

## **TITLE**

### **C173 FINANCIAL RESERVES POLICY**

## **DEPARTMENT**

Corporate Services

## **POLICY DIRECTIVE**

This policy will ensure that the management of reserve accounts is recognised as a strategic objective of Council. Successful management of these financial resources will ensure the long term viability of the organisation for the present and future generations.

The financial assets referred to in this policy are the reserve accounts contained in Council's annual audited financial statements and those disclosed within Council's annual operating budget estimates and are detailed below.

## **OBJECTIVE**

To provide a framework for the establishment and ongoing management of reserves.

## **POLICY**

Reserves are established to set aside funds for Council to allocate to specific purposes, as required. Prior to the creation of a reserve, Council shall adopt operating parameters in relation to the reserve which are to set out:

- The purpose of the reserve;
- The basis of calculation for any transfer to the reserve;
- The basis of calculation for any transfer from the reserve; and
- The proposed allocation of any unexpended balance remaining in the reserve following completion of the project.

Every reserve created should have a specific purpose, and relate back to the adopted strategies and budget of Council. There should be a clear link between financial management plans, infrastructure and other plans.

## **HISTORY**

Original policy adopted - 16 December 2003 (Minute Number 478/03)

Amendments to policy:

- 22 June 2004 (Minute Number 156/04)
- 19 December 2006 (Minute Number 348/06)
- 1 July 2010 (Minute Number 169/10)
- 17 June 2014 (Minute Number 135/2014)

## **POLICY**

This policy applies to the following reserves as classified in the annual financial statements:

- Discretionary reserves – these are reserves that have been created with a specific purpose by Council resolution and use of these funds must comply with the guidelines determined by Council for each reserve as per this policy.
- Other reserves – all other financial reserves not otherwise identified as discretionary reserves including employee entitlements reserve and restricted grant funds.

This policy does not apply to the following reserves as classified in the annual financial statements:

- Asset revaluation reserve – this is an accounting adjustment reserve to record the movement in the book value of Council’s infrastructure, property, plant and equipment as at 30 June each year.
- Fair value reserve – this is an accounting adjustment reserve to record the movement in the book value of Council’s shareholdings in TasWater as at 30 June each year.

### **1. GUIDELINES FOR MANAGEMENT**

- All discretionary and other reserve accounts are to be fully cash backed by investments at least equal to that of the total balance of reserve.
- Borrowing between reserve accounts is prohibited, unless authorised by resolution of Council. Should any borrowing be approved the net movement in underlying cash is to be reflected in the balance of those reserve – reserves must reflect any net cash outflow.
- There will be no changes to discretionary reserves unless by resolution of council.
- Council will not maintain a negative balance in a reserve.

### **2. OTHER RESERVES**

#### **2.1 Employee Entitlements Reserve**

**Background** Council has determined that it will fully fund employee entitlements such as annual leave and long service leave, so that it would have the cash to pay out all entitlements to all staff in full should it ever be required.

**Purpose** The reserve will match the provision for employee benefits calculated as a liability in the annual financial statements.

#### **Calculation Basis**

##### **Transfers to Reserve**

- An increase in the provision for employee benefits will result in a transfer to reserve

##### **Transfers from Reserve**

- A decrease in the provision for employee benefits will result in a transfer from the reserve

#### **2.2 Restricted Funds**

**Purpose** Restricted funds relate to grants and subsidies that span two or more financial years with specific restrictions in the funding agreement or grant deed. Grants and subsidies are determined as restricted if the funds are not available to be used in any other manner and may be repayable if these requirements are not adhered to. Restricted funds that are unexpended at the end of each financial year will be held in reserve to be expended in the following year in accordance with the relevant grant deed.

## Calculation Basis

### Transfers to Reserve

- Restricted funds will be transferred to the reserve at the end of the financial year.

### Transfers from Reserve

- Restricted funds will be transferred out of reserve at the beginning of the following year in accordance with grant deeds or funding agreements.

## 3. DISCRETIONARY RESERVES

### 3.1 Lighthouse Reserve

**Background** Ownership of the Currie Light House was transferred to Council. Council received an initial capital grant to be used for the ongoing maintenance of the Light House. The Light House is not certified for navigational purposes, and is essentially of historic aesthetic interest.

**Purpose** To finance the costs associated with maintaining or developing the Light House.

## Calculation Basis

### Transfers to Reserve

- Interest earned from investment of reserve balance

### Transfers from Reserve

- Actual annual maintenance costs as per approved Council budgets
- Capital expenditure on the lighthouse as determined by Council resolution

### 3.2 Airport Reserve

**Background** Ownership of the King Island Airport was transferred to Council. Council received an initial capital grant.

**Purpose** To finance the costs associated with maintaining or developing capital assets of the Airport.

There is a separate Policy that relates. The Policy Objective is “To ensure the long term, viability of the King Island Airport by providing a level of service that is both cost effective and efficient and that adequately provides for the future needs of the community”

## Calculation Basis

### Transfers to Reserve

- Interest earned from investment of reserve balance
- Annual operational profit from airport operations, if applicable

### Transfers from Reserve

- Capital projects at the airport as determined by Council resolution

### **3.3 Naracoopa Jetty Reserve**

**Background** Ownership of the Naracoopa jetty was transferred to Council in 2008. Council received an initial capital grant to be used for the upgrading and ongoing maintenance of the jetty. The jetty is certified for pedestrian traffic loads only, and is used for recreational and tourism purposes. The cost of ongoing maintenance is documented in the relevant file.

**Purpose** To finance the costs associated with maintaining or developing the Naracoopa jetty.

#### **Calculation Basis**

##### **Transfers to Reserve**

- Interest earned from investment of reserve balance
- \$43,000 per annum funded by operational revenue as per Naracoopa Jetty Business Plan until 2024.

##### **Transfers from Reserve**

- Actual annual maintenance costs as per approved Council budgets
- Capital expenditure at the jetty as determined by Council resolution

### **3.4 Grassy Mine Infrastructure Reserve**

**Background** The Part 5 Agreement attached to the Planning Permit issued to King Island Scheelite contains provisions for the establishment and management of this reserve.

**Purpose** To provide funds for infrastructure for the benefit of the Grassy Community. The Part 5 Agreement terms apply.

#### **Calculation Basis**

##### **Transfers to Reserve**

- Interest earned from investment of reserve balance
- Part 5 contributions from King Island Scheelite

##### **Transfers from Reserve**

- Expenditure on infrastructure at Grassy as determined by Council resolution

### **3.5 Waste Management Reserve**

**Purpose** To provide funds for the maintenance or development the waste management facilities and plant.

#### **Calculation Basis**

##### **Transfers to Reserve**

- Interest earned from investment of reserve balance
- Annual operational profit from waste management operations, if applicable

##### **Transfers from Reserve**

- Capital expenditure for waste management as determined by Council resolution

### **3.6 Community Reserve**

**Background** As part of the process of the transfer of Water and Sewer ownership from Council to Cradle Mountain Water (now TasWater); Council received payment of a capital sum in return for the transfer of assets.

**Purpose** To finance discretionary projects which benefit the King Island Community.

#### **Calculation Basis**

##### **Transfers to Reserve**

- Interest earned from investment of reserve balance
- Annual dividends paid to Council by TasWater

##### **Transfers from Reserve**

- Transfers from the Reserve are based on a majority resolution by Council

### **3.7 Roads And Bridges Reserve**

**Background** This reserve was created to ensure that financial assistance grants that are received in June each year but relate to the following year's allocation are available to fund projects in the following year. This addresses a timing issue only. These grants are classified as untied so are unable to be accounted for in the same manner as restricted grants.

**Purpose** To finance roads and bridges projects

#### **Calculation Basis**

##### **Transfers to Reserve**

- Grant allocation for following year received in June

##### **Transfers from Reserve**

- The reserve balance is automatically transferred to operating funds at the beginning of the new financial year