



Moreland City Council

Policy ID no: DCS39- CL

Financial Reserves and Capital Management Policy

Date Authorised by Council:	9 August 2017
Commencement Date:	9 August 2017
Review Date (10 years from authorised date):	August 2027
Responsible Department	Corporate Services

This policy has been authorised.

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Chief Executive Officer

1 CONTENTS

2	INTRODUCTION.....	3
3	CONTEXT	3
3.1	Alignment	3
3.2	Organisational Context.....	3
4	OBJECTIVES.....	3
5	POLICY DETAILS	3
5.1	Classification of Financial Reserves	3
5.2	Establishment of Financial Reserves.....	4
5.3	Transfer of funds in/out of Financial Reserves.....	4
5.4	Capital Management	5
6	REPORTING ON FINANCIAL RESERVES	5
7	MONITORING, EVALUATION AND REVIEW	6
8	DEFINITIONS	6
9	ASSOCIATED DOCUMENTS	6

2 INTRODUCTION

This policy is to ensure sustainable and responsible management of Moreland City Council's cash balances and financial reserves through consistent identification, administration and use of externally and internally restricted financial reserve accounts.

The policy applies to across all of Moreland City Council.

3 CONTEXT

3.1 Alignment

The Financial Reserves Policy should be read in conjunction with the Borrowing Strategy, Annual Budget and Strategic Resource Plan.

3.2 Organisational Context

The Financial Reserves Policy is in accordance with the *Local Government Act 1989* (The Act) and the principles of the Australian Accounting Standards.

4 OBJECTIVES

The following objectives will be achieved under this policy to accomplish the purpose of ensuring sustainable and responsible management of Moreland City Council's cash balances and financial reserves:

- Definitive classifications of Financial Reserve Accounts, including cash requirements;
- Rules to establish a Financial Reserve;
- Rules to administer the Financial Reserves, including the transfer of funds to/from reserve accounts;

5 POLICY DETAILS

5.1 Classification of Financial Reserves

5.1.1 Asset Revaluation Reserves

This reserve is established under the requirements of the Australian Accounting Standards. It reflects the increments or decrements of fixed asset values as a result of an asset revaluation. This reserve can't be used for any other function.

5.1.2 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 funds to its contributor exist.

Externally Restricted Reserves	
Unexpended Grants and Contributions	This reserve would be used to hold the balance of unexpended grants and contributions received from external contributors. The funds are held until they can be expensed in line with the funding conditions. External restrictions apply in line with individual funding agreements.

Developer Contribution Reserves	<p>These reserve accounts hold contributions received by Council from developers in line with Developer Contribution Plans and Subdivision Act. Restrictions apply as set out in both the Plan and under provisions outlined in the <i>Subdivision Act 1988</i> or the <i>Planning and Environment Act 1987</i>.</p> <p>Moreland currently has two contributions plans:</p> <ul style="list-style-type: none"> • Public Resort Recreation Land Fund • Developer Contributions Plan
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5.1.3 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; or
- 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.

Internally Restricted Reserves	
Asset Related Reserves	<p>These reserve accounts are established to provide funding required for development of Moreland City Council major assets. The objective is to set aside savings in order to minimise the alternative of borrowing and associated costs of borrowing in order to fund the assets. MCC currently has a number of reserves set up for this purpose:</p> <ul style="list-style-type: none"> • Oak Park Sports and Aquatic Centre Redevelopment • Wheatsheaf Road Precinct • Saxon Street Precinct
Financial Instrument Reserves	<p>MCC borrows money via the Local Government Funding Vehicle through financial bonds. This reserve holds funds allocated to the repayment of the financial bonds through the LGFV over a period of 30 years. The funds are paid from this account when the bond matures.</p>
Strategic Initiatives Reserve	<p>These reserves will fund strategic initiatives for the future development of Moreland City Council in line with the Council Plan and the Strategic Resource Plan. Specific initiatives must be identified in order to have funds allocated.</p>
Unexpended Capital Works Reserve	<p>This reserve holds the balance of unexpended capital works funds that that are requested to be carried forward to the following financial year and ensures the proper management of those funds.</p>

5.2 Establishment of Financial Reserves

Asset Revaluation Reserves	Establishment of the reserve follows the Australian Accounting Standards.
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.
Internally Restricted Reserves	The establishment of a new reserve must be authorised by Council and shall not be established for an amount less than \$100,000.

5.3 Transfer of funds in/out of Financial Reserves

Asset Revaluation Reserves	Transfer of funds occur at the end of the financial year and follow Australian Accounting Standards.
Externally Restricted Reserves	Transfers in to the reserve account occur on a monthly basis on receipt of the funds.

	<p>Use of funds can only be in line with the funding agreement and approved by Council in two manners:</p> <ul style="list-style-type: none"> • As part of the budgeting process; or • By Council resolution outside of the budget process.
Internally Restricted Reserves	<p>Transfer of funds are restricted by the internal purpose of the reserve. All transfers to and from the reserve account must be authorised by Council in the following manner:</p> <ul style="list-style-type: none"> • Identified in the budgeting process as funds committed to be transferred to the reserve account; • Identified in the budgeting process as expenditure to be appropriately expensed from the reserve account; • By Council resolution after the end of financial year results are completed and excess funds are identified.

5.3.1 All transfers for reserves shall be assessed at least annually during the preparation of the annual budget and strategic resource plan. Distribution of surplus funds at the end of the financial year shall be utilised under this policy.

5.4 Capital Management

5.4.1 Financial Reserves can be either cash or non-cash backed. Other than the Asset Revaluation Reserve, all other reserves are required to be 100 per cent cash backed unless:

- There is a Council resolution to borrow from an internal reserve to fund a specific capital project.

5.4.2 Council will ensure a minimum cash balance greater than the balance of:

- Current liabilities; plus
- Reserves requiring cash backing; plus
- One month of operating expenditure.

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

- Additional cash is not to cause Council to breach policy number 4.3.3;
- 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.

5.4.4 Reserve accounts will be closed at the end of their useful life by Council resolution.

6 REPORTING ON FINANCIAL RESERVES

Council is required under the Local Government Act 1989 and financial reporting standards to disclose all reserves set aside for specific purposes in its annual financial statements. In addition to this, details on reserves are to be reported:

- In a detailed statement as part of the Annual Financial Statements and Annual Report; and
- In a detailed statement of movement and balances as part of the monthly financial reports.

7 MONITORING, EVALUATION AND REVIEW

Adherence to this policy is the responsibility of the Chief Financial Officer and evaluated and reviewed on an annual basis.

8 DEFINITIONS

Term	Definition
Financial Reserves	The term includes Asset Revaluation Reserves under Australian Accounting Standards and other reserves as described in this policy
Asset Revaluation Reserve	Reserves required by the Australian Accounting Standards and are not cash backed
Externally Restricted Reserves	Reserves that are subject to external restrictions in their purpose. These reserves require cash backing
Internally Restricted Reserves	Reserves established by Council to ensure that sufficient funds are available when required for a specific purpose. These reserves may not require full cash backing

9 ASSOCIATED DOCUMENTS

- Moreland City Council Borrowing Strategy
- Moreland City Council Investment Policy
- Annual Budgeting Guidelines
- Strategic Resource Plan Guidelines