

<b>Title:</b>	<b>Financial Reserves Policy</b>
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## 1 Policy Summary

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

(For internal borrowings from reserves refer to Policy No. 023 - Borrowing Policy.)

## 2 Policy Objectives

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.

## 3 Background

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.

## 4 Policy Statement

### Classification of Reserves

#### 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

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:

#### Specific Purpose Unexpended Grants Reserve

- The unexpended grants reserve holds unspent grants and contributions received subject to specific expenditure requirements. The funds are held in this reserve until expended in accordance with the grant conditions.
- As a result of changing accounting standards this reserve may become unnecessary in the future. Unexpended funds in some or all cases may be required to be recognised as liabilities until the conditions or milestones relating to them are acquitted at which time the grants can be recognised as revenue earned.

#### 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.

## 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
  - 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

- Darwin Entertainment Centre Air Conditioning Reserve holds funds required to be set aside towards the Council share of air conditioning capital costs. Council is currently in the process of separating the Darwin Entertainment Centre air conditioning requirements from the Hotel and that may affect this reserve going forward. If it is maintained it would more likely be an internally restricted reserve once these matters are finalised.
- Market Site Development Reserves hold funds in accordance with lease agreements related to market sites including; Mindil, Nightcliff and Parap. The funds related to each site are to be separately accounted for.

## 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:

#### 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 Street Car Parking Reserve

- The off 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.

#### 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 67, the rules regarding the utilisation of which are governed by that policy.
- Specific asset maintenance and refurbishment reserves include:
  - General/other,
  - Darwin Entertainment Centre Asset Replacement/ Refurbishment Reserve,
  - Nightcliff Community Hall Reserve

#### 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.

#### 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 \$1M (this threshold to be adjusted by Darwin CPI each year from and including 2016 unless or until the requirements are amended via a formal report and resolution).

## Watering Reserve

- The watering reserve holds funds transferred from water budget savings which can support years when the expenditure exceeds budget (dry wet) and to provide for future costs associated with efficiently and effectively irrigating Council's parks and gardens.

## Election Expense Reserve

- The election expense reserve holds annual transfers of funds to provide for the cost of holding the next Council election

## 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 (NTG) to the Council.

## Tree Risk Management Reserve

- This reserve was established to make some provision for the uncertain costs of addressing tree risks following the recommendations from the Coroner's report on a fatal accident caused by a falling tree.

## 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.

## **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.

## **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.

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.

### **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.

### **Minimum and Capped Balance of Reserves**

#### Disaster Contingency

Council endorsed a minimum \$1 million balance for this reserve on Decision No. 21\473 on 25/09/2012. The reserve may fall below this balance if a disaster occurs and the funds must be utilised as intended.

#### Waste Management 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 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 & 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.

### **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 Reserve

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.

Interest should be applied to the average reserve balance.

### **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. 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). 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.

### **Reporting on Reserves**

Part 7 (15) (2) (c) of the Local Government (Accounting) Regulations 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 1<sup>st</sup> quarter is not essential).

## **5 Legislation, terminology and references**

Part 7 (15) (2) (c) of the Local Government (Accounting) Regulations requires the Council to disclose all specific purpose reserves in its annual financial statement.

## **6 Implementation and delegation**

### **Implementation**

This Policy will be implemented by the Finance Manager in consultation with the General Manager City Performance.

### **Delegation Authority**

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.

## **7 Evaluation and review**

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