



Merri-bek
City Council

Financial Reserves and Capital Management Policy

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Responsible Department	Business Transformation
Responsible Officer	Chief Financial Officer



1. Introduction

This policy is to ensure sustainable and responsible management of Merri-bek City Council's (herein Council) cash balances and financial reserves through a consistent and transparent approach to the appropriate identification and creation, administration, and usage of externally and internally restricted financial reserve accounts.

2. Context

Financial reserves are created where surplus operating cash and/or income from specific sources is allocated for committed future expenditure. The purpose of financial reserves is to stratify monies held by Council that are linked to statutory requirements and long-term organisational objectives and strategies.

2.1 Alignment

The Financial Reserves and Capital Management Policy (2023) should be read in conjunction with following documents:

- Council's Loan and Borrowing Policy (2022)
- Council's Investment Policy (2022)
- Annual 4-Year Budget
- 10-Year Financial Plan.

2.2 Organisational Context

This policy applies to all Council reserves. Reserves represent a record of future Council obligations with the exception of asset revaluation reserves. To efficiently manage the application of these funds, requests for planned transfers out of each reserve should form part of the 4-year Budget as annually approved by Council.

2.3 Legislative Parameters

Council's financial management activity is regulated by the Victorian Local Government Act 2020. Further legislative requirements are expressed in the Planning and Environment Act 1987, the Subdivision Act 1988, and Australian Accounting Standards.



3 Objectives

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

- Ensure definitive classifications of Financial Reserve accounts, including cash-on-hand requirements;
- Ensure the appropriate level of funds are available at the appropriate time to meet statutory and operating requirements and to prudently manage financial risk;
- Ensure Council's reserve activity is in accordance with legislative, governance and prudent financial principles;
- Establish processes around the creation and classification of Financial Reserves, as well as requirements of transfers of funds into and from these reserves; and
- Establish policy or processes to administer the Financial Reserves, including restrictions of usage of funds in reserve, internal and external reporting of usage of funds in reserve and closure of reserves at end of useful life.

4 Policy

4.1 Cash Reserves

All Externally Restricted Reserves are required to be 100% cash backed and all Internally Restricted Reserves are required to be 50% cash backed, unless there is:

- A specific Council resolution to borrow from an internally restricted reserve to fund a significant capital project.

Council will retain a cash and cash equivalent balance equal to the total of holding deposits plus cash backed reserves plus one month of operational expenditure.

Cash and cash equivalent balance refers to cash on hand, cash at bank, and term deposits maturing in 90 days or less as per the annual financial report.;

Reserve accounts will be closed at the end of their useful lives through Council resolution.



4.2 Classification of Financial Reserves

4.2.1 Asset Revaluation Reserves

These reserves are established under the requirements of the Australian Accounting Standards. They reflect the increments or decrements of fixed asset values arising from an asset revaluation, such as increase in value of properties owned by Council. These reserves cannot be used for any other function.

4.2.2 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

Externally Restricted Reserves	
Developer Contribution Reserves	<p>Overview</p> <p>These reserve accounts hold contributions received by Council from developers in line with Council's Developer Contribution Plan (DCP). Restrictions apply as set out in both the Plan and under provisions outlined in the <i>Planning and Environment Act 1987</i>. It is a mechanism used to levy developers of new developments for contributions to planned infrastructure required by the future communities of those developments.</p> <p>Purpose of Funds</p> <p>To fund approved community infrastructure projects in line with the requirements of the DCP. Contributions must be expended on infrastructure projects that service the developments from which the contributions are received.</p>
Public Resort & Recreation Land Fund	<p>Overview</p> <p>This reserve is used to hold the balance of Public Open Space Contributions. The contributions are required to be paid prior to the issue of a statement of compliance for an approved subdivision of residential land.</p> <p>Purpose of Funds</p> <p>The funds are to be utilised for the development of new open space and recreation assets, as well as upgrade or expansion of existing assets. Council intends to use the contributions received on projects within the vicinity of the developments from which the contributions are received.</p>
Waste Charge Reserve	<p>Overview</p> <p>This reserve is used to account for any over or underspends of annual kerbside collection and waste charge fees that are not spent in the year of recognition.</p>



	<p>Purpose of Funds</p> <p>The funds are to be utilised to assist with the cost of strategic projects, compliance and long-term planning for Council’s landfills, transfer stations and waste management responsibilities.</p>
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4.2.3 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; and/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	
Significant Projects Reserve	<p>Overview</p> <p>This reserve was established to provide funding required for development of Council major assets. The objective is to set aside identified amounts from the operating surplus in order to minimise future borrowing and associated costs of borrowing.</p> <p>Purpose of Funds</p> <p>Council is responsible for ensuring community assets meet the demands of the City’s population. This reserve sets aside funds to construct new assets or expand existing ones to meet this growth, such as:</p> <ul style="list-style-type: none"> • Redevelopment of Fawkner Leisure Centre • Glenroy Community Hub • Saxon Street Community Hub
Financial Instrument Reserves (Local Government Funding Vehicle)	<p>Overview</p> <p>Council may borrow 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.</p> <p>Purpose of Funds</p> <p>As per the Investment Policy (2022) if Council were to enter an “interest-only” repayment schedule, an amount equivalent to principal repayments must be deposited to a cash reserve over the life of the loan to fund the principal repayment when it falls due.</p>



Defined Benefits Superannuation Reserve	<p>Overview</p> <p>This reserve is designed to hold funds to assist with any future funding call associated with defined benefits superannuation liabilities.</p> <p>Purpose of Funds</p> <p>The funds are used to assist with the funding of any call that may be made on Council because of a shortfall in the defined benefit superannuation entity.</p>
Social & Affordable Housing Strategy	<p>Overview:</p> <p>This reserve provides funds for the purchase of community housing projects along with other housing initiatives.</p> <p>Purpose of funds:</p> <p>The funds are used to assist with the funding of housing initiatives.</p>
Carry Forward Reserve	<p>Overview:</p> <p>This reserve holds the balance of unexpended operating or 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> <p>Purpose of funds:</p> <p>To fund incomplete operating or capital works projects carried forward from the current financial year to the next financial year.</p>

4.3 Establishment of Financial Reserves

4.3.1 Establishment of 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.

4.3.2 Establishment of Internally Restricted Reserves

Council may establish a reserve where:

- It is anticipated that extensive works will require funding over a period of time; or
- Funds are collected specifically for a particular capital works project(s).

Internally restricted reserves would not be created for a purpose where it is expected that the balance of the reserve would not reach \$300,000.



4.3.3 Process for Establishment of Reserves

Creation of new finance reserves must be approved by Council by either:

- Recommendation from Merri-bek Executive Group through quarterly financial reports for establishment of internally restricted reserves
- Internal communication channels for establishment of externally restricted reserves.

4.4 Transfer of funds into 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 into the reserve account occur on a monthly basis on receipt of the funds with the exception of the waste charge reserve which occurs annually. Use of funds can only be in line with the funding agreement or statutory requirement of the reserve and may approved by Council in two manners: <ul style="list-style-type: none">• As part of the budgeting process; or• By Council resolution outside of the budget process.
Internally Restricted Reserves	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: <ul style="list-style-type: none">• Identified in the budgeting or forecasting process as funds committed to be transferred to the reserve account; or• By Council resolution after the end of financial year results are completed and surplus funds are identified.

All transfers for reserves shall be assessed at least annually during the preparation of the annual 4-year budget. Distribution of any operating surplus at the end of the financial year shall be assessed under this policy.

4.5 Transfer of funds out of Financial Reserves

Transfers of funds from a reserve must be for the purpose of the reserve. Transfers will be reported as an attachment of each Quarterly Financial Management Report to Merri-bek Executive Group and as required in the Annual Financial Report.

Transfers approved in Annual Budget	Works identified in Capital Works program, or as part of service area work plans, are required to detail project funding including planned usage of reserves. The project funding proposal is then approved by Council as part of the Annual 4-year Budget process.
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Transfers exceeding approved Annual Budget	In cases where a transfer of funds from a reserve was approved in the budget but subsequently a higher level of funding is required from reserves, approval must be sought by Council resolution prior to transfers being made.
Transfers not approved in Annual Budget	From time to time there may be a requirement to transfer funds from a reserve for purposes not foreseen when the annual budget was developed, or transfer amounts approved in the annual budget may then be found to require more than a 10% variance. Any such transfer must be approved by Council through resolution.

4.6 Capital Management

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

- Additional funding is not to cause Council to breach section 4.1 of this policy;
- An assessment of existing reserve requirements is completed; and
- An adequate payback period and schedule is to be established prior to the commitment of cash to the project.

5 Roles and responsibilities

Council's Chief Financial Officer has overarching responsibility for enforcement and compliance with all financial management policy. Creation of new reserves may be recommended by Executive to Council and are subject to Council approval per Section 4.3.3 of the Policy.

Council's Unit Manager of Finance is responsible for the day-to-day management of the Policy, including:

- Compliance with section 4.1 of this policy
- Ensuring that reserve activity is in accordance with legislative, governance and common law principles.

Transfers to and from reserves are subject to the responsibilities outlined in Section 4.4 and 4.5 of the Policy.

6 Reporting on Financial Reserves



Reporting on Financial Reserves occurs as part of Quarterly Financial Management Reports which are endorsed by Council, including:

- Recommendations for creation or closure of Financial Reserves
- Transfers into Financial Reserves, as stipulated in Section 4.4 of the Policy
- Transfers from Financial Reserves as stipulated in Section 4.5 of the Policy.

7 Monitoring, Evaluation and Review

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

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document.

Where an update does not materially alter the effect or purpose of this Policy, such a change may be made administratively. Examples include a change name of a Federal or State Government department, or a minor update to legislation which does not have a material impact.

However, any change or update which materially alters this document must be approved by Executive or where required, by resolution of Council.

8 Definitions

Term	Definition
Asset Revaluation Reserve	Reserves required by the Australian Accounting Standards and are not cash backed
Internally Restricted Reserves	Discretionary reserves established to set aside funds for future strategic priorities or a specific purpose. These reserves may not require full cash backing.
Externally Restricted Reserves	Statutory reserves established to govern the use of funds with legal usage requirements. These reserves require 100% cash backing.
Executive	Merri-bek Executive Group comprising Chief Executive Officer and the Directors of each of Merri-bek's four directorates.



Cash Equivalent	Liquid current assets which can easily be converted to a known cash value at short notice
Financial Instrument	Monetary contracts between parties. They can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver in the form of currency; debt; equity; or derivatives.
Term Deposit	A fixed-term investment where the investee receives interest at maturity.

9 Associated Documents

- Financial Plan
- Four Year Budget Asset Plan and Capital Works Plan
- Fossil Fuel Divestment Strategy
- Australian Accounting Standards
- Victorian Local Government Act 2020
- Planning and Environment Act 1987
- Subdivision Act 1988