



Financial Reserve Policy

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APPROVAL	Council	
DATE ADOPTED		
DIRECTORATE	Corporate and Commercial Services	
POLICY OWNER	Manager Financial and Integrated Planning	
NEXT REVIEW	2030	
REVISION RECORD	VERSION	REVISION DESCRIPTION
16 December 2019	1.0	Initial
	2.0	Revised and renamed

1. Purpose

This policy is to ensure sustainable and responsible management of Council's cash balances and financial reserves through a consistent and transparent approach to the appropriate identification and creation, administration, and usage of statutory and discretionary restricted financial reserve accounts.

The objectives to be achieved under this policy support this aim by ensuring:

- Definitive classifications of Financial Reserve accounts, including cash-on-hand requirements
- Appropriate levels of funds are available at the appropriate time to meet statutory and operating requirements and to prudently manage financial risk
- Council's reserve activity is in accordance with legislative, governance and prudent financial principles
- Processes are established around the creation and classification of Financial Reserves, as well as requirements of transfers of funds into and from these reserves
- Processes are established to administer the Financial Reserves, including restrictions of usage of funds in reserve, internal and external reporting of usage of funds in reserve and closure of reserves at end of useful life

2. Scope

This policy is applicable to both Discretionary and Statutory Reserves for Council and includes creation of Reserves, transfers of funds to Reserves and subsequent use of funds from Reserves.

This policy excludes the Asset Revaluation Reserve that arises under the Australian Accounting Standards because it relates to the change in asset values rather than the collection of funds.

This policy applies to Councillors and Council Officers and staff.

3. Governance Principles and Council Plan Alignment

3.1. Governance Principles

A Council must, in the performance of its role, give effect to the overarching governance principles (*Local Government Act 2020 (Act)* s9). In accordance with the Act, this Policy aligns with the following governance principle/s:

Principle (g) the ongoing financial viability of the Council is to be ensured;

3.2. Council Plan Alignment

Strategic Outcome 4: Council Performance and Leadership – A forward-thinking and responsive council that values community input, committed to optimising services, ensuring robust governance and making sustainable decisions.

4. Policy

4.1. Key Principles

- 4.1.1. The creation, retention, and use of funds in financial reserves must consider both the need for long-term financial sustainability and the delivery of Council's services within a single financial year.
- 4.1.2. The creation, contribution or retention of funds in reserves should not cause Council to forgo key opportunities for growth or improvement or diminish Council's ability to deliver essential services by diverting, or unnecessarily withholding funds.
- 4.1.3. Discretionary reserves should be created in a manner that avoids over-stratification, or where the use of funds is tied to extremely limited purposes. It is important to avoid the creation of unnecessary reserves, as reserves tie up financial resources that may be utilised for essential projects, services, or community needs.
- 4.1.4. Generally, income and expenditure should be budgeted in the financial year in which it occurs and should not be "set aside" in reserves for future use. Financial reserves are created where:
 - surplus operating cash and/or income from specific sources are allocated for committed future expenditure.
 - it is necessary to stratify monies held by Council that are linked to statutory requirements.

- it is necessary to stratify monies held to deliver on large, long-term organisational objectives or strategies.
- it is necessary to allow for volatility, unforeseen emergencies, or other unexpected needs.

4.1.5. As at 30 June each year, the recorded cash balance will, at a minimum, be equivalent to the total balance of statutory and discretionary financial reserves. In general, it is not necessary that these funds have bank accounts of their own but are a theoretical split up of the cash surplus that Council has on-hand.

4.2. Statutory Reserves

4.2.1. Council's statutory reserves have been established to record revenues received from developers which are to be applied specifically to undertake future capital works for car parking, public open space and recreation, Infrastructure assets (roads, drainage and footpaths), community facilities and development contributions plans.

4.2.2. The use of funds from Statutory Reserves is governed by legislation (or other legal requirements) and records Council's future expenditure commitments. These are separately accounted for to ensure sound financial management of future operations.

4.2.3. Where statutory funds are collected to fund future infrastructure there are legal requirements that govern how the funds must be spent. This may include expending the funds in accordance with the terms and conditions of the relevant funding agreement, or on projects in the vicinity of the developments that the funds were collected in respect of.

4.2.4. All Statutory reserves are required to be 100% backed by cash and cash equivalents and/or current other financial assets at the end of each financial year.

4.2.5. A list of current Statutory Reserves is included in Schedule One.

4.3. Discretionary Reserves

4.3.1. Discretionary Reserves are funds held by Council and segregated from general revenues, based on Council directions, to finance future expenditures or to provide for a specific project to ensure funds are available as required. Discretionary Reserves may be varied from time to time where expenditure commitments may be created and retired.

4.3.2. Council may also create program specific reserves where capital purchases occur across multiple financial years, funded by operational surpluses generated by these assets.

4.3.3. A list of current Discretionary Reserves is included in Schedule One to this policy.

4.4. Establishment of Financial Reserves

4.4.1. Statutory Reserves

Statutory Reserves will be established for any value if there is a legislative requirement or a requirement under the Australian Accounting Standards

4.4.2. Discretionary Reserves

As a general rule, income and expenditure should be budgeted in the financial year in which it occurs and should not be “set aside” in reserves for future use. However, Council does in some instances create financial reserves where:

1. Large expenditure needs to be funded over a period of time; or
2. Funds are collected specifically for funding of a particular capital works project/program(s).

Approval is required via a decision made by resolution at a Council meeting for the creation of new discretionary financial reserves. If a new reserve is required a report will be prepared and submitted for consideration at a Council meeting for endorsement. The report will include details of:

1. Why the financial reserve is required (including any legislative requirements)
2. Where the funds to be transferred to the reserve will come from
3. What the funds will be expended on
4. When the funds will be spent
5. The length of time the reserve will be required;
6. The dollar value of expected Reserve balance and transfer in/to the Reserve.

Discretionary reserves would not be created for a purpose where it is expected that the balance of the reserve would not reach at least \$50,000.

4.5. Financial Reserve Transfers – transfer to reserves

Transfers of funds to a reserve must be for the purpose of the reserve

Statutory Reserves	Transfers into the reserve account occur monthly on receipt of the funds. Use of funds can only be in line with the funding agreement or statutory requirement of the reserve and maybe endorsed by Council in two manners: • Upon approving the budget at a Council meeting or • By resolution at a Council meeting outside of the budget process
Discretionary Reserves	Transfer of funds are restricted by the internal purpose of the reserve. All transfers to and from the reserve account must be endorsed at a Council meeting in the following manner: • Identified in the budgeting or forecasting process as funds committed to be transferred to the reserve account • By resolution at a Council meeting outside of the budget process or

	As part of the endorsement of the annual financial statements once the financial year results are completed and surplus funds are identified.
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4.6. Financial Reserve Transfers – transfer from reserves

4.6.1. Transfers of funds from a reserve must be for the purpose of the reserve.

Transfers approved in Annual Budget	Works identified in Capital Works program, or as part of service area work plans, are required to detail project funding including planned usage of reserves. The project funding proposal is then endorsed at a Council meeting as part of the Annual Budget process.
Transfers exceeding approved Annual Budget (non-program specific)	In cases where a transfer of funds from a reserve was approved in the budget but subsequently a higher level of funding is required from reserves, approval must be sought by resolution at a Council meeting prior to transfers being made.
Transfers not approved in Annual Budget	From time to time there may be a requirement to transfer funds from a reserve for purposes not foreseen when the Annual Budget was developed. Any such transfer must be endorsed at a Council meeting through resolution

4.7. Closure of Reserves

4.7.1. Reserve accounts will be closed at the end of their useful lives via a decision made by resolution at a Council meeting. The resolution will determine the reallocation of funds from a financial reserve when it becomes obsolete for its initial purpose. This discretionary power enables Council to make informed decisions on directing the remaining balance of the reserve towards alternative initiatives or projects that align with the evolving needs and priorities of the community.

4.7.2. Following the Council resolution to close a reserve account, the Financial and Integrated Planning department will process the necessary journal entries in the Finance system to close the reserve. These journal entries will align with the resolution, directing the balance to a specific project, another reserve, or the allocation of the amount to accumulated surpluses.

4.8. Reporting on Financial Reserves

4.8.1. Reporting on Financial Reserves occurs as part of Quarterly Financial Report which is endorsed at a Council meeting, including:

- creation or closure of Financial Reserves

- transfers into and from Financial Reserves, as stipulated in Section 4.4 and Section 4.5 of the Policy

4.9. Monitoring, Evaluation and Review

- 4.9.1. Compliance will be evaluated and reviewed on an annual basis.
- 4.9.2. It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter the effect or purpose of this Policy, such a change may be made administratively. Examples include a changed name of internal roles, a Federal or State Government department, or a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be endorsed by resolution at a Council meeting.

5. Roles and Responsibilities

Role	Responsibility
Councillors	Responsible for endorsing the creation, closure and transfers to and from the reserve
Executive Management Team	Responsible for recommending the creation or closure of a new discretionary reserve to Council
Director Corporate and Commercial Services	Responsible for the overarching responsibility for enforcement and compliance with this policy.
Manager Financial and Integrated Planning	Responsible for the day-to-day management of the Policy, including: • Ensuring that reserve activity is in accordance with legislative, governance and common law principles. • Transfers to and from reserves are in accordance with section 4.5 and section 4.6 of this Policy.

6. Policy non-compliance

Non-compliance with this Policy has the potential to negatively impact on the reputation of Council.

In the event of policy non-compliance, an assessment will be conducted during the Council's next budget or mid-year budget cycle, whichever comes first. This evaluation aims to address any deviations from established policies and enact corrective measures to regain compliance.

7. Definitions

Term	Definition
<i>Reserves</i>	Are funds that have been set aside from operating and capital incomes for future funding of projects. From an accounting perspective the value of these funds are recorded in equity balance sheet ledger accounts definition.
<i>Statutory Reserves:</i>	Statutory Reserves are those required by legislation to record Councils future expenditure commitments
<i>Discretionary Reserves</i>	Discretionary Reserves are those developed by Council to record Councils future expenditure commitments
<i>Developer Contributions</i>	Developer contributions are payments made by developers towards costs associated with essential infrastructure.

8. Related documents

8.1. Legislation

- *Local Government Act 2020*
- *Australian Accounting Standards*
- *Victorian Local Government Act 2020*
- *Planning and Environment Act 1987*
- *Subdivision Act 1988*

8.2. Documents and resources

- Nil

9. Implementation of the Policy

This policy will be implemented immediately following its adoption by Council and will be available on Council's website.

SCHEDULE ONE

The following list of Statutory Reserves are Reserves Council currently has in place. A summary of each Reserve at Appendix One of the Financial Reserve Policy outlines the purpose of each current statutory reserve and its typical inflows and outflows:

- Public Open Space
- Developer Contribution Plans (DCP)

The following list of Discretionary Reserves are those that Council currently has in place. A summary of each Reserve at Appendix Two outlines the purpose of each current Discretionary reserve and its typical inflows and outflows:

Frankston City Council Discretionary Reserves:

- Strategic assets
- Loan Sinking fund
- PARC asset management plan
- Unexpended grants reserve
- Capital projects
- Resource efficiency
- Waste recycling and resource recovery reserve
- Economic development grants reserve

Peninsula Leisure P/L Discretionary Reserves:

- PARC Asset Management Plan
- PARC Strategic

APPENDIX ONE – Statutory Reserves

Public Open Space Reserve

Purpose: This reserve is established to hold funds contributed by developers for collect Public Open Space Contributions and manage funds in accordance with the Subdivision Act 1988.

Typical sources of inflows: Inflows are solely composed of contributions from developers in lieu of the 5 per cent Public Open Space requirement.

The funds are to be utilised for the development of new open space and recreation assets, as well as upgrade or expansion of existing assets.

Subdivision Roadworks

Purpose: This reserve had been established to provide a source of funding for subdivisional roadworks.

Typical sources of inflows: Council had charged an infrastructure levy per subdivided lot until there was a VCAT ruling that the contributions were outside of the parameters written in the Frankston Planning Scheme. Collection of these levies have ceased.

Criteria to enable outflows: Outflows from this reserve will be transfers back to operations or specific projects as may be determined by Council. Some contributions have specific terms, e.g. funds to be spent on a particular intersection, others have terms that are more generic.

Infrastructure Reserve

Purpose: The purpose of this reserve is to set aside funding for roads and drains in growth areas.

Typical sources of inflows: Council had charged a development contribution and drainage levy per subdivided lot to facilitate future upgrades to infrastructure until there was a VCAT ruling that the contributions and levies were outside of the parameters written in the Frankston Planning Scheme. Collection of these levies have ceased.

Criteria to enable outflows: Outflows from this Reserve will be in the form of agreed projects for roads and drains as may be determined by Council.

Car Parking

Purpose: This reserve is established to hold funds contributed by developers. The financial contributions must be made before the use or development commences unless a permit condition allows payments by instalments under the Section 173 agreement provisions of the Planning and Environment Act 1987. This agreement may provide for the payment of the contribution in instalments plus an interest component equivalent to the interest payable on unpaid rates and charges under the *Local Government Act 1989* and it must provide that all instalments and accrued interest are paid within 5 years of the first instalment. The financial contribution cash-in-lieu rate per car space charged by Frankston City is less than the full

cost of providing multi-storey car parking. This has been set as an incentive to facilitate development. It recognises the inherent benefits to multiple users of consolidating car parking into large public accessible facilities.

Typical sources of inflows: A financial contribution is required in lieu of each car parking space that is provided.

Criteria to enable outflows: Outflows from this reserve will be utilised on public parking projects within the Frankston Metropolitan Activity Centre or adjacent to the Frankston Metropolitan Activity City Centre in accordance with the Frankston Metropolitan Parking Precinct Plan, including (where appropriate) multi storey facilities.

Developer Contribution Plans

Purpose: These reserve accounts hold contributions received by Council from developers in line with Council's Developer Contribution Plan (DCP). Restrictions apply as set out in both the Plan and under provisions outlined in the *Planning and Environment Act 1987*. It is a mechanism used to levy developers of new developments for contributions to planned infrastructure required by the future communities of those developments.

Typical sources of inflows: Council charges a development contribution that will enable future planned infrastructure required by the future communities and developments.

Criteria to enable outflows: Outflows from this Reserve will be in the form of agreed projects that fund approved community infrastructure projects in line with the requirements of the DCP. Contributions must be expended on infrastructure projects that service the developments from which the contributions are received.

APPENDIX TWO – Statutory Reserves

Strategic Asset Reserve

Purpose: The strategic projects reserve has been established by Council to fund works considered by Council to be of a strategic nature.

One of the key considerations for Council in the application of future loan borrowings is the premise that its annual operational and asset renewal needs can be met from annual funding sources. That is, Council does not have to access funding from non-renewable sources such as loans, asset sales or reserves to meet its annual expenditure needs.

Typical sources of inflows:

Proceeds from Sale of Council Land: Proceeds from sale of Council land will be transferred to the strategic reserve for either the purpose to fund new and upgrade major capital projects. Proceeds from sale of property are not to be utilised to fund operational expenditure.

Surplus cash funds: At the conclusion of each financial year, Council reviews the results and may transfer cash surplus funds into this reserve if Council achieves a surplus outcome. Criteria to enable outflows: During the development of the Council and Wellbeing Plan, Council sets the forthcoming four (4) year strategic priorities. Strategic priorities usually include extremely significant projects that involve expenditure in the tens of millions. To deliver these strategic priorities, a financially sustainable Council must exist.

Council must provide for the ongoing capital development of the municipality across a broad range of major priorities. In the future, outflows from this reserve are to fund major capital works projects or when Council is required to source major funding where there is no option but to utilise cash reserves.

This reserve allows Councillors the opportunity to refer major projects for consideration based on an agreed criteria. The following criteria must be met in order for funds to be transferred from the Strategic Asset Reserve:

1. Funding is to have a direct link to the Council and Wellbeing Plan Strategic Priorities
2. Other funding options have been considered including borrowing, Government funding and asset sales
3. To fund the delivery of a major project or acquisition with regional significance
4. A separate decision to be adopted by Council outside of the Annual Budget and Mid-Year Budget process.

Loan Sinking Fund

Purpose: The purpose of this reserve is to provide for advance payment on loans (without penalty) and the principal repayments required on maturity of the interest-only Local Government Funding Vehicle (LGFV). If required, this reserve can be utilised to provide future funding for major infrastructure projects in lieu of borrowings.

Typical sources of inflows: Inflows will comprise savings derived from annual loan repayments, and interest savings compared to the original budget provision of these items. Inflows will also include 'transfers in' required to fund debt redemption commitments (interest expense and principal repayments).

Criteria to enable outflows: Outflows from this reserve are based on the adopted Annual Budget where a schedule of payments on loans are reviewed. The following criteria must be met in order for funds to be transferred from the Loan Sinking Fund Reserve:

1. Payment of loan borrowings at maturity without penalty including the LGFV.
2. A separate decision to be adopted by Council outside of the Annual Budget and Mid-Year Budget process to re-draw from this reserve for delivery of a major project or acquisition with regional significance with a direct link to the Council Plan Strategic Priorities or
3. A separate decision to be adopted by Council outside of the Annual Budget and Mid-Year Budget process to source funding where there is no option but to utilise cash reserves e.g. Defined Benefit Superannuation Liability.

PARC Asset management plan reserve - Council

Purpose: The PARC Asset Management Plan reserve has been established by Council and represents funding set aside to contribute to the upgrade and replacement of Peninsula Aquatic Recreation Centre (PARC). Council has made a commitment to contribute to the upgrade and replacement of PARC based on the schedule within the PARC Asset Management Plan (AMP) over a period of 40 years. It is prudent to make provision each year to this sinking fund to deliver on its commitment to provide fit for purpose facilities. This reserve is not to fund renewal or maintenance expenditure on Council facilities.

Typical sources of inflows: Inflow to this reserve will typically be when Council resolves to transfer cash surplus funds into this reserve if Council achieves a cash surplus outcome at the conclusion of financial years.

Criteria to enable outflows: Outflows from this reserve will be transfers back to upgrade or replace the PARC facilities as adopted by Council. Unexpended Grants Purpose: The purpose of this reserve is to quarantine operating Federal and Victorian Government funding relating to a future financial year but received in a prior year.

Typical sources of inflows: Inflows are solely composed of significant operating grant funds received in one year and are restricted for specific projects or expenditure for the following year. Criteria to enable outflows: Outflows from this reserve will be transfers back to operations or specific capital projects as per unexpended grant listing.

Unexpended grants reserve

Purpose: The purpose of this reserve is to quarantine operating Federal and Victorian Government funding relating to a future financial year but received in a prior year.

Typical sources of inflows: Inflows are solely composed of significant operating grant funds received in one year and are restricted for specific projects or expenditure for the following year.

Criteria to enable outflows: Outflows from this reserve will be transfers back to operations or specific capital projects as per unexpended grant listing.

Capital projects reserve

Purpose: The capital projects reserve has been established by Council and represents funding allocated to capital projects that have not been delivered in a prior year.

Typical sources of inflows: Inflows are solely composed of rates funds received and are restricted for specific projects delivered in the future years.

Criteria to enable outflows: Outflows from this reserve will be transfers back to specific projects as per end of year project listing.

Resource efficiency reserve

Purpose: The purpose of this reserve is to provide Council with an opportunity to set aside funds and highlight the benefit of energy conservation measures to save money and achieve Council's greenhouse reduction goals.

Typical sources of inflows: Inflows to this reserve are the annual expected savings from energy reduction projects.

Criteria to enable outflows: Outflows from this reserve will be the reinvestment in future years for further works to minimise energy consumption.

Waste recycling and resource recovery reserve

Purpose: To ensure all revenue from the waste charge is fully expended on waste related activities only.

Typical sources of inflows: Inflows to this reserve will be any surplus funds identified in the net waste position following the completion of the annual financial statements.

Criteria to enable outflows: Outflows from this reserve will be used for waste and recycling related expenses to help accommodate future unpredictable swings in the cost of waste.

Economic development grants reserve

Purpose: The Economic Development grants reserve has been established to quarantine unexpended business and façade grants until they are fully claimed by the recipients.

Typical sources of inflows: Inflows to this reserve are the unexpended business and façade grants that have been awarded.

Criteria to enable outflows: Outflows from this reserve will be the payment of the business and façade grants when the conditions of the funding have been met.

PARC Asset management plan reserve– Peninsula Leisure P/L

Purpose: This reserve is managed by Peninsula Leisure P/L and is designated to meet their obligations for defined classes of capital as set out in the schedule within the PARC Asset Management Plan (AMP), notably, furniture fixtures and equipment, IT and audio-visual equipment, and capital replacement. Peninsula Leisure P/L notes that Council similarly has obligations towards the provision of funds for defined classes of capital, notably all major items of capital replacement or upgrade as per the schedule within the AMP.

Typical sources of inflows and outflows: Inflow to this reserve will be when Peninsula Leisure P/L achieves a surplus outcome at the conclusion of financial years and resolves to transfer surplus funds into this reserve.

Criteria to enable outflows: Outflows from this reserve will be to fund furniture fixtures and equipment, IT and audio-visual equipment, and capital replacement for PARC as required.

PARC Strategic reserve – Peninsula Leisure P/L

Purpose: This reserve is managed by Peninsula Leisure P/L and is designated for capital investment expended over more than one financial year, that falls outside the requirements of the PARC Asset Management Plan (AMP).

Typical sources of inflows: Inflow to this reserve will be when Peninsula Leisure achieves a surplus outcome at the conclusion of financial years and resolves to transfer surplus funds into this reserve.

Criteria to enable outflows: Outflows from this reserve will be to fund capital investment expended over more than one financial year, that falls outside the requirements of the PARC Asset Management Plan (AMP).