

Introduction

The Shire of Capel 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 unreasonable fluctuations in funding requirements.

Purpose

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.

Purpose background

Reserves are funds retained by an organisation to help meet future needs. Holding a certain amount of funds in a Reserve can help an organisation to operate sustainably and effectively, especially in challenging economic times, as well as to facilitate planning for major initiatives including capital works in the future.

Retaining an appropriate level of Reserves is an important funding strategy to help balance the current needs with the future needs of its community.

Reserves are typically created as long term savings plans for future major expenditure which cannot be managed in a single budgetary year.

The use of Reserves is restricted by the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996* and each Reserve is required to be established with a clearly defined purpose.

Reserves may be required to meet statutory requirements or to restrict a specific funding source to the linked expenditure over a longer period.

The balance and the increments/decrements to the Reserves are incorporated in the Long Term Financial Planning process.

Policy statement

The Council will only maintain such Reserves as are prudently required for known or projected liabilities which are unable to be funded in any one year out of normal operations.

The Council will generally support the establishment and investment of Reserves in the following categories:

- To comply with the requirements of Legislation or other contractual requirements.

- Establishment and investment of Asset Reserves to minimise the impact on the Shire's annual financial operations, from the expenditure of funds on asset purchases or capital works expenditure on future assets and infrastructure.
- Reserves relating to Strategic Opportunities and Risk Mitigation to minimise the impact on the Shire's annual financial operations, from unanticipated financial risks, and to provide funds to support opportunities that are aligned to the Shire's strategic directions as detailed within the Corporate Business Plan, Strategic Community Plan and Long Term Financial Plan.

Financial Reserve Provisions

- Provide for a known liability listed within the Long Term Financial Plan or is predicted to be incurred beyond ten years but is of a magnitude warranting accumulation over the extended period.
- Provide for the annual capital requirements for the Plant Replacement Program.
- Fund a future debt repayment liability.
- Be required for contractual or legislative reasons or where the funding source is required to be tied to expenditure over a longer period.
- Have specific but unquantifiable future strategic requirements that recognise the unique challenges imposed on the Shire of Capel arising from growth demands and the potential for unforeseen requirements or significant changes to priority.

Financial Reserve Management

Management Procedures have been developed for the management of each Reserve, which will support the following principles:

- Interest earned on deposits in Reserves shall be aggregated into the specific Reserve, thereby maximising the growth in the balance.
- When the purpose for a specific Reserve is complete, any residual funds will be applied towards another purpose in the Annual Budget or in accordance with the requirements of Section 6.11(2) of the Local Government Act 1995.
- Shire Officers to determine the appropriate amount to transfer to and from any Reserve during the preparation of the Annual Budget and the Statutory Financial Statements.
- In the interests of Reserve Investment and through draft Annual Budget planning, Shire Officers may recommend to the Council a percentage of Rate Revenue funding to be ringfenced and invested into a particular Reserve(s) in order to maintain the Reserve(s) immediate or long term spending plan.
- All transfers to and from Reserves shall be reflected in the Annual Budget and Long Term Financial Planning and presented to the Council for adoption.
- The utilisation of Reserve funds by the Council must be in line with the directions/targets as detailed within the Shire's Corporate Business Plan, Strategic Community Plan and Long Term Financial Plan.
- It is not financially prudent to utilise Reserve funds to balance the Shire's Annual Budget where insufficient Rate Revenue has been calculated and collected to offset the Shire's annual forecast expenditure total.

Scope

This Policy is the overarching instruction to the Council, allowing Shire Officers to manage incremental, decremental and the balances which are required to be maintained for each Reserve. The Annual Budget process and Long Term Financial Planning will provide the opportunity for the Council to adopt or review annual Reserve balances and projected allocations.

Related Legislation

The Local Government Act 1995 (Act) and associated Regulations (Regulations) note the following in respect to Reserves:

Act

- 6.2 (4) (e) – whereby particulars must be disclosed in the Annual Budget.
- 6.11 – governs the establishment and changes in purpose or use of a Reserve.
- 6.38 – where Reserves can be established for Service Charges levied.

Regulations

- 17 - details the requirement to adopt a full and clear title identifying the Reserve's purpose.
- 27 (g) - details of Annual Budget disclosures concerning Reserves.
- 38 - details of Annual Report disclosures concerning Reserves.

Policy Stakeholders

All Councillors, CEO, Directors, Managers and Coordinators will need to be aware of this policy.

Consultation with Stakeholders

All Directorates will have input into the adequacy and methods of operation pertaining to those Reserves in their area of responsibility. The Council will have the opportunity throughout the Annual Budget process to influence the existence and quantum of all Reserves.

Implications (Financial and Physical)

The Reserves at all times will comply with the provisions of the Act and Regulations where stated. The existence and adequacy will be reflected in the Shire's Annual Budget and Long Term Financial Planning processes.

Roles and responsibilities

The Director Community and Corporate and/or Manager Finance will provide the framework for the efficient use of Reserves via Annual Budget procedures. The Finance Department will manage the Reserves under the framework and methodology set for each particular Reserve.

The Council will be responsible for agreeing the Reserve balances through adoption of the Annual Budget.

The need for new Reserves and the acquittal of existing will be documented and reported to the Council for adoption. The effectiveness of this policy will be measured by the adequate provision of cash backed Reserves to provide funding for the future capital needs of the Shire.

Application

This policy applies to all Financial Reserve Accounts.

The policy is to be reviewed as part of the Annual Budget and Long Term Financial Planning processes, or as required in the event of legislative changes.

Procedure

Department:	Community & Corporate	Next review:	January 2024
Reviewer:	Director Community & Corporate	Legislation:	The Local Government Act 1995 (Act) and associated Regulations (Regulations)
Adopted:	Minute OC011/2022 19.01.22	Delegation:	

Amended:
Policy ref #:

Risk:
Version: 2
