

	CENTRAL HIGHLANDS REGIONAL COUNCIL POLICY	
	Reserves Policy	POLICY REF NO <i>CHRCP: 0011</i>

1. Policy Purpose

The purpose of this policy is to document the process for maintaining cash reserves for future operating and capital expenditure.

2. Policy Statement

The Central Highlands Regional Council (council) considers the creation and maintenance of reserves for specific purposes as a sound and prudent financial management strategy. All reserves must be cash backed with the cash forming part of council's investable funds in accordance with the Investment policy.

Council maintains and operates reserves for each of the identified business activities that are recognised in accordance with council's Application of Competition Policy. All other non-profit and non-competitive activities of council are combined and accounted for as the general fund.

Individual reserves are held in the following funds:

- General fund reserves (refer section 3.1)
- Airport fund reserves (refer section 3.2)
- Saleyards fund reserves (refer section 3.3)
- Waste fund reserves (refer section 3.4)
- Water fund reserves (refer section 3.5)
- Sewerage fund reserves (refer section 3.6)

The reserves held in the above funds are classified as either internally allocated or externally imposed reserves. Alternatively, these reserves can also be described as restricted or unrestricted.

Restricted (or externally imposed) reserves relate to cash received for a specific purpose that cannot be used for discretionary spending or for a purpose that it was not originally intended. There may also be legislative requirements restricting the use of the cash. Unrestricted (or internally allocated) reserves represent cash that is under no external or legally imposed restrictions.

In principle, the surplus generated each year by the individual funds should be applied in the following order:

- (1) Transfer restricted cash to the relevant restricted reserve
- (2) Payment of debt redemption
- (3) Payment of dividend to the general fund
- (4) Reduction of debt if considered a sound financial decision and in accordance with the guidance provided in council's Debt Policy
- (5) Transfer of remaining retained surplus to the appropriate unrestricted reserve for future use

Business units may pay a dividend to the general fund in accordance with council's Application of Competition Policy and at the discretion of the Manager Finance and General Manager Corporate Services, depending on the requirements of council in that year. In accordance with the Application of Competition Policy the water

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 1 of 6
Version:		

and sewerage businesses are considered significant business activities. These businesses are currently undertaking a full cost pricing reform and are on a price path that will ensure a return on capital is paid to the general fund annually from 2025-2026, at the required rate under the full cost pricing model.

Where a fund has made a retained deficit in the financial year, cash held in unrestricted reserves should be used to offset this loss. If there is insufficient cash held in the unrestricted reserves, the retained deficit will need to be carried forward and recovered in future years.

In some instances, a decision may be made by the Manager Finance to make a transfer from working capital to the general fund if there are insufficient reserves available to cover a retained deficit in the financial year.

Internal short-term loans of unrestricted funds only between the general fund and the business unit funds may be utilised when the following exceptional circumstances are met:

- it can be guaranteed that the funds would not be required in the short term for the original reserve purposes
- full whole of life costing has been completed for the identified project and a cash flow model completed that identifies the funds will be repaid within the designated timeframes
- when all other applicable methods of financing had been proven to be less advantageous when viewed from a whole of council perspective

Currently no internal loans exist between the general fund and the business unit funds.

3. Description of Individual Reserves by Fund

3.1. General Fund Reserves

3.1.1. Unrestricted (internally allocated) reserves:

- **Future fund reserve** consists of surplus cash set aside for priority strategic capital works.
- **Special projects reserve** consists of cash set aside for priority future special operating projects.
- **Land and improvements reserve** consists of cash set aside from the sale of land assets and land development inventory which can be used for future strategic land acquisitions.
- **Plant and equipment reserve** consists of cash set aside from any surpluses generated in the fleet business activity for the future replacement of council’s plant and fleet assets.
- **Carry over capital projects reserve** consists of cash set aside from capital works projects not completed in a previous financial year where the funding for this project has been provided from surplus funds and will be allocated to complete the capital works projects in a future financial year.
- **Future capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation for the future renewal of building, site improvement and road network assets across the council region.

3.1.2. Restricted (externally imposed) reserves:

- **Constrained grants and subsidies reserves (capital and operating)** two separate reserves are maintained for both capital or operating unspent grants, subsidies or donations received in a prior financial year that relate to a specific project and must be spent for the intended purpose.
- **Roads and drainage contribution reserve** consists of unspent infrastructure charges contributions received for the development of the road and stormwater trunk infrastructure

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 2 of 6
Version:		

and to be used in accordance with council's local government infrastructure plan (LGIP) schedule of works.

- **Parks and gardens contribution reserve** consists of unspent infrastructure charges contributions received for the development of parks and gardens infrastructure and to be used in accordance with council's local government infrastructure (LGIP) schedule of works.
- **Special rates mining roads reserve (excluding Tieri):** consists of unspent proceeds of special rates that were levied as per council's Revenue Statement to fund operating and capital works on specific mining roads in the Capella/Tieri area in accordance with the overall plans and agreements. Deficits and surpluses can be carried forward from year to year in this reserve – deficits will need to be recouped from the special rate levy in the following year and surpluses are used to offset the amount of special rates required to be levied in the following year.
- **Tieri township general reserve** consists of unspent proceeds from the prior year of special rates collected to cover operational and capital works in the town of Tieri which is owned by Glencore. Deficits and surpluses can be carried forward from year to year in this reserve – deficits will need to be recouped from the special rate levy in the following year and surpluses are used to offset the amount of special rates required to be levied in the following year.

3.2. Airport Fund Reserves

3.2.1. Unrestricted (internally allocated) reserves:

- **Airport business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. A return on investment (dividend) may be paid to the general fund on an annual basis depending on the requirements of the council in that year. The payment and quantum of the dividend will be at the discretion of the Manager Finance and General Manger Corporate Services.
- **Future capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation to be spent on the future renewal of airport related infrastructure.

3.2.2. Restricted (externally imposed) reserves:

- **Constrained grants and subsidies reserve** consists of unspent grants, subsidies or donations received in a prior financial year that relate to specific capital projects and must be spent for the intended purpose.

3.3. Saleyards Fund Reserves

3.3.1. Unrestricted (internally allocated) reserves:

- **Saleyards business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. A return on investment (dividend) may be paid to the general fund on an annual basis depending on the requirements of the council in that year. The payment and quantum of the dividend will be at the discretion of the Manager Finance and General Manager Corporate Services.
- **Future Capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation to be spent on the future renewal of saleyards related infrastructure.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 3 of 6
Version:		

3.3.2. Restricted (externally imposed) reserves:

- **Constrained grants and subsidies reserve** consists of unspent grants, subsidies or donations received in a prior financial year that relate to specific capital projects and must be spent for the intended purpose.

3.4. Waste Fund Reserves

3.4.1. Unrestricted (internally allocated) reserves:

- **Waste business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. A return on investment (dividend) may be paid to the general fund on an annual basis depending on the requirements of the council in that year. The payment and quantum of the dividend will be at the discretion of the Manager Finance and General Manager Corporate Services.
- **Future Capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation to be spent on the future renewal of waste related infrastructure.

3.4.2. Restricted (externally imposed) reserves:

- **Tieri township waste reserve** consists of unspent proceeds of waste utility charges collected from the town of Tieri from one year to the next. These funds can be used to offset deficits in the general fund town of Tieri reserve and can also be applied in the special rate calculation to reduce the required special rate levy in a particular budget year.
- **Constrained grants and subsidies reserve** consists of unspent grants, subsidies or donations received in a prior financial year that relate to specific capital projects and must be spent for the intended purpose.

3.5. Water Fund Reserves

3.5.1. Unrestricted (internally allocated) reserves:

- **Water business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. A return on investment (dividend) may be paid to the general fund on an annual basis depending on the requirements of the council in that year. The payment and quantum of the dividend will be at the discretion of the Manager Finance and General Manager Corporate Services. The water business is considered a significant business activity in accordance with the Application of Competition policy. The business is currently undertaking a full cost pricing reform and is on a price path that will ensure a return on capital is paid to the general fund annually at the required rate under the full cost pricing model from 2025-2026.
- **Future Capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation to be spent on the future renewal of water related infrastructure.

3.5.2. Restricted (externally imposed) reserves:

- **Water contribution reserve** consists of unspent infrastructure charges contributions received for the development of the water trunk network and to be used in accordance with council's local government infrastructure plan (LGIP) schedule of works.
- **Tieri township water reserve** consists of unspent proceeds of water utility charges collected from the town of Tieri from one year to the next. These funds can be used to offset deficits in the general fund town of Tieri reserve and can also be applied in the special rate calculation to reduce the required special rate levy in a particular budget year.
- **Constrained grants and subsidies reserve** consists of unspent grants, subsidies or donations received in a prior financial year that relate to specific capital projects and must be spent for the intended purpose.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 4 of 6
Version:		

3.6. Sewerage Fund Reserves

3.6.1. Unrestricted (internally allocated) reserves:

- **Sewerage business unit reserve** consists of cash set aside from annual surpluses generated by the business after allowing for loan repayments and the transfer of restricted cash to the appropriate reserves. A return on investment (dividend) may be paid to the general fund on an annual basis depending on the requirements of the council in that year. The payment and quantum of the dividend will be at the discretion of the Manager Finance and General Manager Corporate Services. The sewerage business is considered a significant business activity in accordance with council's Application of Competition policy. The business is currently undertaking a full cost pricing reform and is on a price path that will ensure a return on capital is paid to the general fund annually at the required rate under the full cost pricing model from 2025-2026.
- **Future Capital sustainability reserve** consists of cash set aside annually from funded unspent depreciation to be spent on the future renewal of sewerage related infrastructure.

3.6.2. Restricted (externally imposed) reserves:

- **Sewerage contribution reserve** consists of unspent infrastructure charges contributions received for the development of the sewerage trunk network and to be used in accordance with council's local government infrastructure plan (LGIP) schedule of works.
- **Tieri township sewerage reserve** consists of unspent proceeds of sewerage utility charges collected from the town of Tieri from one year to the next. These funds can be used to offset deficits in the general fund town of Tieri reserve and can also be applied in the special rate calculation to reduce the required special rate levy in a particular budget year.
- **Constrained grants and subsidies reserve** consists of unspent grants, subsidies or donations received in a prior financial year that relate to specific capital projects and must be spent for the intended purpose.

3.7. Other Restricted and Unrestricted Cash

Restricted and unrestricted cash will also be held outside of reserves as part of working capital cash, provisions, and contract liabilities.

Council calculates and maintains provisions for the costs associated with staff leave entitlements that have accumulated over time and for the rehabilitation of waste and quarry sites. There is a cash backed component to these provisions and where they are not fully funded, money set aside in reserves may be required to fund these provisions depending on the timing of the cashflows.

As a result of the application of Australian Accounting Standards AASB15 and AASB1058, some grants may need to be classified as a contract liability at the end of each financial year instead of being recorded as revenue on receipt. As part of the reconciliation of council's cash holdings these grant funds are considered restricted funds.

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 5 of 6
Version:		

3.8. Restricted and Unrestricted Cash and Reserves by Fund

Estimated Cash and Reserves Balances 2021-2022	
Fund	\$'000
Restricted	
General Fund	8,700
Airport Fund	934
Waste Fund	192
Water Fund	2,921
Sewerage Fund	2,274
Total Restricted	15,021
Unrestricted	
General Fund	9,665
Airport Fund	9,297
Waste Fund	10,178
Water Fund	12,202
Sewerage Fund	25,790
Total Unrestricted	67,131
Total Restricted and Unrestricted	82,152

4. Definitions

Council refers to Central Highlands Regional Council.

Manager Finance shall mean the person holding that position in council's hierarchy or in their absence the General Manager Corporate Services.

General Manager Corporate Services shall mean the person holding that position in council's hierarchy or in their absence the Chief Executive Officer.

Strategic Link	Local Government Act 2009 Local Government Regulation 2012
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Lead Business Unit	Corporate Services
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Related Documents	Investment Policy, Application of Competition Policy, Debt Policy

Electronic version current – uncontrolled copy valid only at time of printing		
Adoption Date: 30 June 2021	Amended Date:	Document Name: Reserves Policy
Revokes:	Review Date:	Page 6 of 6
Version:		