

Kyogle Council

Draft Financial Management

Policy



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1. OBJECTIVE

The purpose of this policy is to establish a framework for the establishment and ongoing management of Cash Reserves.

2. VALIDITY

This policy gains its validity from Council Resolution Number 28112011/XXXXXXX

3. BACKGROUND

Reserves are established to set aside funds for Council to allocate to specific projects as required.

This policy defines parameters in relation to current reserves which set out the purpose of the reserve, the basis of calculating transfers to and from the reserve and target balance for the reserve.

4. EXTERNAL RESERVES

In accordance with section 409 of the *Local Government Act 1993*, pending its expenditure for the purpose for which it is held, the following kinds of funds must be held in an account with a bank, building society or credit union or in an investment in which such money is, by or under this or any other Act, authorised to be invested.

- 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
- money that is subject to the provisions of this or any other Act (being provisions that state that the money may be used only for a specific purpose) may be used only for that purpose, and
- 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.

5. INTERNAL RESERVES

The following details the authorised internally restricted reserves that may be held by Council. The level of internal reserves held (and the ability to meet the target balances) will be dependent upon each years operating results and overall financial position.

Note: Interest from investments is not applied to internally restricted reserves.

5(a) Employee Leave Entitlements

Purpose

To ensure that adequate funds are available to finance employee leave entitlements such as long service leave, annual leave and time in lieu.

Calculation Basis

Transfers to and from the Reserve will be based upon projected end of year liabilities relating to employee entitlements. The calculation of such liabilities takes into consideration the anticipated timing of ELE payments based upon a number of factors, including the age of employees and likely proximity to retirement.

Where an employee enters upon extended leave prior to retirement, he/she may be replaced with any unbudgeted salary payments being met from the Internally Restricted Asset.

Target Balance

Minimum of 100% of Employee Leave Entitlements for Long Service Leave and Time in Lieu.

5(b) Buildings and Other Structures

Purpose

To provide for the acquisition and replacement of assets and infrastructure in the future by Council.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, projects identified in Council's Community Strategic Plan and the need to retain funding for emergency works.

Target Balance

Minimum of \$150,000.

5(c) Plant Replacement

Purpose

To ensure adequate funds are available to purchase a responsive and modern plant fleet at the optimum replacement point

Comment

Council currently operates a fleet that is generally reliable, with stable maintenance costs.

The existence of an economic fleet has come about through annual allocations that has enabled an appropriate Fleet Replacement Program to be implemented.

Calculation Basis

Transfers to and from the Reserve are based upon:

- i) Plant operating results

- ii) Plant depreciation
- iii) Plant purchases as per the approved Plant Replacement Schedule
- iv) Profit/loss on sales of plant

Plant Hire rates are to be calculated having regard to operating costs and provision for future replacement as well as external rates for equivalent items of plant.

Funds will only be transferred to this reserve when Council is reporting a positive operating position.

As the majority of the income earned by this reserve is generated from plant hire on Council roadworks, surplus operating funds may be made available to fund works on roads and bridges.

Target Balance

Council's aim is to ensure that not any of its plant is older than ten years. Plant items (depending upon size and use) are generally sold/replaced from 2-10 years. It is estimated that over the entire fleet, the average changeover period is 5 years.

The upgrade or replacement of plant may be beyond the capacity of the Council to fund in any one year, and it is considered that an appropriate target reserve balance is 20% of the replacement cost of Councils plant fleet.

5(d) Carryover Works (Revotes)

Purpose

To ensure that significant projects funded in a particular year but not started or completed in that year will be able to be completed in subsequent year(s).

Calculation Basis

Transfers to and from the Reserve will be based upon the difference between amounts allocated and those spend on major projects.

Target Balance

The amount of funding for significant projects that remains unspent is to be carried over into the subsequent year

5(e) Quarries

Purpose

To ensure that sufficient funds are available to meet rehabilitation costs and costs associated with developing additional/replacement material supplies.

Calculation Basis

Transfers to and from the Reserve will be based upon the anticipated rehabilitation costs and the expected timing of the required works and the need for replacement or additional material supplies.

Target Balance

The target balance is at least equivalent to the quarry rehabilitation reserve liability.

5(f) Transport Operations

Purpose

To provide a quasi self-insurance for contract transport works, should the cost of contracts exceed the level of contributions received.

Calculation Basis

Transfers to and from the Reserve will be based upon the operating results achieved by Council's contracted transport works.

Target Balance

The target balance is at least equivalent to the previous year's operating surplus for contracted transport works.

5(g) Information Technology

Purpose

To provide funds to ensure that Information Technology and Communication (ITC) assets are replaced and/or enhanced within the correct economic cycle.

Calculation Basis

Transfers to and from the Reserve will be based upon the anticipated replacement timetable for ITC assets and the Asset Management Plan. These funds are not to be used to support the ongoing maintenance requirements of the asset base.

Target Balance

The target balance is a minimum of \$100,000.

5(h) Roads and Bridges

Purpose

- To provide a level of funding to:
- Enable projects identified in Council's developer contributions policies to be carried out as necessary
- Enable self-help projects to be carried out as necessary
- Take advantage of government grants that may come available from time to time (e.g. Timber Bridge Project)
- Carry out emergency repairs/replacements.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, anticipated future development and the level of funds available.

Target Balance

The target balance is a minimum of \$1,000,000.

5(i) Emergency Works

Purpose

To fund emergency and repair works as a result of an unforeseen event e.g. natural disaster.

Calculation

Transfers to Reserves are based on achieving the target balance.
Transfers from Reserves are calculated on cleanup and repair costs, not exceeding the available balance of the Reserve.

Target Balance

\$100,000

5(j) Stormwater Management

Purpose

To provide a level funding to enable identified major stormwater and flood mitigation works to be carried out.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, funding received from Stormwater Management Charges and the level of funds available.

Target Balance

The target balance is a minimum of \$200,000.

5(k) Commercial Waste

Purpose

To provide a level funding to enable rehabilitation works and upgrades and/or enhancements to be made at Councils landfill and transfer station sites.

Calculation Basis

Transfers to and from the Reserve will be based upon the Asset Management Plan, anticipated timing and cost of rehabilitation works and future requirements.

Target Balance

The target balance is at least equivalent to the quarry rehabilitation reserve liability.