

Restricted Funds Policy

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Strategic Pillar	Organisation Capability
Responsible Branch	Finance

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1 OUTCOMES

- 1.1 Council receives income from various sources and the purpose of this policy is to establish what funds shall be placed into Council's reserves and the purposes for which those reserved funds shall be applied.
- 1.2 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 internal reserves to hold internally restricted funds.

2 SCOPE OF THE POLICY

- 2.1 The scope of this policy applies to all council cash and investments.

3 ROLES AND RESPONSIBILITIES

- 3.1 Council – Adopt effective financial management policies that protect Council's long term financial sustainability. Review and adopt cash reserve balances and variations to cash reserve use in line with existing restrictions on cash use and future funding requirements.
- 3.2 General Manager –Implementation of this policy.
- 3.3 Directors – Oversight of budgets including funding sources consistent with this policy.
- 3.4 Chief Financial Officer – ensure budget managers, finance team and Directors are familiar with this policy, monitor compliance and maintain effective financial management. Provide recommendations on cash reserve balances and variations to councillors to enable council to fulfill its responsibility for financial management.
- 3.5 Budget Managers – develop and oversee respective business unit budgets including funding sources consistent with this policy.
- 3.6 Finance team – support budget managers to develop their respective budget and ensure reserves are used as a funding source as prescribed by the policy. Reconcile and report monthly cash and reserve balances.
- 3.7 Audit, Risk and Improvement Committee (ARIC) – provide independent assurance about Council's governance and risk management by reviewing the financial statements and performance reporting.
- 3.8 External auditors – Audit Council's cash and reserves reported in the annual financial statements and report to Council with the annual audit. Provide a separate special audit report for the water and sewer reserve funds.

4 DEFINITIONS

- 4.1 Externally Restricted Funds – Restricted funds that relate to monies that are subject to external legislative or contractual obligations.
- 4.2 Internally Restricted Funds – Funds restricted by 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.
- 4.3 Unrestricted Cash – Funds available to cover operational needs and unexpected or emergency costs.

5 POLICY

- 5.1 Council, in the interest of good financial management will restrict funds from time-to-time to either meet external statutory obligations (such as restrictions relating to grant funding or developer contribution), or in order to set aside funding for future commitments.
- 5.2 Queanbeyan-Palerang Regional Council's restricted funds are held within four funds and spread across many areas of Council operations. Council's four funds are:
- General Fund
 - Waste Management Fund (forms part of the General Fund)
 - Water Fund
 - Sewer Fund

6 LEGISLATIVE OBLIGATIONS AND/OR RELEVANT STANDARDS

- S625 and S408 to S410 Local Government Act 1993
- S8B Local Government Act 1993 – the principles of sound financial management
- Local Government (General) Regulation 2005
- Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards
- Crown Land Management Act 2016 No58
- Rating and Revenue Raising Manual, Department of Local Government (2007)
- Environment Planning & Assessment Act, 1979 (EP&A Act)
- Water Management Act 2000

7 CONTENT

- 7.1 Council will establish, utilise, and maintain the following restricted assets.

7.2 Externally Restricted Funds

- 7.2.1 Unspent Loans Fund – These restricted funds are loan funds borrowed for a specific project which may take more than one financial year to be completed. Funds are restricted for specific project requirements.

- 7.2.2 Developer Contributions – These are externally restricted reserves to hold the balance of contributions made by developers. They are used for:
- the provision of infrastructure,
 - the provision of services and amenities,
 - the delivery of projects in accordance with Council's developer contribution plans.
- The types of developer contribution plans are:
- section 64 (water and sewer contribution plans),
 - section 7.11 and section 7.12 fixed development plans.

- 7.2.3 Specific Purpose Unexpended Grants and Contributions – This reserve is established to hold the balance of unexpended grant income received for a specific purpose, for example Stronger Country Community Funds. Funds are held in this reserve for the purpose of funding specific projects and cannot be diverted to other projects without authorisation from the funding body.
- 7.2.4 Crown Land Reserve – This reserve is funded from the net 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 purposes for which these funds can be used:
- a) Making improvements to the land
 - b) Purchasing, leasing or acquiring an easement of 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
- 7.2.5 Water Fund – This is an externally restricted reserve to hold the balance of surplus funds from Council Water fund operations. These funds can only be spent on Water services.
- 7.2.6 Sewer Fund – This is an externally restricted reserve to hold the balance of surplus funds from Council Sewer fund operations. These funds can only be spent on Sewer services.
- 7.2.7 Domestic Waste Management - This is an externally restricted reserve to hold the balance of surplus funds from Council Domestic Waste Management operations. The reserve balance is based on:
- An expected level of service delivery for the year; and
 - Accumulated surplus of deficit depletion
- 7.2.8 Stormwater Management Levy - This is an externally restricted reserve to hold the balance of surplus funds from Council Stormwater Management Levy operations. These funds are to be used on stormwater related projects.

7.3 Internally Restricted funds

- 7.3.1 Infrastructure Replacement – Council holds an infrastructure replacement reserve so that its future asset renewal investment can be aligned to its Asset Management Plans. Council will increase its infrastructure reserve over the ten-year planning period. The target is to allocate an amount equivalent to 80% of annual depreciation (less actual asset renewal) to fully fund the cost of asset renewal. This will enable an alignment between asset renewal spend with asset management plans.

7.3.2 Carry Forward Works – This reserve restricts funds for projects that are carried forward from one year to the next.

7.3.3 Employee Leave Entitlements – This reserve is used to hold a level of funds anticipated to cover the short to medium term liability for employee leave entitlements (ELE). The reserve amount will be reviewed annually to ensure levels are adequate to cover accrued annual and long service leave balances.

An appropriate reserve balance is to be based on current liabilities and age of employees, as follows:

- Over 60 years 100% funding of ELE
- 50 to 59 years 60% funding of ELE
- 40 to 49 years 40% funding of ELE
- 30 to 39 years 20% funding of ELE
- Under 30 years 10% funding of ELE

Council will increase its ELE reserve over the next four years to meet the proportionate liability currently estimated at \$5.8 million.

7.3.4 Business Waste Management (General Waste) – This reserve represents the net surplus from all other water management activities that are not related to domestic waste. These funds are to be used to maintain the waste facility services. This reserve balance, at a minimum, should cover works expected to be completed in future years.

7.3.5 Heritage Grant Program – An annual amount, as identified in the budget process, is allocated to this reserve to fund the Heritage grant program and the Mainstreet Upgrade fund.

The special heritage fund is available for individual landholders and community groups to be provided with grant funding to undertake conservation works on heritage properties and places. In 2021/22 and 2022/23 the program was converted to the Main Street Upgrade Fund for upgrades and maintenance of commercial buildings in the main streets of Braidwood, Bungendore and Queanbeyan. Council determines to the rules of the grant program and allocated funds to the successful applicants annually.

7.3.6 Deposit, Bonds & Retentions – This reserve balance reflects the Council's liability to repay deposits, retentions and bonds. Council reconciles this fund at the end of each financial year to ensure it is sufficient to cover its liabilities.

Council will increase its deposits, bonds and retentions reserve over the next four years to meet the full liability, currently \$3.4 million.

7.3.7 Plant & Vehicle Replacement – Income from internal plant charge out rates and plant sales are held in this reserve to fund Council's plant replacement program. A minimum balance of \$2.0 million should be maintained in this reserve.

7.3.8 Property Reserve – Income from property sales is placed in this reserve to help to fund future property development or to acquire suitable property for strategic land use, infrastructure or environmental purposes.

For example, Council used the property reserve to temporarily fund the purchase of 13 Gibraltar Street and when sold, the proceeds of sale will be refunded to this reserve.

The Property Strategy will assist in determining what projects are to be funded from this reserve.

7.3.9 Elections – As Council elections are normally every 4 years, Council will allocate funding to this reserve to balance the expenses over a 4-year period.

7.3.10 Revolving Energy Fund – A fund created in accordance with the Climate Change Action Plan 2020-2030. Through the annual budget process, Council allocates an amount to this reserve to fund energy saving projects. Council targets a minimum amount of \$50,000 each year to this reserve.

7.3.11 Financial Assistance Grant Advance Payment – This reserve is used to allocate the prepayment of the Financial Assistance Grant (FAG) received in the prior financial year. The reserve is used in the following year in the period when the payment was expected to be received.

7.3.12 Department of Education Compensation – this reserve was established to restrict funds received from the compulsory acquisition of Council assets at Bungendore. This reserve will enable Council to develop a new swimming pool and Council office in Bungendore. It will also cover associated costs, including legal costs.

7.4 Unrestricted Funds

All cash and Investment balances not allocated to an external or internal restriction are considered unrestricted.

In the short term, Council should, maintain an unrestricted cash reserve of at least \$5.0 million (3% to 10% of operating expenditure) as a contingency for unplanned assets renewal/replacement due to asset failure or other unknown asset risk and to mitigate cashflow issues.

7.5 Trust Funds

S411 of the Local Government Act 1993 states:

1. *All money and property received by a council in trust must be held in the council's trust fund.*
2. *Money or property held in the council's trust fund must be applied for the purposes, or in accordance with the trusts, relating to it.*

Council currently holds funds in trust for:

- Friends of the showground Trust

- Rural Fire Service (RFS) Local Government District Bushfire Donation
- South East Weight of Loads funds administered on behalf of the member Councils

7.6 Establishment of Cash Restrictions

- 7.6.1 Current restrictions – external and internal restricted cash balances are reported annually in Council's Annual Financial Statements. Throughout the financial year, balances are reconciled and reported monthly in the Investment report and quarterly in the Quarterly Budget Review Statements. A comprehensive end of year annual reconciliation is performed every year on 30 June.
- 7.6.2 Future internal restrictions – as per the Code of Accounting and Financial Reporting, any new restricted reserves will only be formed by a Council resolution and will not be established for future expenditure of less than \$100,000. Values less than this should be accommodated within the ten-year budget.

Council will be clear about:

- The purpose of the reserve
- How funds are to be accumulated in the reserve
- How the funds are to be spent, for example, through a capital works program
- Whether interest is to be applied to the internal restriction and at what rate

A review of the internal reserves that restrict funds will be undertaken annually as part of the forward budget preparation process. This process will identify projects to be funded from these restricted cash reserves.

7.7 Interest

Interest is applied to external reserves monthly where required by legislation. Interest is allocated to the following restricted funds:

- Developer Contributions
- Water Fund
- Sewer Fund
- Domestic Waste Management

The rate of interest is equal to the average return on Council's investments for the month (unless another rate or methodology is required by legislation). Interest earnings are added to the balance of the reserve.

Interest is not calculated and applied to internally restricted funds.

7.8 Borrowing from Reserves

- 7.8.1 Borrowings from external reserves – the Local Government Act 1993 restrains and controls the way Council raises and uses money for its operations. Section 409(3) of the Act 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 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 consent of the Government or public authority, be used otherwise than for that specific purpose.*

Council may be able to utilise externally restricted funds under part (a) above by way of an internal loan if it received Ministerial approval to do so in accordance with subsections 410(3) and (4) of the Act.

Section 410 (3) of the Local Government Act 1993 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 1993 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.

Council may be able to utilise externally restricted funds by way of an internal loan under parts (a) and (b) above 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).

Council requires ministerial approval under Section 410 of the Local Government Act 1993 to borrowing from Water and Sewer Fund restricted and unrestricted cash for Council's other funds.

7.8.2 Borrowings from internal reserves – by resolution, Council may borrow from internal reserves within each fund.

A Council resolution is required for Council to borrow from General Fund internal restrictions and unrestricted cash.

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

- The reason for the borrowing
- The basis of the 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, and the interest rate to be used
- The loan repayment period

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

Council may access internal reserves to fund short term fluctuations in cashflow throughout a financial year.

8 REVIEW

- 8.1 This policy will be reviewed every four years or earlier as necessary if:
- a) legislation requires it, or
 - b) Council's functions, structure or activities change
- 8.2 At least annually, Council will review its future need for the internal restrictions it holds. All decisions to undertake a review of an internal restriction will be based on the best use of those funds by Council. A council resolution is required to return funds no longer required to unrestricted cash.
- 8.3 Council may decide to review its internal restrictions at any time to meet financial obligations and requirements of Council's Long Term Financial Plan.

9 APPENDIX 1 - AUDITED RESTRICTED FUNDS BALANCE AS AT 30 JUNE 2023

	Balance as at 30 June 2023 \$,000
<u>Externally Restricted Funds</u>	
Specific Purpose Unexpended grants	\$23,109
Water Fund	\$32,387
Sewer Fund	\$74,912
Developer Contributions – General Fund	\$34,305
Developer Contributions – Water Fund	\$9,834
Developer Contributions – Sewer Fund	\$11,891
Specific Purpose unexpended loans	\$6,334
Domestic Waste Management	\$9,990
Stormwater management	\$639
Other	\$312
Total externally restricted funds	\$203,713
<u>Internally Restricted Funds</u>	
Infrastructure replacement	\$2,159
Employee leave entitlement	\$820
Business waste management	\$6,145
Work, Health & Safety	\$287
Heritage Grant program	\$244
Deposits, retentions & bonds	\$196
Plant & vehicle replacement	\$3,162
Property reserve	\$649
Elections	\$252
Revolving Energy	\$121
Strategic	\$111
Financial Assistance Grant in advance	\$7,452
Department of Education Compensation	\$7,719
Total Internally restricted funds	\$29,317