

FINANCIAL RESERVES FOR FUTURE EXPENDITURES POLICY

| | |
|--------------------------|-------------------------|
| Reference number: | POL 021 |
| Approval date: | 17 October 2022 |
| Policy owner: | Chief Financial Officer |
| Next review: | September 2025 |

The setting surplus operating cash to fund future commitments by establishing Reserves is a key component of Local Government financial management. It is a procedure almost universally adopted throughout Australian local government, and in most States - including NSW - all such Reserves must be cash-backed, with the Reserve balances included in Council's overall investment portfolio balance.

Purpose

To establish a framework for the creation and maintenance of Reserves.

Scope

This Policy applies to all Reserves established by Council with the exception of the Revaluation Reserves as classified in the Annual Financial Statements that reflect accounting adjustments to record the movement in the book value of assets as at 30 June each year.

Policy Provisions

Council may create and maintain Reserves for the following types of expenditure:

- For the discharge of accrued employee benefit liabilities in excess of budget provision.
- For the discharge of liabilities or contingent liabilities for the restoration or rehabilitation of land to meet planning requirements or environmental standards.
- To provide for the replacement of major plant and equipment such that the annual cash requirement as expressed in the management plan is consistent from year to year.
- For the purposes of sewerage fund, domestic waste management, or declared business operations in accordance with approved management plans, and for the isolation of surpluses or deficits relating to these operations.
- For a specific named concept plan, operating or capital expenditure proposal.
- For specific items of works authorised and voted in the previous financial year, that have not yet commenced or represent works in progress at the end of the financial year. Creation of this Reserve does not remove the need for Council to re-vote the expenditure, and the utilisation of this Reserve, for the works not completed. Works may only be re-voted to the extent of funds allocated to the Reserve.

- For internal forward funding of works between financial years, with payback within future financial years (Internal Loans Reserve).

Interest income is allocated to all externally restricted Reserves - currently Sewer Fund Reserve, Solid Waste Fund Reserve and the Developer Contributions Reserve, along with the internally restricted Infrastructure Replacement Reserve. Interest income is calculated based on the annual closing balances of each of these Reserves.

Responsibilities

The Manager Finance is to actively monitor the Reserves to ensure that they are at an appropriate level in line with budget allocations referenced in Council's Long-Term Financial Plan, and to provide reports to Council required by this policy.

Approval Arrangements

The establishment of a Reserve requires a resolution of Council.

Council will determine the transfers to and transfers from Reserves during the annual budget process and at any other time by Council resolution.

Council may also decide to borrow from one or several Reserves for specific purposes. This process will be formally approved by a Council resolution, that will include the total amount borrowed, from which Reserves the borrowing will occur, and a repayment schedule.

Reporting Requirement

On an annual basis with the submission of the Annual Financial Statements a summary of all Reserve movements is to be presented to Council and on an as needs basis to assist in decisions made by Council.

Review procedures

This policy must be reviewed every four years.

Legislative Context

- Local Government Act 1993 (as amended)
- Local Government (General) Regulations 2021
- Local Government Code of Accounting Practice and Financial Reporting
- Wagga Wagga City Council - Long Term Financial Plan and Operational Plan

Related Documents

- Wagga Wagga City Council - Long Term Financial Plan
- Wagga Wagga City Council - Operational Plan
- Loans Borrowing Policy (POL 019)
- Investment Policy (POL 075)

Definitions

| Term | Definition |
|-----------------------------|--|
| Declared business operation | Operations declared by Council for the purposes of the implementation of National Competition Policy |
| External restriction | Cash, cash equivalents and investments which are required by law to be set aside for the specific identified purpose |
| Internal restriction | Cash, cash equivalents and investments which have been set aside by Council for a specific identified purpose |

Revision History

| Revision number | Council resolution | Council meeting date |
|-----------------|---|----------------------|
| 1 | Res. No. 04/243 | May 2004 |
| 2 | Res. No. 09/077 | 27 July 2009 |
| 3 | E-Team | 18 June 2013 |
| 4 | Res No: 13/244.1 | 26 August 2013 |
| 5 | Res No: 17/279 | 28 August 2017 |
| 6 | Revision approval under General Manager delegated authority | 15 May 2018 |
| 7 | Revision approval under General Manager delegated authority | 2 November 2020 |
| 8 | Res No: 22/354 | 17 October 2022 |