

Restricted Assets (Cash & Investments) Policy

Responsible portfolio	Finance	Document Register ID	250.2022.107.3
Policy owner	Chief Financial Officer	Review date	February 2024
Date of Council Meeting	16 February 2023	Resolution Number	Number 23/23
Legislation, Australian Standards, Code of Practice	S625 and S410 Local Government Act 1993 Local Government (General) Regulation 2005 Local Government Code of Accounting and Financial Reporting Australian Accounting Standards Aged Care Act 1997 Fees and Payment Principles 2014 Crown Land Management Act 2016 No 58 Rating and Revenue Raising Manual, Department of Local Government (2007) Environmental Planning & Assessment Act, 1979 (EP&A Act) Water Management Act 2000		
Aim	In accordance with the <i>Local Government Act 1993</i> , in the interest of good financial management, Council will restrict funds from time to time to either meet external statutory obligations (such as restrictions relating to grant funding or development contributions) or to set aside funding for future commitments. The Restricted Assets Policy outlines the current restrictions and what future works these surplus funds are being held for.		

1 Purpose

To establish what funds shall be placed into Council's reserves and the purpose for which those reserve funds shall be applied.

The objective of this policy is to detail what funds Council should be setting aside funding for and the desired level of funding to be set aside. The policy also details the rationale for the creation of each of Council's internally restricted assets.

2 Scope

This policy applies to all Council cash and investments only.

This Policy covers all personnel employed by Council, either as an employee or contractor.

3 Definitions

Term	Meaning
Restricted Asset	Funds that are kept restricted (ie, cannot be used for general purposes) as they are either subject to some form of external legislative or contractual obligation, or are kept for the purpose of covering Council commitments that are expected to arise in the future.
Internally Restricted Asset	Funds restricted by a resolution of council. Internal restrictions are developed by Council to cover commitments/obligations that are expected to arise in the future and where it is prudent for Council to hold cash in restrictions to cover those obligations.
Externally Restricted Asset	Funds that are subject to external legislative or contractual obligations.

4 Background

Council has significant cash, cash equivalents and investments. Restrictions are established to set aside funds for Council to meet legislative requirements, to allocate funds against future projects and activities to ensure sufficient funding is available to meet current and long term financial obligations.

Snowy Monaro Regional Council's restrictions are held within five funds and spread across many areas of Council operations. Council's five funds are:

- General Fund
- Water Fund
- Sewer Fund
- Waste Management Fund
- Residential Aged Care Facilities Fund

5 Policy Statement

Council will establish, utilise and maintain the following Restricted Assets.

5.1 Externally Restricted Assets

5.1.1 Unexpended Grants

This reserve is established to hold the total balance of Grant income related to grant funded projects. The funds shall be used for the completion of identified projects in a subsequent financial year.

5.1.2 Developer Contributions

This reserve is to hold the balance of developer contributions paid as a result of new development. Contributions from developers are to be used for the provision of

infrastructure, services and amenities, in accordance with Council's Developer Contributions Plan and Development Servicing Plans.

5.1.3 Water Fund

This reserve is to hold the balance of surplus funds from Council's Water Fund operations. Funds can only be spent on Water services.

5.1.4 Sewer Fund

This reserve is to hold the balance of surplus funds from Council's Sewer Fund operations. Funds can only be spent on Sewer services.

5.1.5 Domestic Waste Management

This reserve is funded by the Domestic Waste Management Charge and will only be used to fund the Domestic Waste Management Services. The reserve balance is based on:

- a) An expected level of service delivery for the year
- b) Accumulated surplus or deficit depletion; and

5.1.6 Snowy River Hostel Accommodation Bonds

This reserve holds Refundable deposits or Accommodation bonds for current residents of the aged care facility. These deposits/bonds can only be used for a permitted use, as defined in the *Aged Care Act 1997* (s52N-1) and the Fees and Payment Principles (part 6). Permitted uses include:

- a) Used for capital expenditure
- b) Invested in certain financial products, such as term deposits, securities, and debentures, and in accordance with Council's Investment Policy
- c) Used to make a loan on a commercial basis, subject to certain restrictions
- d) Used to refund refundable deposits or accommodation bond balances
- e) Used to repay debt accrued for the purposes of capital expenditure or refunding refundable deposits or accommodation bond balances
- f) Used to repay debt accrued before 1 October 2011 if the debt is accrued for the purposes of the providing aged care to care recipients
- g) Is otherwise used as permitted by the Fees and Payment Principles

5.1.7 Yallambee Lodge Accommodation Bonds

This reserve holds Refundable deposits or Accommodation bonds for current residents of the aged care facility. These deposits/bonds can only be used for a permitted use, as defined in the *Aged Care Act 1997* (s52N-1) and the Fees and Payment Principles (part 6). Permitted uses include:

- a) Used for capital expenditure
- b) Invested in certain financial products, such as term deposits, securities, and debentures, and in accordance with Council's Investment Policy

- c) Used to make a loan on a commercial basis, subject to certain restrictions
- d) Used to refund refundable deposits or accommodation bond balances
- e) Used to repay debt accrued for the purposes of capital expenditure or refunding refundable deposits or accommodation bond balances
- f) Used to repay debt accrued before 1 October 2011 if the debt is accrued for the purposes of the providing aged care to care recipients
- g) Is otherwise used as permitted by the Fees and Payment Principles

5.1.8 Crown Land Reserve

This reserve is funded from the amount of proceeds earned from Crown lands from sales, leases, easements, licences or other dealings with the land. Council, as the Crown land manager of more than one area of Crown land, may pool the net amount of the proceeds from those areas. These pooled funds may then be used for any permitted purpose specifically limited to any of the Crown land areas.

S3.16 (3) of the *Crown Land Management Act 2016 No 58* lists the following permitted purpose for which these funds can be used:

- a) Making improvements to the land
- b) Purchasing, leasing or acquiring an easement over land under s3.28A
- c) Preparing plans of management (whether under Division 3.6 or the Local Government Act 1993) or other plans (as required or permitted by the Minister under s3.41) for land managed by the Crown land manager
- d) Any other purpose referred to in s2.12 that applies to the land

5.1.9 Boco Rock Community Reserve

Prior to the commencement of construction of the project, the Proponent shall establish a Community Enhancement Program Fund to be jointly administered by the former Bombala and Cooma-Monaro Shire Councils to fund community enhancement measures in the Bombala and Cooma-Monaro Shire local government areas to offset any potential residual amenity impacts associated with the project within these local government areas. Community enhancement measures may include (but are not necessarily limited to) improvements to community infrastructure and services, sustainability initiatives and opportunities for local economic and tourist development. The Proponent shall contribute an annual sum of \$2,500 per operational turbine to the fund, from the commencement of operation of the project until the end of its operational life. The contribution shall be adjusted to take account of any increase in the Consumer Price Index (CPI) over time, commencing at the June 2010 quarter. The terms for the administration of the funds shall be agreed between the Proponent and former Bombala and Cooma-Monaro Shire Councils (now Snowy Monaro Regional Council) and submitted for the Director-General's approval prior to commencement of construction.

The funds are invoiced by Snowy Monaro Regional Council and distributed within the same financial year. Funds are distributed by a decision of the Boco Rock Community Enhancement Fund committee.

5.1.10 Kamoto-Cooma friendship Scholarship Fund

This reserve was initially created to fund an exchange program for high school students and city representatives, between Yamaga/Komoto and Cooma Monaro

local government area, in a sister city relationship. A visit would be arranged every year, with odd years Cooma would visit Japan and even years, Japan would visit Cooma. With the subsequent amalgamation of Kamoto into the larger Yamaga City Council, the subsidy from Japan, used to part fund this arrangement, ceased.

As the exchange program was wound back, these funds were then utilised to facilitate funding opportunities for youth and promote relationships, by offering grants and scholarships.

5.1.11 Other

This reserve has been established to administer small contributions /donations/ bequest made to Council for a specific purpose.

5.1.12 Stormwater

This reserve has been established to restrict Stormwater levy funds. These funds are used to cover specific stormwater related projects.

5.2 Internally Restricted Assets

All internal reserve balances are calculated as per below and are subject to available cash that is not subject to external restrictions.

5.2.1 Plant and Vehicle Replacement

This reserve is to be used to fund Council's plant replacement program. Internal plant charge out rates are to be set to ensure the full cost of the plant operations is funded and funds can be set aside for all plant replacement.

5.2.2 Employee Leave Entitlement

This reserve holds funds to cover Council's anticipated short to medium term liability to pay employee leave entitlements (ELE). The reserve amount will be reviewed annually to ensure funding is maintained for an adequate portion of the liability for accrued employee annual leave and long service leave which has been earned, but not yet paid, as at the last reporting date. An appropriate reserve balance is to be based on current liabilities and aged of employees, as follows:

Over 60 years	100% funding of ELE
50 to 59 years	80% funding of ELE
40 to 49 years	60% funding of ELE
30 to 39 years	40% funding of ELE
Under 30 years	20% funding of ELE

5.2.3 Deposits, Retentions and Bonds

This reserve balance reflects the liability to repay Deposits, Retentions and Bonds.

5.2.4 Uncompleted works

This reserve balance reflects the general revenue funding required to complete works that remain uncompleted as at the reporting date, 30 June. Unexpended budgets that are required for the completion of projects are transferred to this reserve at year end and utilised in the following year.

This balance is reassessed annually at year end.

5.2.5 Waste Management

This reserve represents the net surplus from all other waste management activities that are not related to Domestic Waste. These funds are to be used to maintain Waste Facility services and undertake remediation works as identified in the remediation liability.

This balance, at a minimum, should cover works expected to be completed in future years.

5.2.6 Yallambee Lodge /Snowy River Hostel building and equipment

This reserve has been established to ensure funding is available to maintain the Aged Care facilities. The balance represents the current depreciation rate of assets to ensure asset replacement can be undertaken as required.

5.2.7 Former Snowy River LGA

This reserve was established upon the Merger of Snowy River Council, Bombala Council and Cooma Monaro Council, into Snowy Monaro Regional Council. This reserve initially held the transferred balances of the previous councils reserves, not already allocated elsewhere.

The balance of this reserve represents future work commitments to projects within the Former Snowy River Local Government Area.

This reserve will be wound up when all prioritised projects have been completed.

5.2.8 Former Bombala LGA

This reserve was established upon the Merger of Snowy River Council, Bombala Council and Cooma Monaro Council, into Snowy Monaro Regional Council. This reserve initially held the transferred balances of the previous councils reserves, not already allocated elsewhere.

The balance of this reserve represents future work commitments to projects within the Former Bombala Local Government Area.

This reserve will be wound up when all prioritised projects have been completed.

5.2.9 Stronger Communities Fund Interest

This reserve is used to accumulate interest on unspent Stronger Communities Fund grant income. As per the deed agreement, interest is to be accumulated on unspent grant income and allocated to the projects listed under this funding agreement.

5.3 Unrestricted Assets

All Cash and Investment balances that are not allocated to an External or Internal restriction is considered unrestricted assets.

Council will budget for and maintain an approximate balance of at least \$5.0 million of unrestricted cash assets.

6 General

6.1 Roles and Responsibilities

- Budget Managers – Develop and oversee respective business unit budgets including funding sources consistent with this policy
- Finance team – support budget managers to develop their respective budget and ensure reserves are used as a funding source as prescribed by the policy
- Chief Officers – review and oversight of budgets including funding sources consistent with this policy
- Chief Financial Officer – ensure budget managers, finance team and Chief Officers are familiar with this policy and monitor compliance
- Chief Executive Officer – monitor the implementation and compliance of this policy
- Council – Adopt the policy in line with existing restrictions on cash use and recommendations for future funding requirements. To review any recommendations for variations to cash reserve use.

6.2 Current Restrictions

External and Internal restricted cash balances are reported annually in Council's Annual Financial Reports. Throughout the financial year, balances are reported on an estimated basis in the Quarterly Budget Review Statements.

6.3 Changes to Restrictions

Any new restricted reserves will only be formed via a council resolution. Council must be clear about:

- the purpose of the reserve,
- how funds are to be accumulated in the reserve and
- how the funds are to be spent, for example, through a capital works program.

A review of the reserves will be undertaken annually as part of the forward budget preparation process.

6.4 Interest

Interest must be applied to external cash restrictions where required by legislation, eg Developer Contributions, Water and Sewer Funds. The rate of interest is equal to the average return on Council's investments for the financial year (unless another rate or methodology is required by legislation). Interest earnings are to be added to the balance of the restriction.

Interest is not to be calculated and applied to internal restrictions. There may be individual circumstances where interest is applied to an internal restriction and this must be specified in the resolution of Council, including the interest rate to be used.

6.5 Borrowing from Restrictions

6.5.1 Borrowings from external restrictions

The Local Government Act acts to restrain and control the way Council raises and uses money for its operations. As referenced above, section 409(3) of the Local Government Act 1993 states:

- a) *money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, and*
- b) *money that is subject to the provisions of this or any other Act may be used only for that purpose, and*
- c) *money that has been received from the Government or from a public authority by way of a specific purpose advance or grant may not, except with the consent of the Government or public authority, be used otherwise than for that specific purpose.*

In reference to part (a) above, special rates or charges, Council may be able to utilise externally restricted funds by way of internal loan if it receives Ministerial approval to do so in accordance with subsections 410(3) and (4) of the Local Government Act.

Section 410 (3) of the Local Government Act states:

Money that is not yet required for the purpose for which it was received may be lent (by way of internal loan) for use by the Council for any other purpose if, and only if, its use for that other purpose is approved by the Minister.

Section 410 (4) of the Local Government Act states:

In granting such approval, the Minister must impose conditions as to the time within which the internal loan must be repaid and as to any additional amount, in the nature of interest, that is to be paid in connection with that loan.

In reference to parts (a) and (b) above, Council may be able to utilise externally restricted funds by way of an internal loan if it receives Ministerial approval (in the case of developer contributions), or approval from the Government or public authority providing the funding (in the case of specific purpose grant funding).

6.5.2 Borrowings from internal restrictions

Council may borrow from internal restrictions within each fund and requires a resolution of Council to do so.

Borrowings from Water and Sewer Fund restricted and unrestricted cash to Council's other Funds requires Ministerial approval as stated above in accordance with section 410 of the *Local Government Act*. Borrowings from General Fund internal restrictions and unrestricted cash to Council's other Funds can be approved by Council resolution.

The full impact of the borrowings must be disclosed in the Council resolution and the agreement must set out:

- the reason for the borrowing
- the basis of calculating the amount of the borrowing
- the permitted use/s of the borrowed funds
- the internal restriction that will be borrowed from

- if borrowing cost (interest) is to be applied to the borrowing, then the interest rate to be used
- loan repayment period

A repayment schedule to repay internal borrowings will be drafted to ensure repayments to internal restrictions can be funded.

7 Review

At least every 12 months Council will review its future need for the internal restrictions it is holding. All decisions to undertake a review of an internal restriction will be on the basis of the best use of those funds by Council. A Council resolution is required to return funds no longer required to unrestricted cash. If an urgent, unplanned or emergency need arises during the year to access internally restricted funds, Council may resolve to do so outside of the annual review process.

This policy will be implemented by the Chief Financial Officer.

Council may decide to review its internal restrictions at any time to meet financial obligations and requirements of Council's Long Term Financial Plan.

Suspected breaches or misuse of this policy are to be reported to the Chief Executive Officer. Alleged breaches of this policy shall be dealt with by the processes outlined for breaches of the Code of Conduct, as detailed in the Code of Conduct and in the Procedures for the Administration of the Code of Conduct.

8 Related Documents

This procedure should be read in conjunction with the following documents:

Documentation

List the name and document reference number of any other document referred to in this document, including any related policies and procedures

Section 7.12 Snowy Monaro Local Infrastructure Contributions Plan 2022

Michelago Local Infrastructure Contributions Plan

Development Servicing Plans 2022

Variation

Council reserves the right to review, vary or revoke this policy and should be reviewed periodically to ensure it is relevant and appropriate.

Document	Resolution	Date
250.2022.107.2	278/22	October 2022