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Cash Reserves Policy

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| 1.0 | NEW | Financial Controller | New policy |

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1. Scope

The scope of this Policy is to provide a framework for the establishment and management of Council's Cash Reserves. Cash Reserves are classed as Externally Restricted, Internally Restricted and Unrestricted Cash. Restricted Cash Reserves are funds set aside by Council to meet regulatory requirements, allocated against future projects/activities and to safeguard Council in scenarios of unexpected increases in expenditure, and meet long term financial obligations.

2. Purpose

The purpose of this Policy is to ensure that there is good governance and best practice financial management with the treatment and administration of Council's Cash Reserves. It has been developed to provide clarity and transparency in the restriction and withdrawal of funds in order to provide for long term expenditure as outlined in Council's long term financial plan.

This Policy will provide guidance with regards to the following 3 categories:

Externally Restricted Reserves:

These funds are those where there is a legislative or contractual obligation to use the funds for the purpose for which they were paid to Council and these funds must be expended for the specific purpose defined and cannot be used for general operations.

Under Section 410 of the Local Government Act 1993 if funds received from special levies are no longer required for its original purpose, and Council wishes to utilise these funds for another purpose, that purpose must be approved by the Minister of Local Government.

Under Section 409(3) of the Local Government Act 1993 the following are classified as Externally Restricted:

- (a) money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, and
- (b) money that is subject to the provisions of this or any other Act (being provisions that state that the money may be used only for a specific purpose) may be used only for that purpose, and
- (c) money that has been received from the Government or from a public authority by way of a specific purpose advance or grant may not, except with the consent of the Government or public authority, be used otherwise than for that specific purpose.

The City of Ryde classes the following funds as Externally Restricted Reserves:

- Domestic Waste Management
- Section 7.11 & Section 7.12 Developer Contributions
- Voluntary Planning Agreements

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- Macquarie Park Special Rate
- Infrastructure Special Rate
- Stormwater Management Levy; and
- Specific purpose unexpended grants

Internally Restricted Reserves:

These funds are those that are restricted by Resolution of Council. These restrictions are to fund future commitments and long-term obligations and have been established for a specific internal purpose. Council has Internally Restricted funds for the following activities, but not limited to: asset renewal, plant replacement, investment property, election, insurance, affordable housing etc.

Further details of each Internal Reserve can be found in Council's Annual Statutory Financial Statements, and Council's Quarterly Budget Review Statements.

Unrestricted Cash:

These funds are not restricted for a specific purpose and are held to cover day to day operational needs and must be sufficient to satisfy Council's short term obligations. These funds are viewed as a buffer against unexpected events, losses of income, fluctuations with cashflow and unforeseen circumstances. Council must aim to ensure unrestricted cash balances remain at a positive and acceptable level.

3. Principles / Responsibilities

The Chief Financial Officer (CFO) is Council's Responsible Accounting Officer and is responsible for the oversight of financial management of Council. Any proposed movements in reserves including Externally Restricted, Internally Restricted and Unrestricted Cash must be approved by the CFO in the first instance to determine whether the transfer to/from Reserve is lawful and is in the best interest of Council's long term financial sustainability and strategy. Following this, all proposed movements must be reported and adopted by Council.

4. Creation, Closing, and Renaming Reserves

The proposed creation, closing, and renaming of Reserves must be reported by the CFO for adoption by Council.

Creation of Reserves:

Occasionally there may be a need to create a new Internally Restricted Reserve. This need may arise due to Council wishing to restrict income or expenditure for a particular category/purpose to meet future long-term obligations.

Proposed creation of a new reserve must be approved by the CFO. The CFO will determine whether an existing Reserve account that serves the intended purpose does not already exist, whether its required or is best practice that funds are restricted and whether creation is in line with Council's long term financial strategy.

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Creation of External Restricted Reserves will be in accordance with Section 409(3) of the Local Government Act 1995 as detailed above.

Closing of Reserves:

Proposed closure of Internally Restricted Reserves must be approved by the CFO who will determine if funds that were previously restricted are no longer required.

Renaming of Reserves:

Any alterations to the name of a Reserve must be approved by the CFO who will determine if change is necessary and improves transparency of the reserves intended purpose. Renaming of a Reserve may occur from time to time as a result of changes in operations, legislation, or to provide more clarity.

5. What can be Funded from Externally Restricted Reserves

Council is not permitted to transfer any Externally Restricted funds to either Internally Restricted Reserves or Unrestricted Cash.

Domestic Waste Reserve:

Section 504(3) of the Local Government Act 1993 requires income from charges for domestic waste management (DWM) being calculated so as not to exceed the reasonable cost to the council of providing those services.

The concept of reasonable cost in the context of charging for DWM services is in keeping with the principle that all costs, which can be reliably measured and reasonably associated with providing a DWM service, should be included in determining the charge for the service.

DWM service must be accounted for as a distinct activity by Council, held apart from trade waste or other garbage activity. The activity will accommodate its own costs and revenues and reflect an operating surplus or deficit.

The cash component of an accumulated surplus for DWM is considered an Externally Restricted Reserve.

Any proposed expenditure/projects to be funded by Domestic Waste Reserve are to be approved by the CFO.

Section 7.11/7.12 & Voluntary Planning Agreements:

Contributions are collected from developers under Section 7.11 & 7.12 of the Environmental Planning and Assessment Act towards the provision, extension or augmentation of local infrastructure. Contributions are levied in accordance with contribution plans adopted by a Council. Funds collected by Council under these contributions plans are held as Externally Restricted and can only be used for the purposes for which they were received. Any additional amounts earned from their investment such as interest on these funds must also be restricted.

Voluntary Planning Agreements (VPA) form one part of Council's developer contribution system. They are voluntary agreements that allow developer contributions such as the

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dedication of land at no cost to Council, monetary contributions, any other material public benefit or any combination of these for a public purpose in accordance with Subdivision 2 of Division 6 of Part 4 of the Environmental Planning and Assessment Act.

Prior to funds being allocated to infrastructure projects from Section 7.11, 7.12 and VPA Reserves, the CFO must be satisfied that funds allocated from these externally restricted reserves are lawful and are contained in the adopted plans/agreements.

Special Levies:

Council raises the following special levies annually that are held in Externally Restricted Reserves:

- **Macquarie Park Special Levy:** Approval from IPART was received in FY06/07 for Council to levy this income to assist in implementing the Macquarie Park Corridor Master Plan, construct and maintain the public domain infrastructure in the area, such as roads, parks, drainage, cycleways supported by an employment of a place manager for managing all projects and bringing together all businesses in the precinct.
- **Infrastructure Special Levy:** Approval from IPART was received in FY15/16 for Council to levy this income to assist in the renewal of existing assets to bring ageing infrastructure backlog to a satisfactory standard.
- **Stormwater Management Levy:** The purpose of the levy is to allow Council to raise additional revenue to cover some or all of the costs of providing new/ additional stormwater management services within a catchment, suburb, town or local government area (LGA).

The CFO must approve any proposed allocation to projects/expenditure from these special levies. The CFO must be satisfied that the proposed use of these funds are not in breach of its intended purpose.

Unexpended specific purpose grants:

Unexpended specific purpose grants received from funding bodies are to be externally restricted until Council adopts allocation of these funds to the relevant project. These funds are also to be externally restricted until notice has been received from the funding body in regard to reallocation to another project or return of these funds. Grants can only be used for the purpose they were received and approved in the signed funding agreement.

6. Optimal Balances

External Restricted:

It is important to note that Council forecasts its Section 7.11 and Section 7.12 related expenditure for the coming financial year based on receipts already received to ensure that Section 7.11 funds are not over-committed and that cashflow remains positive.

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Internally Restricted Reserves:

These restrictions are adopted by Council to fund future commitments and long term obligations specifically for the purpose of what the Reserve was established. Council must ensure that transfers to and from Internally Restricted Reserves result in sufficient brought forward balances to fund commitments as per Council's long term financial strategy.

Unrestricted Cash:

These funds are not restricted for a specific purpose and held to cover day to day operational needs and must be sufficient to satisfy Council's short-term obligations. These funds are viewed as a buffer against unexpected events, losses of income, fluctuations with cashflow and unforeseen circumstances. **Unrestricted cash cannot have a negative balance.** The balance must remain at a positive and acceptable level, and Council should aim to grow this balance over time due to the time value of money.

During the year Council's unrestricted cash position will be projected, and this projected balance will be reported at Quarterly Budget Review. **Council cannot transfer funds from unrestricted cash based on this Projected Balance, as this is only an estimate.**

At end of Financial Year Council's actual unrestricted cash surplus will be known and this balance will be subject to external audit. This surplus will be reviewed for its adequacy for its current assets to meet its current liabilities at this point in time. Council's unrestricted cash must be ample to safeguard itself against liquidity risk. Liquidity risk is the risk that Council will not have sufficient cash to meet its commitments in a timely manner. Fluctuations in cashflow can result due to Council having no control on timing of receipts from creditors and payments to debtors, or Council often having to forward fund expenditure for grant funded projects where funding bodies only provide funds once work is complete.

7. Compliance and Reporting

The CFO has the responsibility of maintaining a schedule of all Financial Reserves in addition to overseeing all accounting functions in relation to the Reserves including regular reporting through the Quarterly Budget Review Statement, Statutory Financial Statements, Annual Budget Process and as and when required. Each Reserve must have its own account in the ledger and cannot be consolidated into one account or a category of accounts. This will ensure additional control that funds that are restricted can only be utilised for its intended purpose.

If the CFO discovers an error or an incorrect allocation of funds to/from Reserves, a correction must be made immediately and reported at a future Quarterly Budget Review to Council for adoption.

Suspected breaches or misuse of this policy are to be reported to the Chief Executive Officer (CEO).

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8. References and Legislation

- Local Government Act 1993
- Environmental Planning and Assessment Act 1979
- Local Government (General) Regulation 2021

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