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## FINANCIAL RESERVES MANAGEMENT POLICY

<b>Approval Level:</b>	Council
<b>Policy Type:</b>	Organisation
<b>Approval Date:</b>	4/11/2019
<b>Review cycle:</b>	Four Yearly
<b>Review Date:</b>	30/06/2023
<b>Responsible Officer:</b>	Manager Financial Strategy
<b>Owner:</b>	Financial Strategy
<b>Responsible Director:</b>	Corporate Performance
<b>Relevant Legislation/Authority:</b>	Local Government Act 1989 Planning and Environment Act 1987 Subdivision Act 1988 Australian Accounting Standards
<b>DOCSETID:</b>	4205941

### 1. PURPOSE

- a) To ensure that the City of Greater Bendigo (the City) has established Reserve Funds that account for income that has been received from specific sources for a future application;
- b) To establish requirements around the creation of Reserves, transfer to reserves and subsequent expenditure of funds from these reserves; and
- c) To ensure sustainable and responsible management of the City's cash balances and financial reserves through consistent identification, administration and use of externally and internally restricted financial reserve accounts.

### 2. BACKGROUND

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

### 3. SCOPE

This policy is applicable to all reserves (previously referred to as discretionary and statutory reserves for the City) created to account for income received for a specified future application.



It does not apply to the Asset Revaluation Reserve which arises under the Australian Accounting Standards to reflect changes in asset values rather than a collection of funds for the management of future capital expenditure.

## 4. DEFINITIONS

“**Reserves**” are funds that have been set aside from Operating and Capital incomes for future funding of both Operating and Capital expenditure. From an accounting perspective the value of these funds are recorded in Equity Balance Sheet ledger accounts. There are two main categories of Reserves, being Externally Restricted Reserves & Internally Restricted Reserves.

“**Externally Restricted Reserves**” are Reserves for which the purpose is subject to external restrictions. External restrictions generally relate to legislated conditions. These reserves are to be 100 per cent cash backed by the City.

“**Internally Restricted Reserves**” are Reserves established by Council to ensure that sufficient funds are available when required for a specific purpose. These reserves do not generally have a requirement to be 100 per cent cash backed by the City.

“**EMT**” refers to the Executive Management Team of the City of Greater Bendigo.

## 5. PRINCIPLES

The policy will provide clear direction to City officers and Council regarding the creation, management and use of Reserves. It establishes guidelines that direct the City to:

- Ensure the appropriate level of funds are available at the appropriate time to support strategic objectives;
- Support financially responsible and prudent management of risks;
- Ensure Councils’ reserve activities are in accordance with legislative and common law responsibilities;
- Support probity and transparency

## 6. POLICY

### 6.1 Cash Reserves

6.1.1 All Externally Restricted Reserves are required to be 100 per cent cash backed.

6.1.2 The City will retain a minimum cash balance equivalent to the basis detailed below:



6.1.3 Council may commit additional cash to fund a specific project if there is not adequate reserve funding available with the following conditions:

- Additional cash allocation does not cause a material breach of item 6.1.2;
- An assessment of existing reserve requirements is completed; and
- An adequate payback period is to be established prior to the commitment of cash to the project.



**6.1.4** Reserve accounts will be closed at the end of their useful lives through approval by Council.

## 6.2 Classification of Reserves

### 6.2.1 Externally Restricted Reserves

The following criteria apply to externally restricted reserves:

- The reserve is subject to legal requirements that govern the use of the funds; or
- The reserve includes funds that have not been utilised for the purpose for which they were received, and an obligation or requirement to return unused funds to the contributor exists.

<b>Externally Restricted Reserves</b>	
Unexpended Grants & Contributions	<p><b>Overview</b></p> <p>This reserve is used to hold the balance of unexpended grants and contributions received from external contributors/funding bodies.</p> <p><b>Purpose of Funds</b></p> <p>The funds are held until they can be expensed in line with the funding conditions. External restrictions apply in line with individual funding agreements.</p>
Development Contribution Plan (DCP)	<p><b>Overview</b></p> <p>A DCP identifies the necessary infrastructure for the City resulting from new development, and establishes a framework to ensure that the cost of infrastructure is shared equitably by all development proponents and by the broader community where relevant. It is a mechanism used to levy developers of new developments for contributions to planned infrastructure required by the future communities of those developments. The City collects development contribution levies from new developments through an approved DCP that forms part of the Greater Bendigo Planning Scheme. The Minister for Planning must approve an amendment to the Planning Scheme in order to incorporate a DCP.</p> <p><b>Purpose of Funds</b></p> <p>Provide funding for infrastructure projects in line with the requirements of the DCP.</p>
Public Open Space	<p><b>Overview</b></p> <p>A Public Open Space Contribution is required to be paid prior to the issue of a statement of compliance for an approved subdivision of residential land (generally more than 2 lots). The contribution can be in the form of land or cash (or combination of both), in accordance with clause 53.01 of the Greater Bendigo Planning Scheme or Section 18A of the Subdivision Act 1988. Only cash contributions are recorded in the Reserve account. Land is to be recognised as a donated asset.</p> <p><b>Purpose of Funds</b></p> <p>The funds are to be utilised for the development of new open space and recreation assets, as well as upgrade or expansion of existing assets. The intention of the City is to spend these funds on assets within the vicinity of the developments from which the funds were received.</p>



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<p>Drainage</p>	<p><b>Overview</b> The Drainage Contribution is utilised to ensure measures are in place to manage the quantity of stormwater discharged from development sites. A Drainage Contribution is applicable to development sites where on-site detention may not be appropriate and the developer opts to not provide on-site stormwater detention.</p> <p><b>Purpose of Funds</b> Provide funding for drainage projects to manage the additional stormwater flows caused by residential or commercial development.</p>
<p>Street Tree Planting</p>	<p><b>Overview</b> A Street Tree Planting Contribution is collected from developers in lieu of street tree planting as part of a development. Fees are collected in line with the Fees, Charges and Contributions Relating to Land Development document.</p> <p><b>Purpose of Funds</b> The contribution is used by the City to plant trees within the development.</p>
<p>Stormwater Quality Reserve</p>	<p><b>Overview</b> To ensure efficient land use, developments may be provided with an option of partially or fully offsetting stormwater quality requirements by contributing to the Stormwater Quality Reserve. The contribution is charged where subdivision or development sites do not implement measures on-site to treat stormwater to best practice standard.</p> <p>Fees are collected in line with the Fees, Charges and Contributions Relating to Land Development document.</p> <p><b>Purpose of Funds</b> To provide funding for projects related to stormwater quality treatment works, including pollutant mitigation measures and stream habitat restoration activities.</p>
<p>Resource Recovery</p>	<p><b>Overview</b> Waste related fees and charges are only utilised to support waste and resource recovery related expenditure. This reserve is a part of the mechanism employed by the City to ensure this utilisation. Funds held will take account of the City's annual kerbside and waste charge fees. Long term, the reserve enables peaks and troughs related to waste expenditure to be managed efficiently and transparently.</p> <p><b>Purpose of Funds</b> Contributions may be utilised to support Resource Recovery and Education expenses, and may include:</p> <ul style="list-style-type: none"> <li>• Remediation works of past and existing landfill sites</li> <li>• Future works at current Landfill sites to extend their useful life</li> <li>• A replacement waste treatment facility when the current Landfill sites are exhausted</li> <li>• Capital works directly associated with resource recovery</li> <li>• Purchase of capital items related to the collection and disposal of waste (e.g. garbage trucks)</li> <li>• Other projects directly linked to resource recovery and education</li> </ul>



## 6.2.2 Internally Restricted Reserves

The following criteria apply to internally restricted reserves:

- The reserve is not subject to legal requirements governing the use of the funds; and
- The reserve has been established for a specific internal purpose; however, if that purpose does not eventuate or Council changes its priorities, the funding can be diverted to other purposes.

<b>Internally Restricted Reserves</b>	
Land & Building	<p><b>Overview</b> Funds are generally transferred to this reserve from the sale of any City owned land and building assets.</p> <p><b>Purpose of Funds</b> This reserve is designed to provide funds for future strategic purchases of land and building assets within the municipality.</p>
Car Parking	<p><b>Overview</b> Funds are collected from developers in lieu of the provision of onsite car parking.</p> <p><b>Purpose of Funds</b> This reserve is designed to provide funds for additional car parking facilities and amenities within the Bendigo CBD. The funds may also be utilised for upgrade works associated with existing car parking infrastructure.</p>
Defined Benefits Superannuation	<p><b>Overview</b> This reserve is designed to hold funds to assist with any future funding call associated with defined benefits superannuation liabilities. Council has set a cap of \$2,000,000 for this reserve in line with potential risk.</p> <p><b>Purpose of Funds</b> Assist with funding any future funding calls associated with the defined benefits superannuation liabilities.</p>
Strategic Initiatives Reserve	<p><b>Overview</b> These reserves will fund strategic initiatives for the future development in line with Council agreed plans and the Strategic Resource Plan.</p> <p><b>Purpose of Funds</b> Support for specific initiatives or purposes must be identified in order to have funds allocated.</p>

## 6.3 Establishment of Reserves

### 6.3.1 Establishment of Externally Restricted Reserves

A reserve will be established for any value if there is a legal requirement or a requirement under the Australian Accounting Standards.



### 6.3.2 Establishment of Internally Restricted Reserves

As a general rule, income and expenditure should be budgeted for the financial years in which it occurs. However, Council can create Internally Restricted Reserves where:

- It is anticipated that extensive works will require funding over a period of time; or
- Funds are collected specifically for particular capital works;

Internally Restricted Reserves would generally not be created where it is expected that the balance of the Reserve will not reach \$250,000.

### 6.4 Transfers of Funds to Reserves

Developer Contributions	100% of developer contributions will be transferred to the Reserve in the financial year that funding is received.
Waste Charges	The surplus from allowable waste operations will be transferred to the Resource Recovery Reserve on an annual basis.
Budget Transfers	Transfers determined as part of the budget process.

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

### 6.5 Transfers of Funds from Reserves

Transfers of funds from a reserve must be for the agreed purposes of the Reserve. Reserve transfers will be reported as part of Quarterly Financial Management Report presented to EMT and Council.

Transfers Approved as Part of Annual Budget Process	<p>In most cases the transfer of funds from reserves will be approved as part of the Budget process.</p> <p>For example, Capital Works Projects include details of project funding including any planned use of reserves. Projects are then evaluated and approved in the budget process.</p>
Transfers in Excess of Approved Budget	<p>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 prior to transfers being made.</p> <p>For amended transfers which are less than a 10% variance to budget, approval is required from the relevant Director.</p> <p>Where the difference to budget is more than 10% refer to "Transfers not Approved in Budget".</p>
Transfers not Approved in Budget	<p>From time to time there may be a requirement to transfer funds from a reserve for purposes not foreseen when the annual budget was developed, or transfer amounts approved in the annual budget may then be found to require more than a 10% variance.</p> <p>Any such transfer must be approved:</p> <ul style="list-style-type: none"><li>• Amounts up to \$100,000 – Director approval is required</li><li>• Amounts up to \$250,000 – CEO approval is required</li></ul>



	<ul style="list-style-type: none"><li>• Amounts &gt;\$250,000 – Council endorsement is required</li></ul> <p>All variations to transfers are to be reported in Quarterly reports to the Finance Committee.</p>
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## 7. ROLES AND RESPONSIBILITIES

Creation of new reserves may be recommended by EMT and are subject to a Council approval, normally through Quarterly Financial Management Reports. Transfers from reserves are subject to the responsibilities outlined in Section 6.5.

## 8. RELATED DOCUMENTS

Employees are encouraged to access the related internal documents which are available on the intranet and/or external resources which are available as per the below.

Local Government Act 1989  
Planning and Environment Act 1987  
Subdivision Act 1988  
Australian Accounting Standards

Further information or advice on this policy should be directed to Financial Strategy.

## 9. HUMAN RIGHTS COMPATIBILITY

The implications of this policy have been assessed in accordance with the requirements of the Victorian Charter of Human Rights of Responsibilities Charter.

## 10. ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this, such a change may be made administratively. Examples include a change to the name of a Business Unit, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be made through consultation with the staff Consultative Committee and with the approval of EMT or where required, resolution of Council.

## 11. DOCUMENT HISTORY

Date Approved	Responsible Officer	Unit	Change Type	Version	Next Review Date
November 2019	NRM	Financial Strategy	Review (significant)	1.0	June 2023