



# **FINANCIAL RESERVES POLICY P5.0355.1**

# FINANCIAL RESERVES POLICY

**DIRECTORATE:** Growth and Finance  
**BRANCH:** Finance and Property Services  
**CATEGORY:** 1

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## 1. Purpose

- 1.1. This Policy outlines how financial reserves are established and the procedures which are required to be followed to set aside funds for the strategic priorities of Council and to meet legislative obligations when the funding is collected under legislative provisions.
- 1.2. Financial reserves are an important financial resource of Council, there should be transparency in the use of funds held in financial reserves, the decisions made to allocate funding from reserves and the reporting which is required in Council's Annual Financial Statements.

## 2. Alignment with Community Strategic Plan

- 2.1. 'Council's Community Strategic Plan 2036 identifies five key directions to guide Council towards achievement of the vision for Camden to 2036 that "Camden is a connected, diverse, and thriving community, embracing opportunities of growth, while valuing our rich heritage and protecting and sharing responsibility for our natural environment".
- 2.2. The following objective is applicable to this Policy and relevant to the key direction of Leadership:
  - Our Council decisions are informed, accountable and transparent.

## 3. Scope

- 3.1. This Policy covers all externally restricted and internally restricted reserves.

## 4. Objectives

- 4.1. This Policy provides a framework for the preservation and use of Council's financial resources to support Council's financial strategy and ensure long term financial sustainability.

- 4.2. To ensure all financial reserves have a clear and specific purpose which align with Council's Integrated Planning & Reporting (IPR) framework. There is a need for a clear link between this Policy and Council's Delivery Program, Operational Plan and broader Resourcing Strategy (Long Term Financial Plan, Asset Management Plan and Workforce Management Plan).
- 4.3. To provide clear guidance on the allocation of funds from annual operations (General Fund) in order to provide funding (transfer to reserves) for specific projects, programs or provisions and to also provide clear guidance on the use of funds held in financial reserves (transfer from reserves) for specific projects and/or programs.

## **5. Policy Statement**

### **5.1 Creation and Alteration to Financial Reserves**

- 5.1.1. All decisions in relation to Council's financial reserves require a formal Council resolution. The creation of new reserves, alterations to existing reserves, and the closure of any existing reserve all require a formal resolution of Council.
- 5.1.2. A schedule of existing financial reserves is provided as an appendix to this Policy. This appendix provides the name of the reserve, the purpose of the reserve and the source of funding for the reserve.
- 5.1.3. As the list of financial reserves is an appendix to this Policy, amendments to individual reserves may be made through a formal resolution of Council without the need to amend this Policy. These changes will be incorporated into future reviews of this Policy.

### **5.2 Allocation of Funding to/from Financial Reserves**

- 5.2.1 Council will allocate revenue to externally restricted reserves as required by the relevant legislation. These funds will be managed and accounted for to ensure compliance with the relevant legislation.
- 5.2.2 The allocation of funds to internal reserves will be considered as part of the Annual Budget process and as part of Quarterly Budget reviews. Where funds are allocated to a reserve, the reserve name and the amount to be transferred will be included in the formal Council resolution.
- 5.2.3 The utilisation of funds held in external/internal reserves will be considered as part of the Annual Budget process and as part of the Quarterly Budget review process.
- 5.2.4 Council may also consider the utilisation of funds held in external/internal reserves via a separate Council report which deals with a specific project and/or program.

5.2.5 Expenditure of restricted funds will be in strict accordance with the approved budget, and expenditure shall not exceed the funds made available under the specific Council resolution.

5.2.6 Borrowing from internally restricted reserves is permitted following a Council resolution.

5.2.7 Borrowing from externally restricted reserves is strictly prohibited.

### **5.3 Accounting for Financial Reserves**

5.3.1 Interest will be calculated and allocated to financial reserves where required. This includes the S7.11 Developer Contributions Reserve, Waste Management Reserve and external grants, where required under the terms of the funding agreement.

5.3.2 The cash balance of financial reserves will be disclosed in the Annual Financial Statements as required under the Local Government Code of Accounting Practice and Financial Reporting.

5.3.3 The projected cash balance of financial reserves will be disclosed in the Quarterly Budget Review Statement and submitted to Council for approval as part of the quarterly budget review process.

5.3.4 A reconciliation of all sources of funds held as cash and investments will be reported to Council as part of Council's monthly Investment Report, including the balance and percentage of restricted funds held.

### **5.4 Unrestricted Funds (Working Capital)**

5.4.1 Council will maintain a minimum working capital balance (unrestricted funds) of \$1 million. This is required to maintain financial liquidity for the payment of suppliers, provision of services and meeting employee obligations.

## **6. Roles and Responsibilities**

### **6.1. Chief Financial Officer**

The Chief Financial Officer will be responsible for this Policy and will coordinate the following functions in relation to the Policy:

- Ensuring new reserves are created via a formal resolution of Council,
- Presenting recommendations to Council for the allocation and use of restricted reserves as part of the Annual Budget and Quarterly Reviews of the Budget.
- Ensuring Council maintains accurate records of the allocation and use of financial reserves, and that these disclosures are included in Council's Annual Financial Statements.

## **7. Reporting**

- 7.1 The cash balance of financial reserves will be disclosed in Council's Annual Financial Statements as required under the NSW Local Government Code of Accounting Practice and Financial Reporting.
- 7.2 The projected cash balance of financial reserves will be disclosed in the Quarterly Budget Review Statement and submitted to Council for approval as part of the quarterly budget review process.
- 7.3 A reconciliation of all sources of funds held as cash and investments will be reported to Council as part of Council's monthly Investment Report, including the balance and percentage of restricted funds held.

## **8. Evaluation**

- 8.1 The success of this Policy will be measured by:
- No reported breaches of this Policy,
  - Financial Reserves contribute to delivery of infrastructure and programs identified within its Delivery Program and Operational Plan, and
  - Council maintains financial reserves which supports its long term financial sustainability.

## **9. Review**

- 9.1 This Policy will be reviewed every three years or more frequently as required.

## **10. Definitions**

<b>Externally Restricted Reserves</b>	These reserves are created as a result of a legislative requirement. They can only be used for the specific purpose for which the fund was created for and cannot be used for general operations.
<b>Internally Restricted Reserves</b>	These reserves are established at the discretion of Council and can be used for specific projects, programs or financial provisions.
<b>Unrestricted Funds</b>	The level of working capital available to manage ongoing liquidity requirements.

## **11. Related Materials**

### 11.1 Related Legislation

- Environmental Planning and Assessment Act 1979
- Local Government Act 1993
- Local Government (General) Regulation 2021

### 11.2 Related Policies, Procedures and Other Guidance Material

- Investment Policy
- Local Government Code of Accounting Practice and Financial Reporting

### 11.3 Appendices

- Appendix 1 - Schedule of Externally Restricted Financial Reserves
- Appendix 2 - Schedule of Internally Restricted Financial Reserves

<b>Approval and Review</b>	
<b>Responsible Branch</b>	Finance and Property Services
<b>Responsible Manager</b>	Chief Financial Officer
<b>Date Adopted</b>	Council – 12/12/2023
<b>Version</b>	1
<b>EDMS Reference</b>	24/17212
<b>Date of Next Review</b>	31/12/2026

<b>Version Control</b>				
<b>Version</b>	<b>Date Adopted</b>	<b>Approved By</b>	<b>EDMS Ref.</b>	<b>Description</b>
1	12/12/2023	Council	24/17212	Initial adoption of policy.

**Appendix 1 – Schedule of Externally Restricted Financial Reserves**

Reserve Name	<b>Developer Contributions Reserve – Section 7.11 &amp; Voluntary Planning Agreement Contributions</b>
Purpose	<p>In accordance with Section 7.11 of the <i>Environmental Planning and Assessment Act 1979</i>, all S7.11 monetary contributions are to be restricted and only used for the purpose for which they were collected under the various Contributions Plans adopted by Council.</p> <p>The reserve also includes monetary contributions collected under Voluntary Planning Agreements.</p> <p>Council must maintain accounting records that ensure monetary developer contributions, and any additional amounts earned from their investment, can be distinguished from all other revenue generated by Council.</p>
Source of Funds	Cash contributions which are levied in accordance with Council’s adopted Contributions Plans or Voluntary Planning Agreements.

Reserve Name	<b>Domestic Waste Management Reserve</b>
Purpose	<p>In accordance with Section 496 of the <i>Local Government Act 1993</i>, Council must levy a separate annual charge for the provision of domestic waste management services.</p> <p>Council cannot use general rate income to subsidise domestic waste services, therefore the annual charge is calculated so that it is able to fund the cost of providing the service, and future obligations such as the cost of future plant replacement.</p> <p>Council applies the principles of reasonable cost recovery in calculating this annual charge. This reserve allows Council to restrict any operational savings realised throughout the year and to allocate funds toward future plant replacement requirements.</p>
Source of Funds	Annual Fees and Charges – Domestic Waste Service



Reserve Name	<b>Specific Purpose Unexpended Grants Reserve</b>
Purpose	<p>Council receives grant funding from the State and Federal Government for specific programs and/or projects. Where grant funding is not fully spent by the end of the financial year, the unspent balance of the grant is restricted to this reserve.</p> <p>This ensures that the remaining balance of the grant is available for expenditure in the following financial year, in line with the terms and conditions of the grant.</p>
Source of Funds	Revenue from Operating and Capital Grants received for a specific purpose.

Reserve Name	<b>Stormwater Management Levy Reserve</b>
Purpose	<p>Council implemented a stormwater management levy in 2008. The levy is charged under Section 496A(1) of the <i>Local Government Act 1993</i>.</p> <p>Any income raised from this levy must be spent on the provision of stormwater management services.</p> <p>This reserve holds the balance of unspent funds which may result from budget savings and/or unspent allocations for works not completed as at the end of each financial year.</p>
Source of Funds	Annual Charges – Stormwater Management Levy

## Appendix 2 – Schedule of Internally Restricted Financial Reserves

Reserve Name	<b>Plant Replacement Reserve</b>
Purpose	<p>This reserve is to ensure there is sufficient funding available to replace major plant upon the end of its useful life. The reserve is supported by a ten-year plant replacement program.</p> <p>This reserve is for General Fund plant only. Plant replacement for domestic waste plant is held within the Domestic Waste Management Reserve.</p> <p>This reserve should only be used to fund replacement plant. New plant or additional plant should be funded through the annual budget process.</p>
Source of Funds	Internal plant hire rate income and the proceeds from the sale of plant

Reserve Name	<b>Employee Leave Entitlements Reserve</b>
Purpose	<p>This reserve ensures sufficient cash is available to fund the payment of employee leave entitlements such as long service leave and/or annual leave on the retirement or resignation of employees.</p> <p>Reserve transfers are reviewed annually as part of the annual budget process and is based upon the projected liabilities relating to employee leave entitlements.</p>
Source of Funds	General Revenue – Untied Rate Income

Reserve Name	<b>Deposits, Retentions and Bonds</b>
Purpose	Cash held for security bonds, deposits and retentions which are held as liabilities on Council's balance sheet. These amounts are paid back to the payee upon the satisfactory completion of requirements which are typically identified through development consents.
Source of Funds	Cash Security Deposits and Bonds

<b>Reserve Name</b>	<b>Expenditure Revotes Reserve</b>
Purpose	This reserve contains the balance of unspent funds for projects which have been carried forward into the next financial year, as they were incomplete or not commenced, in the year they were funded.
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Asset Renewal Reserve</b>
Purpose	<p>In adopting the 2013/14 budget, Council established the Asset Renewal Reserve. The amount transferred to this reserve each year is considered as part of the annual budget process.</p> <p>Funds from this reserve should only be used for the replacement and/or maintenance of existing assets. The reserve should not be used for asset upgrades, the building of new assets or for operational purposes.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Capital Works Reserve</b>
Purpose	<p>The purpose of the Capital Works Reserve is to fund works which Council deems as essential capital infrastructure renewal or upgrade, which cannot be funded through alternative sources such as grants or Section 7.11 Developer Contributions.</p> <p>The reserve is also utilised when matched funding is required for successful grant application. The reserve also acts as an emergency fund for Council to undertake unforeseen works at short notice.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Cemetery Improvements Reserve</b>
Purpose	In 1999, Council resolved to restrict any surplus funds from cemetery operations towards future improvements to the Camden General Cemetery or operational shortfalls should they occur.
Source of Funds	Fees and Charges – Cemeteries (Surplus revenue after funding the cost of maintenance and operations)

<b>Reserve Name</b>	<b>Commercial Waste Reserve</b>
Purpose	<p>Council operates a commercial waste service (alongside its domestic waste operations). This service operates to provide waste collection for non-domestic customers such as retail businesses and light industrial customers.</p> <p>The purpose of this reserve is to restrict 50% of operating surplus' realised by the service and to also allocate funding for future plant replacement needs. The balance of funds held in the reserve is reviewed annually as part of the Annual Budget and any recommendation to utilise funding would be presented to Council as part of the Annual Budget.</p>
Source of Funds	User Fees and Charges – Commercial Waste Services

<b>Reserve Name</b>	<b>Information Technology Reserve</b>
Purpose	<p>The purpose of this reserve is to ensure Council has sufficient funding to meet its technology replacement requirements. This includes network infrastructure, user devices such as laptops and mobile technology.</p> <p>An annual allocation is provided as part of the Annual Budget to fund this reserve. Funds are then transferred from the reserve in line with Council's replacement program.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Council Elections Reserve</b>
Purpose	The purpose of this reserve is to set aside funds on an annual basis to finance the cost of Council elections and to ensure the cost is spread over the term of the elected Council. The transfer to reserve is based on the estimated costs of conducting general elections every four years.
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Engineering Services Deposits Reserve</b>
Purpose	From time to time, Council has undertaken work in relation to development which is funded through the development applicant. These funds are held in reserve until such time that the works are completed.
Source of Funds	Specific Cash Contributions

<b>Reserve Name</b>	<b>Family Day Care Reserve</b>
Purpose	<p>Council operates a family day care service which coordinates home childcare services delivered by registered family day care educators.</p> <p>The purpose of this reserve is to restrict operating surplus' in order to use these funds to manage fluctuations in the family day care budget on an annual basis</p>
Source of Funds	User Fees and Charges – Family Day Care

<b>Reserve Name</b>	<b>Financial Assistance Grant Advance Reserve</b>
Purpose	<p>This reserve is used to set aside advance payments of the Financial Assistance Grant which is required to fund the following year's general operations.</p> <p>The Financial Assistance Grant is untied revenue, as such this is restricted to an internal cash reserve.</p>
Source of Funds	Financial Assistance Grant advance payments

<b>Reserve Name</b>	<b>Oran Park Administration Building Renewal Reserve</b>
Purpose	<p>The Oran Park Administration Building was constructed and opened in August 2016.</p> <p>In line with Council's Asset Management Plan, a recurrent allocation is provided as part of the Annual Budget to fund renewal works at the building. As works are identified as part of the Annual Budget, they are funded through this internal reserve.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Technology Improvements Reserve</b>
Purpose	<p>The purpose of this reserve is to support and provide funding for the delivery of Council's Digital Innovation Strategy (DIS) and roadmap.</p> <p>An annual allocation is provided as part of the Annual Budget to fund this reserve. Funds are then transferred from reserve in line with the DIS and roadmap.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Public Appeals Reserve</b>
Purpose	<p>This Reserve is used to provide donations to public appeals, typically when natural disasters occurred, for example, the 2019/20 black summer bushfires.</p> <p>Use of this reserve requires a formal Council resolution.</p> <p>If the balance of this reserve is depleted, then additional funding will be considered either as part of the Annual Budget or Quarterly Review process.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Risk Management Reserve</b>
Purpose	<p>This reserve was established in 2008 and acts as an equalisation reserve to manage any large movements in insurance premiums.</p> <p>It essentially prevents significant budget shock due to factors which are outside of Council's control such as large increases in insurance premiums due to natural disasters. The reserve is funded from savings in insurance premiums when realised.</p>
Source of Funds	General Revenue – Insurance Premium Savings

<b>Reserve Name</b>	<b>Advisory Committees Reserve (BEP &amp; Town Farm)</b>
Purpose	<p>A number of Council facilities (including the Bicentennial Equestrian Park and Camden Town Farm) were previously managed by Section 355 Management Committees. The committees have now been replaced with advisory committees.</p> <p>The purpose of this reserve is to restrict the unspent cash reserves held by these committees to ensure these funds are allocated towards projects and improvements at the facilities where the revenue was generated.</p>
Source of Funds	User Fees and Charges – BEP and Town Farm

<b>Reserve Name</b>	<b>Stormwater Management Reserve (General Fund)</b>
Purpose	<p>In introducing the Stormwater Management Levy in 2008, Council committed to maintaining its existing level of expenditure on stormwater maintenance activities.</p> <p>The purpose of this reserve is to restrict savings and/or unspent allocations from Council's General Fund stormwater maintenance budget to ensure Council's level of expenditure is maintained.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Water Savings Action Plan Reserve</b>
Purpose	<p>Council previously had an endorsed Water Savings Action Plan which contained a range of projects aimed at reducing Council's water consumption.</p> <p>This Action Plan was supported by a small allocation as part of the Annual Budget.</p>
Source of Funds	General Revenue – Untied Rate Income

<b>Reserve Name</b>	<b>Work Health and Safety Reserve</b>
Purpose	<p>Council receives financial performance incentives payments from its insurer on the basis of achieving performance benchmarks and implementing risk management improvement actions.</p> <p>The purpose of this reserve is to restrict these incentive payments so that they can be allocated to future risk management improvement projects and programs.</p>
Source of Funds	Risk Management Performance Incentive Payments

<b>Reserve Name</b>	<b>Working Funds Reserve</b>
Purpose	<p>The Working Funds Reserve is primarily used as a holding reserve for unallocated funds or for transferring committed funding from one budget year to the next.</p> <p>It is also used to hold contingency amounts during periods of uncertainty (e.g. uncertainty around economic conditions). Once held in the reserve the contingency amount can only be accessed through a formal resolution of Council.</p>
Source of Funds	General Revenue – Untied Rate Income



Reserve Name	Unexpended Loans Reserve(s)
Purpose	<p>Council utilises loan borrowings as an important funding source within its Long Term Financial Plan for significant infrastructure projects. Loan borrowings are approved by Council as part of the annual budget process.</p> <p>Where projects, which are funded through loan borrowings, are not completed at the end of a financial year and the loan funding has been drawn down, the balance of the loan funding is restricted to reserve.</p> <p>The loan funding is then recognised in the next years budget to allow the project to be completed in line with approved budget allocations.</p> <p>A separate reserve will be established for each loan that is drawn down by Council. The reserve name will also include the purpose the of the loan funding (for example, Community Support Package CSP Loan).</p>
Source of Funds	Loan Borrowings Income



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