

Upper Macquarie County Council

POLICY: UMCC_2018/08

FINANCIAL RESERVES POLICY

Management of statutory and discretionary cash reserves.

Adopted by: Upper Macquarie County Council

Date: 7th December 2018

Review Date: Every 3 years or as required

Next Due: 6th December 2021

Policy Document Approved by:

David Young

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General Manager

Date: 29th November 2018

1. Policy Purpose

Upper Macquarie County Council is required under Section 8B of the Local Government Act (1993) to follow the principles of sound financial management including “.... **Council spending should be responsible and sustainable, aligning general revenue and expenses.**”

The Councils 10-year Business Activity Strategic Plan financial plans endeavour to achieve this end by:

- (a) Framing annual recurrent budgets around a 100% fixed cost cover ratio;
- (b) Using restricted and unrestricted cash reserves to fund essential activities outside the scope of routine annual operational plans - typically non-recurrent capital works or special projects;
- (c) Investing cash only in stable secure financial products; and
- (d) Planning the Councils cash flow sensibly across a forward 10-year program - in recognition of the small overall annual operating budget and the seasonal unreliability of discretionary revenue sources.

In the above context, the purpose of this policy is to set the parameters and processes that will guide implementation of the Councils restricted cash reserves in the interests of implementing the 10-year BASP objectives while remaining a viable and relevant local weed control authority.

2. Scope of Policy

This policy is applicable to internally restricted cash and statutory restricted cash as they relate to financial reserves established by the County Council.

The policy sets the framework for dealing with surplus recurrent funds, earnings from business commercial activities, the creation of reserves, transfers of funds to reserves and subsequent usage of funds from reserves.

Where unrestricted cash is specifically designated in the budget to cover annual operating expenses, or is otherwise retained to cover the immediate or near term expenditure commitments, it is considered to be the Operating Reserve and is excluded from appropriation under this policy.

Essentially this policy controls all County Council revenue and expenditure that is not required to fund implementation of the approved annual operating plan in any given year.

3. Policy Context

Financial Reserves for the purpose of this policy are those financial assets that appear in the Balance Sheet as one or more of cash, cash equivalents, or investments - that are not Operating Reserves. These financial reserves are typically either 'internally restricted' - requiring a decision of the Council to restrict them or release them, or externally restricted - requiring that a statutory or contractual condition be met by restricting them or releasing them. The Operational Reserve cash is unrestricted and is used according to the annual operating plan and budget, and routine delegations.

The management of restricted cash reserves is the subject of audit each year by Councils external auditors appointed by the NSW Auditor General.

4. Policy Directions

Council budgets will be prepared on the basis that the core annual operating expenditure will be funded with unrestricted cash sufficient to maintain a fixed cost cover ratio of >100%. Establishing the limits of 'certain' income from recurrent State operational grants and income from constituent council contributions, and aligning the total quantum of non-discretionary (core business) expenditure therewith is expected to achieve the desired fixed cost cover ratio by 2020.

Council will fund capital works (primarily asset, technology and plant replacement) and special projects (primarily technology enhancement and weed biosecurity innovations) from grants and financial reserves within the limits of the purpose, funds available, and funding restrictions applicable to the relevant cash reserve fund.

Council will only set up 'Cash Reserve Funds' (distinct provisions in the balance Sheet) for capital works or for special projects or purposes as listed in Section 5 of this policy - as amended from time to time.

Council will transfer all annual operating cash surpluses - in excess of Operational Reserve cash - into the relevant restricted cash reserve no later than at the close of accounts each year as set out in this policy or at other times when appropriate.

5. SCHEDULE OF FINANCIAL RESERVE ACCOUNTS

The following restricted Cash Reserve Funds will be set up and managed in accordance with this policy:

A. FUND NOS 1: EMPLOYEE LEAVE ENTITLEMENTS FUND [Internal Restriction]

To fund the evolving total liability for employee leave entitlements in the event of business closure.

FUND TARGET = minimum \$150,000 annually adjusted balance based on end-of-year reconciliation to minimum 100% of theoretical liability.

B. FUND NOS 2: BUSINESS VIABILITY FUND [Internal Restriction]

To fund in a revenue crisis, the day-to-day operational expenditure of the Council for an optimum period of 4 months (no less than 3 months) - to remain above the relevant OLG benchmarks of Cash Expense Cover Ratio above 3; and the Unrestricted Current Ratio above 1.5.

FUND TARGET = \$400,000 rolling balance.

C. FUND NOS 3: PLANT & VEHICLE REPLACEMENT FUND [Internal Restriction]

To fund the ongoing cyclical replacement of biosecurity spray equipment, drones, tools and motor vehicles.

FUND TARGET = minimum \$100,000 rolling balance.

D. FUND NOS 4: INFRASTRUCTURE & TECHNOLOGY REPLACEMENT FUND

To fund the ongoing cyclical replacement of standard office furniture, office equipment, technical devices, the chemical shed and shed equipment. As well as ongoing adaption, improvement and integration of the Councils information, communications and technology network

FUND TARGET = minimum \$100,000 rolling balance.

E. FUND NOS 5: WEED BIOSECURITY RESPONSE FUND [Internal Restriction]

To fund extra-ordinary responses to serious or potentially serious weed invasions or supporting special/ strategic (possibly cooperative) weed biosecurity initiatives.

FUND TARGET = minimum \$50,000 rolling balance.

F. FUND NOS 6: SPECIAL UNSPENT GRANTS FUND [External Restriction]

To fund the completion of any 'tied' externally funded works or projects.

FUND TARGET = As Required.

5. WITHDRAWING FUNDS

Withdrawal of cash from internally or externally restricted reserve funds requires a resolution of the Council either in conjunction with the adoption of the annual operating budget or annual capital works budget, or at any other relevant time such as through the Quarterly Budget Review Statement.

Council may borrow ONLY from internally restricted cash reserves. Any such borrowing must be authorised by resolution of Council and the full impact of the borrowing disclosed. Nominal interest must be paid into the lending account on any such borrowings.

6. EARNINGS ON INVESTMENT

It is important to maintain the buying power of funds in reserve in order that the intended works or project purpose can still be realised in due course. Accordingly interest earned from the investment of reserve funds will be credited on a pro-rata basis to the relevant fund from which the interest was earned. The rate of interest paid to each fund will be apportioned based on the average return on investments for the financial year. This fund crediting will commence from the 2020/2021 financial year when the planned 100% Fixed Cost Cover Ratio for the annual operating budget is expected to be met.

7. ADDING FUNDS

Addition of cash to internally or externally restricted reserve funds will be initiated automatically by the Responsible Financial Officer of Council in situations where an annual cash operating surplus is identified in the approved annual operating budget (when it is realised) or if an unbudgeted cash operating surplus emerges outside the budget process including during finalisation of the annual statement of accounts. The addition of cash to a fund in the above circumstances will ultimately be authorised as per the appropriate mechanism set out in this policy

The priority for addition of available cash (if any) to restricted reserve funds each year will be as follows:

1. First Priority: to bring the cash level in each fund up to the set minimum target level. Commencing with the fund of lower number (i.e. Fund 1 then Fund 2 etc). *[In this regard the funds are numbered in accordance with organisational importance.]*
2. Second Priority: to increase cash in a fund beyond the minimum target level where Council management plans or strategies indicate a near term demand for fund expenditure; or
3. Third Priority: to increase cash in a fund otherwise, as determined by Council.

8. TRANSFERRING FUNDS

Cash may only be transferred between, into (other than as provided in Section 6 of this policy) or transferred out of a restricted reserve fund, by resolution of Council. The authority for such transfers may be given by:

1. A specific resolution in the case of a particular project the subject of a Council resolution;
2. In the Quarterly Budget Review Statement, by virtue of the adoption of that statement by Council; *[Note: A transfer contained in a Quarterly Budget Review Statement must show the restricted cash item audited opening balance, the amount transferred in or out and the estimated closing balance]* OR
3. The adoption of the annual financial statements containing a schedule of restricted cash showing transfers in and out.

9. REVIEW

The level of restricted cash in each reserve fund shall be reported in the Quarterly Budget Review Statement and annually in the Financial Statements.

Council must assess at least annually the adequacy of each internal restricted cash reserve fund during the preparation of the Business Activity Strategic Plan and Annual Operating and Capital Budget.