

1 PURPOSE

This Policy outlines the criteria for the classification of Reserves and establishes the purpose of individual Reserves.

(For internal borrowings from reserves refer to City of Darwin 0023.100.E.R Borrowing Policy.)

2 SCOPE

To promote the sustainable and responsible financial management of City of Darwin through the consistent application of Reserve classifications and identification of individual Reserve funding purposes.

Council has cash backed reserves. Cash backed reserves are funds set aside for future purposes. For example, the replacement of the Council's assets, whether they are plant and equipment or infrastructure. Over the term of Council's Long Term Financial Plan (LTFP), cash backed reserves are used to help smooth out the funding required for major capital projects. Council may also need to provide for the funding of renewing assets that mature and require renewal outside of the LTFP. All of this is considered to align with Council's definition of a sustainable financial strategy:

Council defines a sustainable financial strategy as one which allows for the adequate provision for its programs (including capital expenditure) and services into the future with the intention that there is a predictable trend in the overall rate burden. The aim of Council's financial strategy is to allow for an equitable distribution of the costs of establishing and maintaining council assets and services between current and future ratepayers.

The grants and other contributions held in reserves should be actual funds received and not accruals or debtors raised in lieu of funds to be received at year end.

3 POLICY STATEMENT

3.1 CLASSIFICATION OF RESERVES

3.1.1 Externally Restricted

Reserves that are classified as externally restricted must meet the following criteria:

- there is a legal requirement that governs the use of the funds, or
- if the funds are not utilised for the purpose for which they were received, there is a requirement or obligation to return the funding to its contributor.

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Externally restricted reserves, such as developer contributions, should not be considered for internal borrowing arrangements as there is no empowering legislation to do that.

Council’s Reserves that are considered to currently meet this criteria are as follows:

Unexpended Grants and Contributions Reserve

- The unexpended grants reserve holds unspent grants and contributions received that will be applied to a future project or financial year that do not meet the requirements of provision recognition in accordance with AASB 1058 but retain enforceable ‘non sufficiently specific performance obligations’ (in accordance with AASB 1058).

Waste Management Reserve

- The waste management reserve holds funds for the future development of the Shoal Bay Waste Disposal site to accommodate expected future landfill requirements and to provide for post closure rehabilitation costs of the waste site.
- Reasons for classifying Waste as an externally restricted reserve include; specific rates & charges must be spent for the purposes raised, regional significance, lease agreement requirements as well as other regulatory/environmental legal responsibilities to make good at time of closure and post closure.

Waste Remediation Reserve

- The waste remediation reserve is a subledger of the parent Waste Management Reserve and holds funds for rehabilitation and post closure costs of the waste site.
- The annual calculation of the net present value discount unwinding will be transferred to the reserve at year end.
- The Waste Management Reserve as the parent reserve, may temporarily borrow funds from the Waste Remediation Reserve for short term periods to cover timing of projects. Funds must be returned within the next Annual Budget cycle.

Car Parking Shortfall Reserves

- Car parking shortfall reserves hold contributions from property developers for the provision of car parking and rates in lieu thereof. These contributions are required when developments do not include the provision of sufficient parking anticipated for future parking needs resulting from the development.
- Specific car parking shortfall reserves include:
 - Central Business District (CBD) Car Parking Shortfall Reserve

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- Highway/Commercial Car Parking Shortfall Reserve
- Other Car Parking Shortfall Reserve
- Rate Levy Car Parking Shortfall Reserve

Developer Contribution Reserves

- Each developer contribution plan should be separately accounted for.

For example separate reserves should be kept for each activity and each plan within that activity (eg stormwater plans, road contribution plans and other as required). **Reserves required by legal agreements**

- Market Site Development Reserves hold funds in accordance with lease agreements related to market sites including; Mindil, Malak, Nightcliff and Parap. The funds related to each site are to be separately accounted for and used to fund developments and projects at respective market sites.

3.1.2 Internally Restricted

These are created by resolution of Council.

Reserves that are classified as internally restricted usually have the following characteristics:

- there is no legal requirement that governs the use of the funds
- the reserve has been established for some internal purpose, however, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to something else.

Council's Reserves that currently meet this criteria are as follows:

Asset Replacement and Refurbishment Reserve

- Funds reserved for the future maintenance of Council's major assets as well as funds transferred as a result of the Council's policy on allocation of surplus funds Policy No 66, the rules regarding the utilisation of which are generally governed by the principals of that policy.

Carry Forward Works Reserve

- This reserve holds funds relating to works that have not been completed in the current financial year but have been identified to be completed in a future period.

Darwin Entertainment Centre (DEC) Air Conditioning Reserve

- This reserve holds residual funds that were required to be set aside towards the Council share of air conditioning capital costs. As the Council has separated the Darwin Entertainment Centre air conditioning requirements from the Hotel with the significant upgrade of the air-conditioning system finalised, this reserve is now classified as internally restricted.

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Environmental Reserve

- The environmental reserve has been created for future environmental projects relating to Council’s Climate Change and Environment action plans and other associated plans.

Plant & Vehicle Replacement Reserve

- The plant replacement reserve holds funds to meet the cost of replacement of plant. The balance is based on the anticipated requirement amount identified in Council’s plant replacement program. This reserve is subject to Council’s Plant and Equipment Policy.

Off & On Street Car Parking Reserve

- The off and on street car parking reserve holds funds from on and off street car parking operations to allow for the future development of car parking in the CBD.

Darwin Entertainment Centre (DEC) Asset Replacement/Refurbishment Reserve

- Reserve holds funds for capital works at the Darwin Entertainment Centre.

IT Strategy Reserve

- This reserve holds funds for staged computer replacements and upgrades and other associated IT strategic programs.

Nightcliff Community Hall

- Lease agreement specifies 20% income from Nightcliff Community Hall must be transferred to reserve and used to fund projects on the hall.

Disaster Contingency Reserve

- The disaster contingency reserve holds funds to provide for possible insurance and other expenses associated with responding to a natural disaster. The minimum requirement for this fund is to hold \$2M (adjusted by Darwin CPI each year from and including 2020) unless or until the requirements are amended via a formal report and resolution. The reserve balance may fall below the minimum balance if a natural disaster has recently occurred and the funds have been used. The minimum balance will be subsequently replenished in the following annual budget cycle.

Election Expense Reserve

- The election expense reserve holds annual transfers of funds to provide for the cost of holding the next Council election. The annual transfer will accrue at \$130k pa.

Public Art Reserve

- Holds funds as allocated by Council budget and budget review decisions from time to time for the purposes of Public Art.

Street Lighting Reserve

- This reserve was established so that budget savings operations could be reserved to transition the transfer of responsibility for street lighting repairs and maintenance costs from the Northern Territory Government to the Council. Reserve will be closed once funds are exhausted

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Sale of Land Reserve

- This reserve holds funds from sale of land proceeds in accordance with Council resolutions as effected.

3.1.3 General Reserves

These reserves are required by the accounting standards and are not necessarily cash backed whereas externally and internally restricted reserves are.

The Asset Revaluation Reserve is the main example of this. This reserve reflects the increments and decrements of Council’s fixed assets as a result of revaluations in accordance with Australian Accounting Standards.

3.2 ESTABLISHMENT OF RESERVES

A reserve will be established for any value if there is a legal requirement to do so or a requirement under the accounting standards.

Establishment of new reserves must be authorised by Council resolution.

A reserve will be considered ‘inactive’ once funds are depleted. The reserve can be reactivated by Council resolution as required.

3.3 TRANSFER OF FUNDS IN AND OUT OF RESERVES

Transfers should be limited to the funding of those projects for which the reserve was specifically created for. Funds held in reserves can be repurposed by Council Resolution, subject to any external/legal restrictions, where it is deemed appropriate or necessary.

For financial management purposes all reserve transfers in and out of each reserve must be detailed separately with any specific constrained funds for projects identified within each reserve.

All transfers must be authorised by a budget emanating from a Council resolution. This can occur during the annual budget process or at any other time by Council resolution.

3.4 ASSESSING ADEQUACY OF RESERVE FUNDS

At least on an annual basis during the preparation of the budget and Long Term Financial Plan, Council will review its forward projections for reserves, borrowings and funding for major projects. All decisions to undertake reserve transfers will take into account projected borrowings and an analysis of the ‘best possible use’ of available funds.

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3.5 MINIMUM AND CAPPED BALANCE OF RESERVES

3.5.1 Disaster Contingency

Council endorsed a minimum \$2 million balance for this reserve on Decision No. ORD152/20 on 12/05/2020. The reserve may fall below this balance if a disaster occurs and the funds must be utilised as intended.

3.5.2 Waste Management Reserve and Waste Remediation Reserve

Council will generally aim to price in accordance with its current Waste Strategy and integrated Waste Long Term Financial Plan including reasonable estimates of closure and post closure costs. The balance in the reserve at any time however may vary according to requirements of the Long Term Financial Plan so that ideally at time of closure all Waste loans will be repaid and the funds held in the Waste Remediation reserve will be sufficient with accumulating interest to cover closure and post closure costs.

3.5.3 Plant Replacement Reserve

Council endorsed a minimum \$300,000 balance for this reserve on Decision No. 21\2435 on 29/07/2014.

3.5.4 Other Reserves

Other than externally restricted reserves, all reserves will be subject to a review of adequacy at least on an annual basis. This review will take into consideration the requirements for reserve funding assumed in Council’s Long Term Financial Plan. This is particularly relevant for:

- Off & On Street Car Parking Reserve
- Plant & Vehicle Replacement Reserve

As these reserves are used to fund significant asset replacement programs in the Long Term Financial Plan.

3.6 INTEREST ON RESERVE FUNDS

At the end of each financial year, interest will be applied to the following externally restricted reserves:

- Car Parking Shortfall Reserves
- Developer Contribution Reserves
- Unspent Grants & Contributions where the grant agreement specifically states interest must be applied to unspent funds
- Waste Management Reserves

Subject to the requirement for the reserve to reach an approved level, interest will also be applied to the following internally restricted reserves:

- Off & On Street Car Parking Reserve

The interest rate applicable will be the average return on investments for the relevant financial year.

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Interest should be applied to the average reserve balance.

3.7 INTERNAL BORROWINGS FROM RESERVES

Internal borrowings may only occur from internally restricted reserves and not from externally restricted reserves unless this is supported by a change of legislation or between the parent Waste Management Reserve and the subledger Waste Remediation Reserve. In determining whether internal borrowing should occur the criteria in Council's Borrowing Policy should be considered including intended purpose of the funds and term of the loan.

Internal borrowings are subject to similar internal requirements to external borrowings including:

- May only be undertaken by resolution of Council
- Disclosure in Municipal Plan or if resulting from a budget variation during the year the decision is to be publicly available.
- Currently the interest rates being applied to internal loans made to the Waste Fund (by way of example) are as per the budget assumption documents (approximates the opportunity cost of lost interest by investing those funds into Waste projects at time of borrowing). However, Council can decide in each case based on the particular merits of any proposal.
- NB there is no requirement for Ministerial approval of internal reserves borrowing.

3.8 REPORTING ON RESERVES

Division 6(13)(c) of the Local Government (General) Regulations 2021 requires the Council to disclose all specific purpose reserves in its annual financial statement.

In addition to this reserves are reported on as follows:

- A detailed budgeted Statement of Reserves is included in the Municipal Plan and Long Term Financial Plan
- Monthly financial reporting to Council, where practicable, shall include a detailed statement of the budgeted and projected outcome of reserve transfers against actuals to date for the current financial year. If this is not practicable then the reporting should be quarterly from and including the second quarter of each financial year (ie reporting in the 1st quarter is not essential).

4 DEFINITIONS

Nil

5 LEGISLATIVE REFERENCES

Division 4 (11) Local Government (General) Regulations 2021 subscribes that the following matters require a council resolution to take effect:

- (a) A transfer to or from council reserves;
- (b) A change in purpose of a council reserve.

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Division 6 (13) (c) requires the Annual financial statements require a disclosure of all reserves set aside for specific purposes.

6 PROCEDURES AND RELATED DOCUMENTS

For internal borrowings from reserves refer to City of Darwin 0023.100.E.R Borrowing Policy.

7 RESPONSIBILITY AND APPLICATION

This Policy will be implemented by the Executive Finance Manager in consultation with the Chief Financial Officer.

All transfers from reserves including any internal borrowing must be approved by Council by adoption of the budget, budget variations and/or recommendations of specific reports where warranted.

This Policy will be reviewed early in each new term of the Council or as required.

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