


Financial Reserve Policy

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Macedon Ranges Shire Council acknowledges the Dja Dja Wurrung, Taungurung and Wurundjeri Woi Wurrung Peoples as the Traditional Owners and Custodians of this land and waterways. Council recognises their living cultures and ongoing connection to Country and pays respect to their Elders past, present and emerging. Council also acknowledges local Aboriginal and/or Torres Strait Islander residents of Macedon Ranges for their ongoing contribution to the diverse culture of our community.

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1. Purpose/Objective

This policy is to ensure sustainable and responsible management of Macedon Ranges Shire Council's (Council's) cash balances and financial reserves through a consistent and transparent approach to the appropriate identification and creation, administration, and usage of statutory and discretionary restricted financial reserve accounts.

The objectives to be achieved under this policy support this aim by ensuring:

- Definitive classifications of Financial Reserve accounts, including cash-on-hand requirements;
- Appropriate levels of funds are available at the appropriate time to meet statutory and operating requirements and to prudently manage financial risk;
- Council's reserve activity is in accordance with legislative, governance and prudent financial principles;
- Processes are established around the creation and classification of Financial Reserves, as well as requirements of transfers of funds into and from these reserves; and
- Processes are established to administer the Financial Reserves, including restrictions of usage of funds in reserve, internal and external reporting of usage of funds in reserve and closure of reserves at end of useful life.

2. Scope

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

It excludes the Asset Revaluation Reserve which is used under the Australian Accounting Standards to reflect changes in asset values rather than a collection of funds.

3. Principles and Reasons for Policy

The creation, retention, and use of funds in financial reserves must consider both the need for long-term financial sustainability and the delivery of Council's services within a single financial year.

The creation, contribution or retention of funds in reserves should not cause Council to forgo key opportunities for growth or improvement, or diminish Council's ability to deliver essential services by diverting, or unnecessarily withholding funds.

Discretionary reserves should be created in a manner that avoids over-stratification, or where the use of funds is tied to very limited purposes. It is important to avoid the creation of unnecessary reserves, as reserves tie up financial resources that may be utilised for essential projects, services, or community needs.

Generally, 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. Financial reserves are created where:

- surplus operating cash and/or income from specific sources are allocated for committed future expenditure
- it is necessary to stratify monies held by Council that are linked to statutory requirements
- it is necessary to stratify monies held to deliver on large, long-term organisational objectives or strategies
- it is necessary to allow for volatility, unforeseen emergencies, or other unexpected needs.

In general, it is not necessary that these funds have bank accounts of their own but are a theoretical split up of the cash surplus that Council has on-hand.

4. Legislative Requirements

Council's financial management activity is regulated by the Victorian *Local Government Act 2020*. Further legislative requirements are expressed in the *Planning and Environment Act 1987*, the *Subdivision Act 1988*, and the Australian Accounting Standards.

5. Roles and Responsibilities

Council's Director Corporate has the overarching responsibility for enforcement and compliance with this policy. Creation of a new discretionary reserve may be recommended by Executive to Council and are subject to Council approval.

Council's Manager Finance and Reporting is responsible for the day-to-day management of the Policy, including:

- Ensuring that reserve activity is in accordance with legislative, governance and common law principles.
- Transfers to and from reserves are in accordance with section 7.5 of this Policy.
- Compliance.

6. Policy Non-Compliance

Non-compliance with this Policy has the potential to negatively impact on the reputation of Council.

In the event of policy non-compliance, an assessment will be conducted during the Council's next budget or mid-year budget cycle, whichever comes first. This evaluation aims to address any deviations from established policies and enact corrective measures to regain compliance.

7. Policy

7.1 Financial Reserves

All Statutory are required to be 100% cash backed and all Discretionary are required to be 50% cash backed.

Council will maintain a cash and cash equivalent balance equal to the total of holding deposits (trust funds), cash-backed financial reserves, and one month of operational expenditure.

Cash and cash equivalent balance refers to cash and cash equivalents which includes cash on hand, cash at bank, and term deposits maturing in 90 days or less. Other financial assets balance refers to term deposits maturing in 91 days or greater as per the annual financial report.

Reserve accounts will be closed at the end of their useful lives via a decision made by resolution at a Council meeting. The resolution will determine the reallocation of funds from a financial reserve when it becomes obsolete for its initial purpose. This discretionary power enables Council to make informed decisions on directing the remaining balance of the reserve towards alternative initiatives or projects that align with the evolving needs and priorities of the community.

Following the Council resolution to close a reserve account, the Finance department will process the necessary journal entries in the Finance system to close the reserve. These journal entries will align with the resolution, directing the balance to a specific project, another reserve, or the allocation of the amount to accumulated surpluses.

7.2 Statutory Reserves

Council's statutory reserves have been established to record revenues received from developers which are to be applied specifically to undertake future capital works for car parking, public open space and recreation, Infrastructure assets (roads, drainage and footpaths), community facilities and development contributions plans.

The use of funds from Statutory Reserves is governed by legislation (or other legal requirements) and records Council's future expenditure commitments. These are separately accounted for to ensure sound financial management of future operations.

Where statutory funds are collected to fund future infrastructure there are legal requirements that govern how the funds must be spent. This may include expending the funds in accordance with the terms and conditions of the funding, or on projects in the vicinity of the developments that the funds were collected in respect of.

A list of current Statutory Reserves is included in Schedule 1 to this policy.

7.3 Discretionary Reserves

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 to ensure funds are available as required. Discretionary Reserves may be varied from time to time where expenditure commitments may be created and retired.

Council may also create program specific reserves where capital purchases occur across multiple financial years, funded by operational surpluses generated by these assets.

A list of current Discretionary Reserves is included in Schedule 1 to this policy.

7.4 Establishment of Financial Reserves

Statutory Reserves - Statutory Reserves will be established for any value if there is a legislative requirement or a requirement under the Australian Accounting Standards

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, Council does in some instances create financial reserves where:

- 1) Large expenditure needs to be funded over a period of time; or
- 2) Funds are collected specifically for funding of a particular capital works project/program(s).

Approval is required via a decision made by resolution at a Council meeting for the creation of new discretionary financial reserves. If a new reserve is required a report will be prepared and submitted for consideration at a Council meeting for endorsement. The report will include details of:

- Why the financial 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 will be spent;
- The length of time the reserve will be required;
- The dollar value of expected Reserve balance and transfer in/to the Reserve.

Discretionary reserves would not be created for a purpose where it is expected that the balance of the reserve would not reach \$300,000.

Council will hold one Reserve for each category of statutory and discretionary reserve.

7.5 Financial Reserve Transfers

Transfers to Reserves:

<p>Statutory Reserves</p>	<p>Transfers into the reserve account occur on a monthly basis on receipt of the funds with the exception of the Resource Recovery (Kerbside Collection) charge reserve which occurs annually.</p> <p>Use of funds can only be in line with the funding agreement or statutory requirement of the reserve and maybe endorsed by Council in two manners:</p> <ul style="list-style-type: none"> • Upon approving the budget at a Council meeting; or • By resolution at a Council meeting outside of the budget process.
<p>Discretionary Reserves</p>	<p>Transfer of funds are restricted by the internal purpose of the reserve. All transfers to and from the reserve account must be authorised at a Council meeting in the following manner:</p> <ul style="list-style-type: none"> • Identified in the budgeting or forecasting process as funds committed to be transferred to the reserve account; or • By Council resolution at a Council meeting after the end of financial year results are completed and surplus funds are identified.

Transfers **from** Reserves:

Transfers approved in Annual Budget	Works identified in Capital Works program, or as part of service area work plans, are required to detail project funding including planned usage of reserves. The project funding proposal is then endorsed at a Council meeting as part of the Annual Budget process.
Transfers exceeding approved Annual Budget <i>(non-program specific)</i>	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 by resolution at a Council meeting prior to transfers being made.
Transfers exceeding approved Annual Budget <i>(program specific)</i>	In cases where a transfer of funds is required to balance the budget of a program specific discretionary reserve, the Manager of Finance and Reporting or Coordinator Accounting is authorised to make the appropriate transfer to balance the budget throughout the year. A final reconciliation is completed at year end.
Transfers not approved in Annual Budget	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. Any such transfer must be endorsed at a Council meeting through resolution.

7.6 Reporting on Financial Reserves

Reporting on Financial Reserves occurs as part of Quarterly Financial Management Reports which are endorsed at a Council meeting, including:

- creation or closure of Financial Reserves
- transfers into and from Financial Reserves, as stipulated in Section 7.5 of the Policy.

7.7 Monitoring, Evaluation and Review

Compliance will be evaluated and reviewed on an annual basis.

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 the effect or purpose of this Policy, such a change may be made administratively. Examples include a changed name of internal roles, a Federal or State Government department, or a minor update to legislation which does not have a material impact.

However, any change or update which materially alters this document must be endorsed by resolution at a Council meeting.

Gender Impact Assessment

In accordance with the *Gender Equality Act 2020*, a Gender Impact Assessment was not required in relation to the subject matter of this policy.

Definitions

Term	Definition
Council meeting	A meeting of Councillors as per Section 61 of the <i>Local Government Act 2020</i> .
Discretionary Reserves	Are financial reserves established at a Council meeting to fund works over a period of time, there are no legislative or legal requirements governing the use of these funds.
Executive	Executive Leadership Team of the Macedon Ranges Shire Council
Non Program Specific Reserve	Projects may have allocated amount designated for transfer from a reserve. The annual budget will specify the amount transferred from the reserve. This specified amount is the maximum permitted transfer unless further approval is obtained from the Council.
Program Specific Reserve	Are utilised to balance the day-to-day operations of specific services. This includes services such as Hanging Rock, Maintenance of Senior Citizens Accommodation, and Resource Recovery (Kerbside Collection). Funds may be transferred to or from these reserves to ensure the financial performance of the service aligns with the budget.
Reserves	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 is recorded in equity balance sheet ledger accounts.
Statutory Reserves	Are financial reserves where the usage of the funds is governed by Legislation or other legal requirements, e.g., public open space contributions.
The Act	<i>Local Government Act 2020</i>

References

- > FinPro Reserves Policy, procedure, and guidelines (2022)
- > Financial Plan
- > Annual Budget
- > Asset Plan

Related Policies and Strategies

- > Privacy Policy
- > Investment Policy
- > Climate Emergency Plan
- > Macedon Ranges Shire Council Planning Scheme
- > Developer Contribution Plan – Gisborne
- > Developer Contribution Plan – Romsey

Related Legislation

- > Australian Accounting Standards
- > *Gender Equality Act 2020*
- > *Local Government Act 2020*
- > *Planning and Environment Act 1987*
- > *Subdivision Act 1988*
- > *Privacy & Data Protection Act 2014*

SCHEDULE 1

The following list of **Statutory Reserves** are Reserves Council currently has in place. A summary of each Reserve at Appendix 1 of the Financial Reserve Policy outlines the purpose of each current statutory reserve and its typical inflows and outflows:

- a) Public Open Space (East, West and South)
- b) Community Facilities
- c) Car Parking
- d) Roadworks
- e) Drainage
- f) Footpaths
- g) Developer Contribution Plans (DCP)
- h) Resource Recovery (Kerbside Collection)

The following list of **Discretionary Reserves** are those that Council currently has in place. A summary of each Reserve at Appendix 2 outlines the purpose of each current statutory reserve and its typical inflows and outflows:

- a) Plant and Fleet Replacement (*program, specific*)
- b) Gravel Pit Operations (*program, specific*)
- c) Asset Conversion
- d) Hanging Rock (*program, specific*)
- e) Maintenance Senior Citizens Accommodation (*program, specific*)
- f) Commercial Development
- g) Debt Repayment
- h) East Paddock

APPENDIX 1 – Statutory Reserves

Public Open Space (East), Public Open Space (West), Public Open Space (South)

Purpose: These three separate Reserves collect Public Open Space Contributions and manage funds in accordance with the Subdivision Act 1988.

These Contributions provide an important source of revenue to fund new acquisition and improvement for each Ward by upgrading Public Open Space to meet the needs of the new population to be accommodated by the subdivision.

Council will use these three Reserves to fund projects that respond to the demand created by new development within each Ward, rather than addressing an existing shortfall in the level of service in the Public Open Space network

Principles: The following five principles underpin the open space reserves:

- a) Transparency – Council must demonstrate where Contributions have been collected from, how much has been collected, and the projects to which the Reserve funds will be allocated.
- b) Accountability – Council must spend the funds in each Reserve in accordance with the relevant Acts.
- c) Accessibility – Public Open Space funded by each Reserve must be accessible and not include elements that frequently restrict access for the purposes of charging an entry fee or for exclusive use by any user group.
- d) Alignment – There must be a clear connection and alignment between new development and projects funded by the Reserve within the geographic Ward area.
- e) Equity – Council must aim for an equitable distribution of quality Public Open Spaces to serve the shire’s population and the needs of each Ward.

Oversight: Management will ensure appropriate and regular planning, oversight and review of the allocations from and contributions to the each of the three Public Open Space Reserves.

This includes a long term, annually updated Open Space Workplan. The Workplan will be prepared by officers across Council, including projects planned to be funded from each Public Open Space reserve and must be endorsed at a Council meeting. This will enable a future plan of works to be provided to Council for transparency and review and will inform Council’s annual Budget and Financial Plan.

For each Public Open Space Reserve (East, West and South):

Typical sources of inflows:	Criteria to enable outflows:
<ul style="list-style-type: none">• Developer contributions (open space) from the respective Ward’s geographic area.• Funds associated with the sale of any Public Open Space from the respective Ward’s geographic area.	<p>Public Open space projects within the relevant geographic Ward area. Public open space is defined in legislation and further in Council’s policies and strategies. It is land set aside in a plan or land in a plan zoned or reserved under a planning scheme -</p> <ul style="list-style-type: none">• for public recreation or public resort; or• as parklands; or• for similar purposes. <p>Outflows exclude maintenance and other operational expenditure in public open space.</p>

Community Facilities

Purpose: The purpose of these reserves is to set aside developer contributions (infrastructure levy) for future infrastructure projects that are a result of growth in the areas.

Typical sources of inflows:	Typical outflows:
Developer contributions (infrastructure levy). <i># These contributions are no longer collected where there is a DCP in place.</i>	Funds may be spent on buildings and works for or associated with the construction of: <ul style="list-style-type: none"> - a maternal and child health centre - a childcare centre - a kindergarten, or - any centre which provides these facilities in combination.

Car Parking

Purpose: This reserve is established to hold funds contributed by developers. The financial contributions must be made before the use or development commences unless a permit condition allows payments by instalments under the Section 173 agreement provisions of the Planning and Environment Act 1987. This agreement may provide for the payment of the contribution in instalments plus an interest component equivalent to the interest payable on unpaid rates and charges under the Local Government Act 1989 and it must provide that all instalments and accrued interest are paid within 5 years of the first instalment.

Council is required to have a Car Parking Plan to be able to charge financial contribution cash-in-lieu rate per car spaces. Whilst Council does not have a Car Parking Plan it is not able to charge financial contribution cash-in-lieu rate per car spaces.

Typical sources of inflows:	Typical outflows:
Unable to be further collected until a car park plan is endorsed	Public Car Parking

Infrastructure Reserves – Drainage, Roadworks and Footpaths

Purpose: The purpose of these reserves is to set aside funding for drainage, roadworks and footpath works in growth areas, some contributions will have nominated areas for future works to be carried out.

Typical sources of inflows:	Typical outflows:
Council has charged a development contribution for drainage, roadwork or footpath levy per subdivided lot to facilitate future upgrades to infrastructure.	Outflows from these Reserves will be in the form of agreed projects for drainage, roadworks and footpath works as may be determined by Council. Some contributions have specific areas nominated for spending.

Developer Contribution Plans

Purpose: These reserve accounts hold contributions received by Council from developers in line with Council's Developer Contribution Plan (DCP). Restrictions apply as set out in both the Plan and under provisions outlined in the *Planning and Environment Act 1987*. It is a mechanism used to levy developers of new developments for contributions to planned infrastructure required by the future communities of those developments.

Council holds two Developer Contribution Plans:

- Gisborne Developer Contribution Plan
- Romsey Developer Contribution Plan

Typical sources of inflows:	Typical outflows:
Council charges a development contribution that will enable future planned infrastructure required by the future communities and developments.	Outflows from this Reserve will be in the form of agreed projects that fund approved community infrastructure projects in line with the requirements of the DCP. Contributions must be expended on infrastructure projects that service the developments from which the contributions are received.

Resource Recovery (Kerbside Collection)

Purpose: Kerbside Collection service charges are utilised to support the collection and cartage for providing the kerbside collection waste service. This reserve is a part of the mechanism employed by Council to ensure any surpluses generated from the service charge are only utilised of providing the service in future years. Funds held will take account of any annual surplus kerbside service charge. Long term, the reserve enables peaks and troughs related to waste expenditure to be managed efficiently and transparently.

Typical sources of inflows:	Typical outflows:
The surplus from allowable Kerbside Collection service charges will be transferred to the Resource Recovery Reserve (Kerbside Collection) on an annual basis	Contributions may be utilised to support the following: <ul style="list-style-type: none">• Assist in accounting for any overspends in providing the Kerbside Collection service.• Capital works directly associated with providing the Kerbside Collection service.• Purchase of capital items related to the collection and disposal of kerbside waste (e.g. garbage trucks)

APPENDIX 2 – Discretionary Reserves

Plant and Fleet Replacement

Purpose: To fund the financing of Council’s annual plant and fleet replacement program.

Typical sources of inflows:	Typical outflows:
The surplus of internal charges to projects from plant usage less the cost of operating the plant is transferred to the plant replacement reserve.	Outflows are for the following purposes: <ul style="list-style-type: none"> Plant and fleet able to be funded include graders, mowers, trucks and motor vehicles (excluding plant and fleet relating to the Kerbside Collection service).

Gravel Pit Operations

Purpose: To accumulate surplus operating funds (favourable to budget) to enable rehabilitation works to be undertaken on the site.

Typical sources of inflows:	Typical outflows:
Any surplus operating funds from Gravel Pit site operations.	Rehabilitation of Council Owned Gravel Pits and supporting infrastructure

Asset Conversion

Purpose: To accumulate net proceeds from the sale of Council land that are not classified open space to support future property purchases.

Typical sources of inflows:	Typical outflows:
Net proceeds from the sale of Council land that is not classified as open space. It also excludes the proceeds of sale from the development of commercial / industrial land which is covered under the Commercial Development reserve.	Capital expenditure to support Council property purchases.

Hanging Rock

Purpose: To accumulate operating surpluses and deficits, the reserve balance will assist in funding future capital expenditure and one-off operational projects. The Reserve is also utilised to hold any unspent grants that may remain unspent at year end, enabling the funds to be accessed in future years.

Typical sources of inflows:	Typical outflows:
Surplus operating funds from Hanging Rock and East Paddock operations and government grants for works at Hanging Rock.	<ul style="list-style-type: none"> Capital expenditure. Contribute to unfavourable budget variations from operations and Operational projects at Hanging Rock funded by a government grant. An example of an operational project would be the preparation of a masterplan.

Maintenance Senior Citizens Accommodation

Purpose: To accumulate annual surpluses from operating Council's stock of Senior Citizens accommodation units. These surpluses are utilised in funding major maintenance and capital works required to adequately maintain the accommodation.

Typical sources of inflows:	Typical outflows:
Surplus funds from operating the seniors' units are transferred to this reserve.	<ul style="list-style-type: none">• Major maintenance and• Other capital works at Council owned senior citizens units

Commercial Development

Purpose: To ensure Council has the ability to fund the investigation, establishment or stimulate commercial activity throughout the shire.

Typical sources of inflows:	Typical outflows:
Net proceeds from the sale of Council commercial or industrial land.	<ul style="list-style-type: none">• Activities designed to investigate, establish or stimulate the demand for commercial activity throughout the Macedon Ranges Shire.• The definition of commercial activity in this regard can be anything that is a permitted use in the Industrial or Commercial zones.

Debt Repayment

Purpose: To ensure sufficient funds are available so debt can be repaid when it falls due. Council drew down a loan under the Local Government Funding Vehicle, annual repayments are interest only with the principal due at the end of the loan term in 2025.

Typical sources of inflows:	Typical outflows:
The amount allocated and endorsed as part of the Annual Budget.	<ul style="list-style-type: none">• To repay Council loans or debt issued under the Local Government Funding Vehicle.• The reserve may also be used to repay any future liability for the Local Authorities Defined Benefit Superannuation Plan.

East Paddock

Purpose: To hold the net proceeds from the sale of the East Paddock until Council decides to allocate the proceeds to a project or initiative.

Typical sources of inflows:	Typical outflows:
Net proceeds from the sale of the site	<ul style="list-style-type: none">• Project / Initiative to be decided by Council.