



**GREATER SHEPPARTON CITY COUNCIL**

# **RESERVE ACCOUNTING POLICY**

Effective: May 2024

## Reserve Accounting Policy

<b>Version:</b>	1
<b>Business Unit:</b>	Finance & Rates
<b>Responsible Officer:</b>	Manager – Finance & Rates
<b>Adopted By:</b>	Council on 28 May 2024
<b>Next Review:</b>	May 2028

**1. PURPOSE**

The purpose of the Reserves Policy is to:

- a) Ensure sustainable and responsible management of Greater Shepparton City Council's cash balances through consistent identification, administration and use of externally and internally restricted reserve accounts.
- b) Establish requirements around the creation and management of reserves, including transfer to reserves and subsequent expenditure of those funds

**2. OBJECTIVE**

The following objectives will be achieved under this policy to accomplish the purpose of ensuring sustainable, responsible, and appropriate management of Greater Shepparton City Council's cash balances and reserves:

- a) Ensure the appropriate level of funds are available at the appropriate time to meet statutory and operating requirements and to prudently manage financial risk;
- b) Ensure consistent processes around the management of Financial Reserves, including creation and classification, requirements of transfers of funds into and from reserves, internal and external reporting of usage of funds in reserve and closure of reserves at end of useful life

**3. SCOPE**

This policy applies to both discretionary and statutory financial reserves created to account for income received for a specified future application.

This policy excludes the Asset Revaluation Reserve that arises from the application of Australian Accounting Standards due to a change in asset values rather than a collection of funds.

**4. DEFINITIONS**

Reference term	Definition
Asset Revaluation Reserve	Records the change in asset values arising from revaluation as required by Australian Accounting Standards.
Budget Process	Processes relating to the setting and reporting of Council's Annual Budget, including adoption and quarterly budget reports as required by Section 94 to 96 of the <i>Local Government Act 2020</i> .
Cash and Cash Equivalents	Cash on hand, cash at bank and term deposits with an original maturity date of less than 3 months.
Discretionary Reserves	Reserves established by the Council to record future obligations. The reserve is internally restricted and not subject to legal requirements governing the use of the funds.
Current Other Financial Assets	Term deposits with an original maturity date of 3 to 12 months.
Reserve	Funds that have been set aside for a specified future application.
Statutory Reserves	Reserves for which the purpose is subject to external restrictions. External restrictions generally relate to legislated conditions.

## 5. POLICY

This policy is required to ensure a consistent and formalised process around the creation of reserves, transfer to reserves and subsequent expenditure of funds from these reserves.

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.

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

### 5.1 Statutory Reserves

- a. Statutory reserves record revenues received where the purpose is subject to legislation or other legal requirements. This includes:
  - i. Contributions received under Developer Contribution Plans (DCP's) or S173 Agreements. Restrictions apply as set out in both the DCP and under provisions outlined in the *Planning and Environment Act 1987*.
  - ii. Public Open Space contributions received under 53.01 and Cash in Lieu of Car Parking contributions received under 45.09 of the Greater Shepparton Planning Scheme.
- b. All statutory reserves are required to be 100% backed by either cash and cash equivalents and/or current other financial assets at the end of each financial year.

### 5.2 Discretionary Reserves

- a. 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, it is acknowledged that situations may arise where Council elects to create a discretionary reserve. Council may establish and maintain a discretionary reserve where:
  - i. Large expenditure needs to be funded over a period of time;
  - ii. Funds are collected specifically for funding of a particular capital works project, including as a result of strategic land sale or insurance property settlement.
- b. All discretionary reserves are required to be 100% backed by cash and cash equivalents and/or current other financial assets at the end of each financial year, unless there is a specific Council resolution to borrow from a discretionary reserve to fund a significant capital project.

- c. Discretionary reserves will generally not be created where the funds are held for operational requirements or where the reserve balance will not reach \$500,000.
- d. Discretionary reserves are not subject to legal requirements governing the use of the funds. The reserves are established for specific internal purpose and if the purpose does not eventuate or Council changes its priorities, the funding can be diverted through a Council resolution.

### **5.3 Establishment of Reserves**

- a. A reserve will be established by Council officers for any value if there is a legal requirement or a requirement under the Australian Accounting Standards
- b. Council approval through resolution is required for the creation of new discretionary reserves. The Council report will include as a minimum details of:
  - i. A clear and specific reason for why the reserve is required, including any statutory obligations;
  - ii. Where the funds to be transferred to the reserve will come from;
  - iii. What the funds will be expended on;
  - iv. When the funds expect to be expended;
  - v. The dollar value of expected transfer into the reserve;
  - vi. The manner in which the reserve will be closed.

### **5.4 Transfers to Reserves**

- a. Transfer to reserves will occur at the end of the financial year during which the funding is received.
- b. Transfers to reserves are limited to funds received for the agreed purpose of the reserve outlined in legislation (statutory reserves), at establishment or subsequent resolution (discretionary reserve).
- c. Expected transfers to reserves will be identified as part of the budget process or by Council resolution.

- d. Statutory reserves will be credited an amount equal to their 30 June closing balance multiplied by the weighted average interest rate that applies to investments as at 30 June, unless alternative requirements apply.

#### **5.5 Transfer from Reserves**

- a. Transfers from reserves are limited to the agreed purpose of the reserve outlined in legislation (statutory reserves) or at establishment or subsequent resolution (discretionary reserve).
- b. Expenditure subject to transfer from reserves will be approved as part of the budget process.
- c. Transfers not approved through the budget process must be approved by Council through resolution.
- d. No transfer from reserve shall exceed the amount of the existing balance of the reserve at the time of transfer.

#### **5.6 Reporting and Management**

- a. Council reserves will be reconciled at the end of each financial year and reported within the audited Financial Statements, which will be considered by Council at a Council Meeting as soon as practicable following the end of financial year.
- b. Reserve accounts will be closed at the end of their useful life by Council resolution or in the manner that was set out when the reserve was established.

### **6. RELATED POLICIES**

- Investment and Cash Management Policy

### **7. RELATED LEGISLATION**

- *Local Government Act 2020*
- *Planning and Environment Act 1987*
- Australian Accounting Standards

**8. REVIEW**

Any change or update which materially impacts and/or alters this policy must be approved by Council. This Policy will be reviewed by the Manager – Finance & Rates every four years.

DRAFT

**DOCUMENT REVISIONS**

<b>Version #</b>	<b>Date Adopted</b>	<b>Date Effective</b>
1		