

FINANCIAL RESERVES POLICY

OBJECTIVES

The *Local Government Act 1995* (the Act) provides for the establishment of Reserve Accounts for use for a specific purpose in a future financial year. This Policy provides guidance for the establishment, funding and utilisation of Financial Reserve Accounts to promote sustainable and responsible financial management.

POLICY STATEMENT

The City of Vincent will establish and maintain Financial Reserves as are statutorily, contractually or prudently required for known or reasonably predicted future financial liabilities that require funding over multiple years to avoid~~are not unreasonably~~ fluctuations in funding to be made up from Rates~~able to be funded in any one financial year~~.

1. Reserve Establishment

For a Financial Reserve to be established, it must have a title that clearly identifies the purpose, a nominated funding source and meet one of the following:

- Be required to meet a legislative or contractual requirement or where the funding source is required to be tied to expenditure over a longer period;
- Fund a future debt repayment liability;
- Provide for a known liability listed or reasonably likely to be listed within the Long Term Financial Plan (LTFP) and is of a scale that is not capable of being funded or would have a disproportionate rating impact on individual~~a single~~ budgetary ~~(financial)~~ years; or
- Provide for a reasonably predicted liability to be incurred beyond the LTFP but is of a scale warranting accumulation over the extended period.

2. Categories of Financial Reserves

Financial Reserve Accounts will be categorised as Internally or Externally Restricted in order to ensure appropriate controls are applied.

Internally Restricted the Reserve has been established by the City for a specified purpose, however if that purpose does not eventuate; the project is complete or Council changes its priorities, the funding can generally be diverted to an alternative purpose (subject to legislative process).

Externally Restricted established and utilised for defined purpose as specified by legislation or contractual obligations. Under this category of Reserve, there may be contractual obligations restricting the utilisation of the funds or diversion to an alternative purpose.

3. Implementation

Guidelines and procedures will be established for the management of each Financial Reserve, to align with the following principles:

- All transfers to and from the Reserves shall be reflected in the Annual Budget and LTFP.
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- Transfers from the Reserve will be strictly in accordance with the Purpose of the Reserve unless alternatively approved by Council in accordance with section 6.11 (2) and (3) of *the Act*.
- Proportional interest earned on the balance of the Reserves will be credited to the respective Reserve where indexation is required to be maintained.
- Subject to any external restrictions, when the purpose of a Reserve is complete, any residual funds will be considered to be applied towards another purpose or Reserve in the Annual Budget or in accordance with section 6.11 (2) of *the Act*.

POLICY CONTEXT

Local governments rely heavily on own source income, with Rates being a majority component. Given the demands placed on local governments to fund ongoing operations and specific major projects, funding strategies are required to avoid significant variations in the demand for funds and the consequential impact on ratepayers. Financial Reserves are considered an appropriate mechanism to sustainably manage a local government's financial stability.

Financial Reserves:

- are funds set aside by a local government to help fund future needs. They are generally created as a long term savings plan to fund major projects or expenditure planned for future years which cannot be managed or would have an unreasonable rating impact ~~on individual a single budgetary financial years~~;
- are restricted by the Act and associated Regulations and are required to be established with a clearly defined purpose and be used for that purpose;
- can reduce or remove the requirement to borrow, negating the ongoing operational impact associated with servicing loans;
- may be required to meet statutory or contractual requirements or to restrict a specific funding source to the linked expenditure over a longer term;
- should only be established and maintained for known or reasonably predicted future projects and expenditure, to avoid over rating;

Funding movements to and from the Reserves along with the associated expenditure on the specific purpose are incorporated into the Long Term Financial Plan (LTFP) to demonstrate the local government's sustainability and accountability.

Date Adopted: 2018
Date Amended:	
Date Reviewed:	
Date of Next Review: 2020