

Financial reserve policy

Policy No. 3010.100.E.R

1 Purpose

This policy outlines the criteria for the classification of financial reserves, establishes the purpose of individual reserves and promotes the sustainable and responsible financial management of City of Darwin through the consistent application of reserve classifications and identification of individual reserve funding purposes.

2 Scope

This policy relates to the classification and allocation of funds to individual financial reserves.

3 Policy statement

City of Darwin has cash backed reserves, which are funds set aside for future purposes, such as replacement of plant and equipment or infrastructure. Over the term of City of Darwin's Long Term Financial Plan (LTFP), cash backed reserves are used to help even collection and distribution of funds required for major capital projects, programs and services. City of Darwin may also need to provide for asset renewals outside of the LTFP.

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.

3.1 Classification of reserves

External 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.

Externally restricted reserves, such as developer contributions cannot be used for internal borrowings.

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’.

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.

Reasons for classifying waste as an externally restricted reserve include:

- requirement for specific rates and charges to be spent for the purpose raised
- regional significance
- lease agreement requirements
- make good obligations at the 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 Waste Remediation Reserve will be assessed annually and contributed to from the Waste Management Reserve, to ensure that adequate funds as required by the waste remediation provision are available for use.

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

The car parking shortfall reserves hold contributions from property developers in lieu of provision of car parking and rates.

Specific car parking shortfall reserves include:

- Central Business District (CBD) Car Parking Shortfall Reserve
- Highway/Commercial Car Parking Shortfall Reserve
- Other Car Parking Shortfall Reserve
- Rate Levy Car Parking Shortfall Reserve

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Developer contribution reserves

Each developer contribution plan should be separately accounted for. Separate reserves should be kept for each activity and each plan within that activity, such as stormwater plans and road contribution plans among others.

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.

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.

City of Darwin’s reserves that currently meet this criteria are as follows:

Asset Replacement and Refurbishment Reserve

Funds reserved for the future maintenance of City of Darwin’s major assets as well as funds transferred as a result of Council’s Allocation of Surplus Funds 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.

Environmental Reserve

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

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Plant and Vehicle Replacement Reserve

The plant and vehicle replacement reserve holds funds to meet the cost of replacement of plant. The balance is based on the anticipated requirement amount identified in City of Darwin’s plant replacement program. This reserve can also be used for the acquisition of IT equipment and software if the balance exceeds what is required for the plant replacement program.

Off and 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

This 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

City of Darwin transfers 20% of lease income from Nightcliff Community Centre to reserve, which is 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.

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 \$130,000 per annum.

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Public Art Reserve

This reserve holds funds for the purposes of Public Art.

Sale of Land Reserve

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

Property Reserve

This reserve holds funds from the realisation of commercial property for further investment.

3.2 Establishment of reserves

A reserve will be established for any value if there is a legal obligation 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 Transfers to and from reserves

Transfers should be limited to the funding of those projects for which the reserve was specifically created. Funds held in reserves can be repurposed by Council Resolution, subject to any external or 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, City of Darwin will review its forward projections for reserves, borrowings and funding for major projects. All decisions to undertake reserve transfers will account for 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

Disaster Contingency

Council endorsed a minimum \$2 million balance for this reserve on Decision No. ORD152/20 on 12/05/2020, 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 only when funds are used in the event of a disaster. The minimum balance will be replenished in the following annual budget cycle.

Waste Management Reserve and Waste Remediation Reserve

Funds held in the Waste Remediation reserve will be sufficient with accumulating interest to cover closure and post closure costs.

Plant Replacement Reserve

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

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 and On Street Car Parking Reserve
- Plant and Vehicle Replacement Reserve

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

3.6 Interest of reserve funds

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

- Car Parking Shortfall Reserve
- Developer Contribution Reserve
- Unspent Grants & Contributions Reserve where the grant agreement specifically states interest must be applied to unspent funds
- Waste Management Reserve, unless waste loans are offset with reserved funds.

Subject to the requirement for the reserve to reach an approved level, interest will also be applied to the Off & On Street Car Parking Reserve.

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

3.7 Internal borrowing 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:

- They may only be undertaken by resolution of Council
- Disclosure is required in the 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. This 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.

There is no requirement for Ministerial approval of internal reserves borrowing.

3.8 Reporting on Reserves

Regulation 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 reserves are reported on as follows:

- A detailed, budgeted statement of reserves is included in the Municipal Plan and Long-Term Financial Plan.
- The statement of reserves and all movements and projected end of year balances will be included in the budget review statements presented to Council.

4 Definitions

Nil

5 Legislative references

Local Government (General) Regulations 2021 (NT)

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6 Procedures / related documents

0023.100.E.R Borrowing Policy

0066.100.E.R Allocation of Surplus Funds

7 Responsibility / application

This policy will be implemented by the Executive Manager Finance in consultation 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 every four years or as required.

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