



2.1.18 Cash Backed Reserves

Type:	Corporate Services – Financial Management
Legislation:	Local Government Act 1995
Delegation:	
Other Related Document:	

Objective

To provide strategic support and direction for the establishment and utilisation of Cash Backed Reserves (**Reserves**).

Background

Reserves are accounts established and held within the municipal fund to hold cash retained by the Town for the purpose of:

- reducing business risk;
- improving financial management;
- improving strategic capacity;
- meeting asset renewal needs; or
- meeting statutory obligations and other external requirements.

The balance of cash held in reserve accounts are restricted to the defined purpose for which the reserve account was established.

Changes to the purpose for which money is held in a cash reserve can be achieved in accordance with the requirements as set out in the *Local Government Act 1995*.

Policy

This Policy provides direction to management in relation to a framework surrounding decisions to place funds into a reserve account.

Linkage to the Long Term Financial Plan

Cash reserves are a mechanism to assist in achieving the strategic objectives of the Town and the decision to allocate cash to/from a reserve account is made within the context of its implication on the long term financial sustainability of the Town.

Inter-Generational Equity

The Town will seek to achieve intergenerational equity in its use of reserve savings as a means of funding long lived assets to achieve an alignment of the cost of funding the asset(s) and the consumption of the benefit.

Establishment of Reserve Accounts

The Town will generally support the establishment of cash reserves in accordance with Appendix A of this policy, to achieve the following outcomes:

Purpose	Rationale for Establishment
Business Risk	<p>Reserves may be established to minimise the impact on Council operations in any one year from unanticipated events. Unanticipated events can arise from the impact of natural disasters where the financial risks cannot be fully recouped under an insurance policy or disaster funding.</p> <p>In addition, unanticipated events may include draws on employee entitlements such as annual leave or sick leave or the unanticipated failure of assets critically important to maintaining service levels.</p>
Financial Management	<p>To manage the transition from a past budget period to a future accounting period, reserves may be established to hold restricted funds for transfer to a future period to match/offset the respective expenditure.</p> <p>Reserves may also be established to be used to accumulate funds for significant operating expenses that occur on a recurrent basis but do not require an annual allocation in every budget year.</p>
Strategic Capacity	<p>On occasions, the Town is offered strategic opportunities by the State/Federal government or the private sector to partner in the provision and delivery of community initiatives and programs. These are usually in the form of external grants or contributions which require a financial contribution from the Town. Sufficient notice may not be provided to develop a specific financing strategy to take advantage of these opportunities. Strategic Reserves may be established to maintain a level of savings to access these opportunities subject to the outcomes aligning with the Town's strategic community goals and priorities.</p>
Meeting Future Needs for Asset Management	<p>Reserves may be established to save for the future renewal of assets with the funding of anticipated future expenditure needs which provides the Town a financing tool to manage issues of intergenerational equity, reduce reliance on borrowing to fund long lived assets and to overcome the restriction of a single budget by smoothing the funding allocation over the longer term.</p>
Statutory Obligations	<p>The Local Government Act requires selected revenue streams to be quarantined and to only fund the purpose for which the revenue was raised.</p> <p>Examples are nominated service charges and specified area rates. Any revenue collected in a budget year not used for the purpose for which it was raise must be held in a reserve until it is applied to the purpose in future periods. Money held in these Reserves cannot be used for any other purpose.</p> <p>Developer contributions are collected in accordance with Community Infrastructure Plans to be used to fund specific assets in nominated areas.</p>

Interest on Investment of Reserves

Subject to the balance of the reserve being below the maximum levels as outlined in this policy, interest earned on cash in Reserve accounts shall be transferred to the reserve account as a deposit.

Monitoring and Reporting

The minimum and maximum levels of cash held in each reserve (if applicable) will be determined in accordance with Appendix A of this Policy. The level of reserves will be reported in the budget annually in accordance with minimum and maximum levels as set out in this policy.

The minimum levels as set out in this policy are to be considered as a goal and may not be able to be achieved at times due to events that impact the use of the reserve. If minimum levels are not achieved, the long term financial plan is to include strategies to return the cash reserves to the minimum balance in accordance with the levels set out in this policy.

If the maximum levels, as set out in this policy, are achieved for the relevant reserve account, future transfers of cash to the reserve (including interest earning from the investment of the reserve) may be suspended until such time as a report is prepared to the Council to review the levels and purpose of the reserve account.

Responsible Directorate:	Corporate Services
Reviewing Officer:	Manager Administration and Finance
Decision making Authority:	Council
Policy Adopted:	16/06/20
Policy Amended/Reviewed:	

Attachment

Category	Sub Category	Purpose	Reserve Name	Minimum Reserve Balance	Maximum Reserve Balance	Forecast Reserve Balance 30 June 2020	Recommended Target Balance/Reserve Transfer Rule
Operational	Timing Adjustments	To assist with the matching of revenue and expenditure across accounting periods.	<ul style="list-style-type: none"> Unspent Grants Reserve Committed Works Reserve 	Determined by the amount of funds to be transferred across financial years.		\$0	
	Statutory	To achieve statutory compliance in accordance with relevant legislation	Service charges specified area rates or external restrictions. <ul style="list-style-type: none"> Town Planning Reserve Old Police Station Reserve 	Determined in accordance with legislation and/or project requirements		Town Planning = \$50k Old Police = \$0	
	Accumulated Liabilities	To offset liabilities generated as a result of past accounting periods.	Employee Entitlements/ Revaluations costs <ul style="list-style-type: none"> Non-Current Leave Reserve 	50% of the accumulated liability	100% of the accumulated liability	\$10k No budgeted transfers, current LSL liability ~\$90k	\$75k (net transfer in ~\$5k per yr)
Strategic	Natural Disaster	To reduce the financial risk of unanticipated events	Flooding or storm damage <ul style="list-style-type: none"> Sustainability and Environmental Initiatives Reserve 	Equivalent to an amount equal to 1% of annual general funds	Equivalent to an amount equal to 4% of annual general funds	\$60k	\$380k (net transfer in ~\$80k per yr)

	Community	To provide for strategic actions in support of identified activities that cannot be funded in the one budget period	<ul style="list-style-type: none"> • Arts and Sculpture Reserve • Aged Services Reserve 	Determined by the renewal requirements of each project.		Arts = \$76.8k Aged Services = \$21.8k	Arts = \$150k average balance (net transfer in ~\$25k per yr for next 4 years)
	Opportunities	To provide for the capacity to take-up unanticipated strategic opportunities	<ul style="list-style-type: none"> • Strategic Asset Management Reserve 	Equivalent to an amount equal to 2% of annual general funds	Equivalent to an amount equal to 4% of annual general funds	\$100k	\$380k (net transfer in ~\$25k per yr)

Asset Management	Specific	To hold funds for the future renewal of identified assets which cannot be managed in a single budgetary year.	<p>Significant asset renewal needs such as facilities of regional significance or essential services.</p> <ul style="list-style-type: none"> • Preston Point Facilities Reserve • East Fremantle Oval Redevelopment Reserve • Foreshore Management Reserve 	Determined by the renewal requirements of each project.		<p>Preston Point = \$36k</p> <p>EF Oval = \$298k</p> <p>Foreshore = \$0</p>	<p>Preston Point = net transfer \$100k per annum</p> <p>EF Oval – business plan recommends establishing a sinking fund of \$271k per year, plus the Town will be required to fund any operating deficit with a forecast shortfall of \$300k in year 1. Sinking fund not to commence until year 3. \$300k transfer in Year 1(Operating Deficit) \$100k transfer in subsequent years as a safety net (Operating Deficit)</p> <p>Funding model indicates an own source contribution of \$1m from Reserve to the build cost by 2022/23 – so \$350k transfer in 2021/22 and 2022/23 required. \$sinking fund thereafter from Yr 3 (to be funded from the dividend model)</p> <p>Foreshore = \$1m (transfer in ~\$100k per yr)</p>
	Light Fleet & Plant Acquisition	To hold funds for asset renewal for plant & vehicles to reduce the risk of a	<p>Plant and Vehicles</p> <ul style="list-style-type: none"> • Vehicle, Plant and Equipment Reserve 	10% of the current replacement cost of the depreciable component	20% of the current replacement cost of the depreciable component	\$84k	<p>Transfer in annual depreciation expense circa \$138k</p> <p>Transfer out net funding requirements</p>

		sudden loss of service potential and to assist with peak renewal demand.		of each asset group	of each asset group		
	General	To hold funds for general asset renewal for each fixed asset class (excluding plant & vehicles) to reduce the risk of a sudden loss of service potential and to assist with peak renewal demand.	Waste Management, Roads, Footpaths, Drainage, Parks Infrastructure, Streetscape, Buildings. <ul style="list-style-type: none"> • Waste Reserve • Streetscape Reserve • Drainage Reserve 	1% of the current replacement cost of the depreciable component of each asset group	2.5% of the current replacement cost of the depreciable component of each asset group	Waste = \$0 Streetscape = \$75k Drainage = \$150k	Waste – in the event that the Town imposes a separate waste charge on the rates notice, the Town could adopt a full cost recovery model + 2% (circa \$32kpa) with the surplus to be transferred to Reserve for the purpose of funding future waste initiatives/liabilities or provide a return on investment? Streetscape = \$25k per year for major streetscape upgrades including George St Drainage = \$700k CRC = \$2.06m + drainage audit findings (no \$ values included), general allocation in SRP \$100k per yr
Developer Contributions	Major	To hold contributions to be used in accordance with the specific major plan	N/A	Determined by the amount of unexpended funds.			

	Miscellaneous	To hold contributions to be used in accordance with several minor plans	N/A			
--	---------------	---	-----	--	--	--