


COUNCIL POLICY

Discretionary Reserves	Adopted By Council:	26/10/17	
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	Document No:	CP039	
	Directorate:	Organisational Performance & Community Services	
	Responsible Officer:	Manager, Financial Services	

CONTEXT

Council holds a range of discretionary reserve funds within Equity on the Balance Sheet, during and at the end of each financial year. The value of these reserves is largely influenced by the level of operating and capital projects carried forward from one financial year to the next, which can result from a mix of government grants and community contributions received in advance and expenditure budgets allocated for projects not completed within the same financial year. Quarterly reporting of reserves is important and this is captured in both the quarterly Council Plan progress report and the quarterly finance report.

This policy excludes the Asset Revaluation Reserve included within Equity on Council's Balance Sheet, as it relates to a change in asset values following revaluation, rather than the collection and expenditure of cash funds which is the purpose of this particular Council Policy.

PURPOSE

The purpose of this policy is to ensure Council sets aside and maintains monies in reserve funds on the Balance Sheet to meet specific legal and discretionary liabilities. The policy provides for responsible financial management of general revenue allocations for specific reserves, as well as tied government grants and community contributions that have not been utilised in the year of receipt. This policy also establishes requirements for the creation of reserves and subsequent transfers to/from these reserves.

DEFINITIONS

For the purposes of this policy, the following definitions apply:

Accumulated surplus	Uncommitted operating surpluses achieved by Council over time.
Discretionary reserves	Records of future obligations, kept at Council's discretion, to ensure sound financial management of Borough of Queenscliffe operations. The value held in discretionary reserves may be varied from time to time, where expenditure commitments may be created and/or retired.
Equity	The net worth of Council, after deducting all liabilities from its assets.
Statutory reserves	Records of future obligations, where the usage of the funds is governed by legislation. Borough of Queenscliffe does <u>not</u> have statutory reserves.

POLICY

The policy principles that form the basis of this policy are:

- The Borough of Queenscliffe will maintain discretionary reserves that acknowledge the receipt of funds from government grants and community contributions, to be applied to operating and capital projects that are consistent with the purpose of the funds received;
- Unspent budget allocations of Council may be added to discretionary reserves, as determined by the Executive Management Team at each financial year-end, only if there is a contractual or legal commitment to progress/complete the respective project. However, the unspent balance of asset renewal budget allocations will be transferred to reserve at each year-end.
- Council will maintain asset replacement reserves for the purpose of minimising the impact on Council's operations in any one year, from the expenditure of funds on asset purchases (for the renewal or upgrade of existing assets), or to set aside funds to cover major asset expenditure in future years;
- For the purposes of efficient financial management, Council may use discretionary reserves in lieu of borrowings to fund specific budgeted expenditure, as included in its annual Adopted Budget;
- Reserves represent a record of future obligations. To efficiently manage the application of these funds, the Manager - Financial Services is responsible for matching reserve allocations with related expenditure for which the reserve funds were intended, in accordance with the Adopted Budget;
- All discretionary reserves must be cash backed, with the pooled funds included in Council's investment portfolio; and
- If a discretionary reserve is no longer appropriate or relevant to Council's operations, officers will recommend to Council that it consider closing the particular reserve fund, with the balance of the reserve to be transferred back to accumulated surplus.

1. Discretionary reserve funds

The Borough of Queenscliffe holds a range of discretionary reserves within Equity on its Balance Sheet.

1.1 General reserve

This reserve comprises of the cash surpluses achieved in previous financial years, which have not yet been allocated by Council to specific projects within the Annual Budget. Council aims to hold a minimum of \$500,000 (approximately 5% of annual cash operating expenses) in this reserve to fund future asset renewal requirements and other priority projects which assist in meeting Council Plan objectives, and to provide a contingency for responding to any emerging risk management and other unbudgeted issues which may arise during the course of the financial year. Council would require in minimum \$500,000 to manage key operational requirements for a month.

1.2 Asset replacement reserve (allocated)

Funds are held in this reserve to meet future asset renewal requirements for specific projects earmarked by Council. A minimum allocation for a transfer to reserve of \$40,000 p.a. (approximately 5% of annual asset renewal budget) is included in Council's Adopted Budget, in recognition of the future asset renewal requirements of Council in maintaining its long-term assets. The unspent balance of asset renewal budget allocations is also transferred to reserve at each year-end.

1.3 Unfunded superannuation liability reserve

Council set aside \$20,000 in each of the 2014/15 and 2015/16 budget years, as a hedge against future calls which may be made by Vision Super on the unfunded superannuation liability (defined benefits scheme).

Council monitors the likelihood of a call on this scheme via quarterly finance reports. The current balance held in this reserve totals \$40,000 (the last call on the fund was \$218,000 in 2011/12).

1.4 Carry forward reserves

The bulk of funds held in discretionary reserves each financial year is with respect to operating and capital projects to be carried forward for completion in future years. This can result from the receipt of government grants and community contributions in advance and budget allocations not yet expended.

To assist with this reconciliation process, four separate carry forward reserves are included in the accounts:

- Carry forward operating income;
- Carry forward operating expenditure;
- Carry forward capital income; and
- Carry forward capital expenditure.

1.5 Waste management reserves

The Borough of Queenscliffe Rating Strategy provides for the full cost recovery of waste management expenditure for each of the three waste streams (kerbside, green and public waste). The Borough of Queenscliffe Adopted Budget provides for the full cost recovery of waste.

For each of these waste streams, the costs incurred by Council, net of any income received with respect to the particular waste service is compared with the waste charges collected from ratepayers for that waste service, with the resulting net surplus/(deficit) calculated at the end of each financial year and adjusted against existing waste reserve balances.

Council will consider the year-end forecast balance of each waste management reserve as part of its annual budget preparation process, to determine what (if any) balance will be transferred from waste reserves to offset the costs of each waste service, before providing direction to officers regarding the amount of waste management charges to be applied in the next financial year to ensure achievement of full cost recovery of each of the three waste services provided by Council to its ratepayers.

Further details on Council's waste management service including the pricing structure for each of the three waste streams (kerbside, green and public waste), the number and size of bins that ratepayers are entitled to and which properties are eligible to receive a waste service from Council, are included in Council Policy CP038: Waste Management.

2. 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, the Borough of Queenscliffe does in some instances create/use discretionary reserves where:

- It is anticipated extensive works will require funding over a period of more than one financial year;
- Funds are collected specifically for the purpose of funding future capital works;
- There is a legal or legislative requirement; and/or
- A net surplus/(deficit) outcome is achieved between waste charges collected and costs incurred.

If a new reserve is required, officers will brief Council on the matter at a Council Assembly and proceed to establish the reserve so that the year-end financial accounts include the appropriate reserve balance. The briefing to Council will include the following details:

- Why the discretionary reserve is required (including any legislative requirements);

- Where the funds to be transferred to the reserve will come from;
- What the funds will be expended on;
- When the funds are expected to be spent;
- The length of time it is envisaged the reserve will be required; and
- The dollar value of the expected reserve balance and the transfers to/from this reserve.

3. Transfers of funds to discretionary reserves

Amounts transferred to individual discretionary reserves come from a variety of sources including government grants and community contributions, waste management charges collected from ratepayers and expenditure allocations included in Council's Adopted Budget. Some of these may be transferred to reserve during the year, although most will typically be transferred at the financial year-end when particular outcomes are confirmed (e.g. actual surplus/(deficit) achieved for waste management).

4. Transfers of funds from discretionary reserves

All transfers of funds from discretionary reserves must be for the agreed purposes for which the reserve was created. The value of funds transferred may be as follows:

- **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 \$25,000 variance to budget, relevant General Manager's approval is required. In cases where the difference to budget is more than \$25,000 but less than \$100,000 the CEO must approve the transfer. The maximum amount a General Manager and the CEO can approve in a financial year is \$50,000 and \$200,000 respectively. Any further transfers in excess of this amount will require council approval.

- **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. The CEO will need to make the necessary recommendation to Council for approval.

A summary of discretionary reserve balances, including the year-end forecast balance for each reserve, is included in quarterly finance reports to Council and any material variation explanations provided.

5. Responsibilities

Councillors and Officers have key responsibilities, in managing discretionary reserves, as set out below.

5.1 Council

The Council is responsible for receiving briefings from officers, and reaching a resolution on any Council reports put to them for a decision at an Ordinary Council Meeting, with respect to discretionary reserves.

5.2 Chief Executive Officer

The Chief Executive Officer is responsible for making recommendations to Council with respect to the reallocation of discretionary reserves, if required, to address emerging risks and ensure the continuing responsible management of discretionary reserves through the implementation of this Council Policy.

5.3 Executive Management Team

The Executive Management Team is responsible for reviewing all forecast adjustments required to discretionary reserves, as recommended by the Manager, Financial Services and/or program leaders, prior to finalisation of the quarterly finance reports to Council and the annual financial statements.

5.4 Manager, Financial Services

The Manager, Financial Services is responsible for maintaining all discretionary reserves in the general ledger. This includes reporting quarterly to Council on material forecast adjustments including a listing of impacted individual reserves and ensuring the appropriate transfers to/from discretionary reserves are actioned prior to the annual financial statements being finalised for review by the Victorian Auditor-General and inclusion in Council's annual report. This responsibility includes ensuring all reserve funds are reconciled, and cash backed with investment funds.

5.5 Program Leaders

Program leaders are responsible for alerting the Executive Management Team of any key adjustments required to the transfers to/from discretionary reserves, which may impact reserve balances, as soon as they become aware of any issue which requires management with respect to discretionary reserves.

CONTINUOUS IMPROVEMENT

This policy will be reviewed on a continuous basis, as a minimum every three years from the date of adoption.

OTHER REFERENCES

Borough of Queenscliffe Adopted Budget

Borough of Queenscliffe Rating Strategy

Borough of Queenscliffe Council Policy CP038: Waste Management

Local Government Act 2020

Australian Accounting Standards

END