, 2021</li><li>NSW Local Government Code of Accounting Practice and Financial Reporting</li></ul>		

## 1. Introduction

### 1.1. Background and Purpose of Policy

Financial Reserves are designated to allocate funds for specific Council projects and initiatives. Each Financial Reserve must align with the Integrated Planning and Reporting (IP&R) strategies. This policy ensures a clear connection between Councils Financial Reserves, the Operational Plan, Delivery Program, Council's asset management, and community plans.

### 1.2. Objectives of the policy

Council is dedicated to maintaining best practices in financial reserves accounting, adhering carefully to both external statutory regulations and internal management reporting standards.

The policy objective is to establish a framework that ensures clear visibility and accountability in the separation of funds derived from yearly operations, intending to set aside these resources for future long-term expenditure. This includes not only emphasising transparency but also detailing comprehensive methodologies for calculating both the aggregate fund and the yearly fluctuations within it, thereby enabling a robust financial planning strategy aligned with the Council's overarching goals and priorities.

### 1.3. Coverage of the Policy

This policy covers all externally and internally restricted financial reserves.

### 1.4. Definitions

The definitions of certain terms are:

- Externally Restricted Reserves** - are formed due to legal mandates guiding fund usage. These funds must be entirely spent for the defined purpose and cannot support Council's general operations.

- **Internally Restricted Reserves** - are funds earmarked by the Council for specific purposes. The Council can decide to alter the purpose of these funds through resolution.

## 2. Policy Statement

This Policy mandates specific procedures for managing Financial Reserves by Council.

### 2.1. Creation, Modification and Closure of Financial reserves

All significant decisions regarding Financial Reserves, including creating new reserves, modifying existing reserves, or discontinuing any reserve, necessitate a Council resolution. Amendments to individual reserves within this schedule can be made via Council resolution without altering the policy itself.

Any initiation, cessation, or transfer of funds to or from a reserve requires explicit authorisation through a Council resolution. Such resolutions require a detailed report outlining all implications involved, and the resolution must clearly specify the transfer amount.

A comprehensive schedule detailing existing Financial Reserves, their purposes, calculation methods, target balances, responsible Council positions/committees, and approval dates/minute numbers is appended to this policy.

### 2.2. Accounting for Financial Reserves

Transfers from any Financial Reserve cannot exceed its existing balance at the time of transfer unless a Financial Reserve overdraft is authorised via a Council resolution. The complete ramifications of such an overdraft must be considered in all financial management plans, and there should be adequate funds within the total of all Financial Reserves to accommodate a temporary overdraft.

If borrowing from externally restricted reserves becomes necessary, Council must adhere to legislative provisions governing such borrowing. This includes, but is not limited to, obtaining ministerial approval before executing the borrowing, in addition to passing a council resolution.

Every Quarterly Budget Review Statement must contain a Financial Reserves schedule displaying:

- Actual opening balance on 1st July
- Estimated transfer to the Reserve during the financial year
- Estimated transfer from the Reserve during the financial year
- Estimated closing balance on 30th June

## 3. Responsibility / Responsibilities

The designated Reserve Owners specified in the appendix to this policy are accountable for the respective reserves:

- Implementing a strategic approach and achieving the set target
- Ensuring integrity consistent with the strategic approach, target, purposes, and limitations.

The Chief Financial Officer holds the responsibility for:

- Maintaining a comprehensive schedule of all Financial Reserves
- Overseeing all accounting functions related to Financial Reserves
- Providing regular reporting through the Quarterly Budget Review Statement and internal management reporting requirements.

Operational procedures to support this policy shall be approved by the Director Corporate and Community.

#### 4. Breaches

Inappropriate usage of Externally Restricted Reserves typically violates the Local Government Act and could lead to punitive actions against the Council.

Misuse of Internally Restricted Reserves against this policy may lead to disciplinary actions.

#### 5. Version Control

This policy is reviewed at least every four years and when relevant legislation changes.

The Director Corporate and Community may approve non-significant and/or minor editorial amendments from time to time that do not change the substance of the policy. This includes modifying the policy's appendix to add, modify, or remove financial reserves that have been altered through a Council resolution.

Version	Date	Details	Officer	Council Meeting Date
1	Nov 2023	Creation of Document	Chief Financial Officer	27/02/24

## Appendix to the Financial Reserves Policy

### A. Externally Restricted Financial Reserves

Reserve Name	Reserve Purpose	Allocation Basis and Target Balance	Reserve Owner
<b>1. Developer Contributions</b>	<p>Cash contributions received under the Environmental Planning and Assessment Act 1979 related to S7.11, and S7.12 Contributions.</p> <p>Funds are to be expended in compliance with the Contribution Plans and related works program, Council's Delivery Program, and Operational plan.</p>	Target Balance: No specific target. Cash to be expended following the expenditure program outlined in the Delivery Program and Operational plan.	Manager Planning, Place & Development
<b>2. Planning Agreements</b>	<p>Cash collected under S7.4 (2) Environmental Planning and Assessment Act 1979 for following purposes, the:</p> <ol style="list-style-type: none"> <li>a. provision of (or the recoupment of the cost of providing) public amenities or public services,</li> <li>b. provision of (or the recoupment of the cost of providing) affordable housing,</li> <li>c. provision of (or the recoupment of the cost of providing) transport or other infrastructure relating to land,</li> <li>d. funding of recurrent expenditure relating to the provision of public amenities or public services, affordable housing or transport or other infrastructure,</li> <li>e. monitoring of the planning impacts of development,</li> <li>f. conservation or enhancement of the natural environment.</li> </ol>	No Target. Planning agreements cash received fully expended for purpose collected.	Manager Planning, Place & Development
<b>3. Stormwater Management</b>	Council imposes a Stormwater Levy, aligned with the Minister's policy gazetted in October 2005, to enhance stormwater system management for a cleaner and safer environment, benefiting property owners, residents, and visitors.	No specific target. Cash received entirely utilised according to the expenditure program in the Delivery Program and Operational plan.	Manager Engineering

<b>Reserve Name</b>	<b>Reserve Purpose</b>	<b>Allocation Basis and Target Balance</b>	<b>Reserve Owner</b>
	The Levy's maximum amounts, set by Legislation, are detailed in the Delivery Program and Operational plan.		
<b>4. Domestic Waste Management</b>	In compliance with Section 496 of the Local Government Act 1993, Council levies charges for domestic waste management services per rateable land parcel.  Limited to recuperating the reasonable cost of providing domestic waste management services. Manager Waste & Cleansing develops the 10-year DWM Long Term Financial Plan.	Cash received for these services, along with proceeds from garbage vehicle sales, is reserved for related expenses. Expenditures for the service and vehicle acquisition are funded through this reserve. The 10- year Domestic Waste Management Long Term Financial Plan supports the collection of cash.	Manager Environment and Waste
<b>5. Special Purpose Unexpended Grants</b>	This reserve holds unexpended grant funds received for specific projects, retained across fiscal years. It ensures the isolation and retention of unspent grant funds for future use aligned with the respective grant agreements' contractual obligations.	To specific target. Unexpended grant funds at year-end are restricted by contractual obligations outlined in the grant agreement.	Chief Financial Officer
<b>6. SEPP – Advertising and Signage</b>	Cash collected under planning agreements /State Environmental Planning Policy (Industry and Employment) 2021	No Target. Cash received fully expended in accordance with items identified under planning agreement and conditions of SEPP.	Manager Planning, Place & Development
<b>7. Roads Reserve</b>	Governed by S43 Roads Act 1993, this reserve is allocated proceeds from the sale of former public road land owned by Council. Unless designated as community land, funds received from land sales (net of associated fees) are reserved for acquiring land or conducting road work on public roads.	No specific target; funds from the gross sale proceeds (net of associated fees) are entirely allocated for acquiring land or performing road work on public roads.	Manager Engineering

## B. Internally Restricted Financial Reserves

Reserve Name	Purpose	Calculation Basis / Target Balance	Reserve Owner
<b>8. Plant and Fleet Reserve</b>	Reserved cash for replacing plant and equipment (excluding garbage vehicles). Cash received from the sale of plant and equipment is transferred here. Expenditure for acquiring equipment is funded through this reserve. Internal plant hire recovery covers change-over costs.	Aligned with a 10-year Replacement Program.	Manager Operations
<b>9. Employee Leave Entitlements</b>	Provides funds for paying employee leave entitlements on retirement or resignation. Ensures liabilities are funded yearly, preventing future financial burdens on ratepayers.	Transfers are based on projected year-end liabilities, considering employee demographics.	Chief Financial Officer
<b>10. General Funded Carryover Works</b>	Funds Capital Program and grant-funded projects carried forward from the prior fiscal year. General revenue finances these projects, and the reserve clears to zero annually.	No specific target; reserve cleared at the end of each financial year.	Chief Financial Officer
<b>11. Deposits, Retentions, Bonds</b>	Holds cash for security bonds, deposits, and retentions as stated in the balance sheet. Transfers made annually based on net liabilities. Target balance: 90% - 100% of total liabilities.	Transfers based on annual security bonds, deposits, and retentions liabilities.	Chief Financial Officer
<b>12. Election</b>	Finances election costs spread over four years, aligning with estimated election expenses. Review of funding occurs after each election.	Transfers from the annual budget and to the Reserve are based on estimated election costs every four years.	Manager Governance & Procurement
<b>13. Hudson Park Driving Range</b>	Reserve for managing future driving range expenses. Transfers surplus operating funds annually to fund future site investments.	Annual transfer of operating surplus to fund future investments.	Director Engineering and Operations

<b>Reserve Name</b>	<b>Purpose</b>	<b>Calculation Basis / Target Balance</b>	<b>Reserve Owner</b>
<b>14. IT and Office Equipment</b>	Cash reserved for replacing office equipment and IT infrastructure. Transfers include proceeds from sales and annual allocations based on the IT Strategy.	Expenditure for acquiring office equipment and IT infrastructure funded through this reserve.	Manager Digital, Information and Customer
<b>15. Financial Assistance Grants - Paid in Advance</b>	Reduces the financial impact of overestimation of Financial Assistance Grants (FAG) received in the first year. Transfers FAG components actually received into the reserve.	Transfers FAG components actually received in a financial year. No specific target.	Chief Financial Officer
<b>16. Grant Co-Funding Reserve</b>	Established to provide matching funds for grant programs where external grant providers mandate Council's contribution of its own resources towards various programs and projects.  This reserve aims to ensure the availability of dedicated financial support to match external grants, facilitating Council's ability to seize opportunities and maximise external funding.	An annual allocation from Council's general revenue is to be allocated towards this reserve commencing FY24/25. This allocation is to be determined as part of setting the annual operating budget.	Chief Financial Officer
<b>17. Risk and Legal</b>	Covers unexpected legal costs and liabilities. Transfers legal recoveries into the reserve.	Transfers legal recoveries from settlements or compensations into the reserve.	General Counsel
<b>18. Work, Health and Safety</b>	Utilises StateCover rebates for work health & safety initiatives. Utilises StateCover rebates and savings from reduced insurance premiums.	No specific target; expenditure aligned with Delivery Program and Operational Plan.	Chief Safety Officer
<b>19. Strategic Priorities</b>	To support and fund initiatives aligned with the evolving strategic objectives and long-term priorities of Council. The reserve will serve as a financial mechanism to strategically allocate resources, ensuring flexibility and responsiveness to emerging needs and opportunities that align with the council's overarching strategic goals.	Allocation to the Strategic Priorities Reserve will be made from cumulative corporate savings and operational budget reductions resulting from the execution of additional cost-saving measures.	Executive Committee



<b>Reserve Name</b>	<b>Purpose</b>	<b>Calculation Basis / Target Balance</b>	<b>Reserve Owner</b>
<b>20. Public Liability Claims</b>	Offset higher excesses from unexpended budget allocations. Covers unexpected increases in liability and indemnity insurance premiums.	Transfers savings in premiums versus budget into the reserve.	Chief Safety Officer
<b>21. Business Improvement &amp; Innovation</b>	Funds business improvements and efficiencies. Annual budget allocation transferred from General Revenue.	No specific target; cash fully expended based on Delivery Program and Operational Plan.	Director Corporate and Community
<b>22. Internal borrowings against consolidated internal restrictions</b>	Borrowed cash for various projects to be repaid from General Revenue. No specific target; aims for a zero balance through annual repayments.	Borrowed amount to align with project budget.	Chief Financial Officer
<b>23. Planning Proposals</b>	Cash collected under Part 2 Clause 11 Environmental Planning and Assessment Regulation 2000 for operational costs and expenses incurred by Council in undertaking studies and other matters required in relation to a planning proposal.	No Target. Planning proposal cash received fully expended for purpose collected.	Manager Planning, Place & Development
<b>24. Affordable Housing</b>	To receive net rental proceeds from the Affordable Housing Tenancy Program for the specific purpose of future upgrades and maintenance of affordable housing stock, new capital works and acquisition and or leasing of additional affordable housing properties.	Net discounted rental proceeds and cash contributions received for affordable housing purposes from developers as part of the negotiated Planning Agreement process.  No Target. Cash fully expended in accordance with Affordable Housing Program in the Delivery Program and Operational Plan.	Manager Planning, Place & Development
<b>25. Parking Infrastructure</b>	To fund parking infrastructure programs and initiatives.	Funds collected from parking revenue and fines above budget.	Manager Engineering

Reserve Name	Purpose	Calculation Basis / Target Balance	Reserve Owner
		No Target. Cash fully expended in accordance with expenditure program in Delivery Program and Operational plan.	
<b>26. Contributions Towards Works</b>	Funds received from external stakeholders for projects undertaken by Council, where Council may partially contribute to project.	Based on agreement between external stakeholder and Council	Chief Financial Officer