

<b>Name of policy:</b>	<b>Restricted Funds</b>		
<b>Adoption by Council:</b>	<b>22 May 2024</b>	<b>Minute number:</b>	<b>192/2024</b>
<b>Last review date:</b>	<b>May 2024</b>		
<b>Review timeframe:</b>	<b>4 years</b>		
<b>Next scheduled review date:</b>	<b>June 2025</b>		
<b>Related legislation:</b>	<i>Local Government Act 1993</i> <i>Environmental Planning &amp; Assessment Act 1979</i> <i>Water Management Act 2000</i> <i>Local Government (General) Regulation 2021</i>		
<b>Associated policies/documents:</b>	<b>Investment Policy</b>		
<b>Responsible division:</b>	<b>Corporate Services</b>		

## Policy objective

This policy provides a framework for the establishment and management of Council's restricted cash funds and for the day-to-day management of Council's cash flow and its interrelationship with the internal allocation of cash, cash equivalents and investments towards future projects or activities or to meet long-term financial obligations. The policy details those funds which Council recognises as external restrictions and internal allocations and the purposes for which the restrictions and allocations will be applied.

## Policy statement

Council will establish, manage and de-establish restrictions and allocations over its cash assets in accordance with the criteria set out within this policy.

Council will utilise, as required, funds covered by an internal allocation for its general operational day-to-day cash management purposes, subject to the controls outlined in this policy.

## Coverage of the policy

This policy applies to all personnel employed by Council, either as an employee or contractor. The policy also applies to all cash restrictions and allocations held by Council.

## Strategic Plan link

Community Outcome 4: Strong leadership and good governance

<i>4.2 Council demonstrates good governance and financial management to ensure decisions and transactions are ethical, efficient, safe and fair</i>	<i>4.2.1 Use governance frameworks and processes to guide our decisions and to ensure council is accountable to the community</i>
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## **Policy background**

Council is the custodian of significant amounts of cash, cash equivalents and investments. It manages these amounts on a holistic basis, ensuring that liquidity is maintained to meet financial obligations as required.

This includes investing surplus funds not required immediately in accordance with its adopted Investment Policy.

Council has a legislative responsibility under section 409(3) of the Local Government Act 1993 to ensure that funds that are subject to an external restriction are only used for the specific purposes attached to the funding. Externally Restricted funds cannot be used to fund the general operational expenses of the Council.

Council may also create internal allocations against its cash, cash equivalents and investments. These allocations are a budget management technique and are adopted by Council to cover future commitments that may be included in Council's Long-Term Financial Plan, where it is prudent for Council to allocate cash to meet those future commitments or for a specific financial funding strategy. This assists with smoothing budget projections and accumulating necessary funds for projects and avoids 'lumpy' budget allocations e.g. operating an 'Election Reserve' so that an annual amount is set aside to meet a major expenditure once every four years.

These internal allocations may also be removed by Council resolution at any point in time.

Better practice identifies that a council should have an unrestricted cash buffer that exceeds the total of its external restricted funds and internal allocations and is sufficient to cover all operational needs and to meet any unexpected or emergency costs at any point in time.

Cash balances vary daily and are influenced by the value of receipt and payment transactions moving through Council's bank and investment accounts. While generally able to control and predict when Council makes payments to suppliers, employees, external bodies etc, it does not have the same level of control over the timing at which receipts are received.

The availability of an unrestricted cash buffer is also impacted by Council having to forward fund expenditure for grant funded projects where funding bodies only provide funds once work is completed or where grant funds are received in advance of works commencing.

The ability to ensure that an unrestricted cash buffer exists at any point in time i.e. daily, is an administratively burdensome exercise in terms of the resources required to complete reconciliations of expenditure against funding sources, revenue recognition requirements, restriction and allocation movement journals and debtor recognition.

## **Policy content**

The policy content outlines the separate frameworks for external restricted funds and for cash management & internal allocation of funds.

### **External Restricted Funds**

Council has significant cash, cash equivalents and investments. External restrictions are placed on the use of these funds where Council is bound by legislation or third-party contractual agreements. These funds must be expended for the specific purpose defined and cannot be used for general operations.

Council's external restrictions are held within three funds and spread across many areas of Council operations.

Council's three funds are:

1. General Fund
2. Water Fund
3. Sewer Fund

Under section 409(3) of the Local Government Act 1993 there are three categories of external restrictions:

1. Money received as a result of levying a special rate or charge for a particular purpose (e.g. Domestic Waste Management charges)
2. Money that is required by legislation to be set aside of a specific purpose (e.g. developer contributions)
3. Money received from Federal or State Government for a specific purpose (e.g. specific purpose grant funding)

Council will ensure that its External Restricted Funds are always fully cash-backed.

#### Current External Restrictions

External restricted cash balances are reported annually in Council's Annual Financial Reports and are reported quarterly to Council in the Quarterly Budget Review Reports.

#### Interest on External Restrictions

Interest must be applied to external cash restrictions where required by legislation, e.g. developer contributions. The rate of interest is equal to the average weighted cash rate for the relevant period based on the Reserve Bank of Australia's published cash rate. Interest earnings are to be added to the balance of the restriction.

### **Cash Management & Internal Allocation of Funds**

#### Cash Management

The management of cash liquidity to meet short-term and medium-term obligations as they arise will take precedence over the goal of ensuring that internal allocations are fully cash-backed at all times.

As such internal allocation balances are considered to be notional balances from an operational perspective during the financial year. Actual balances will be confirmed at 30 June each year, will be cash-backed and reported within the Financial Statements.

Council will continue to work towards achieving an unrestricted cash buffer.

#### Creation and Review of Internal Allocations

Internal allocations against Council's cash, cash equivalents and investments may be created by resolution of Council or policy. The Council resolution must set out:

1. The name and purpose of the allocation.
2. The permitted use/s of the internally allocated funds.
3. How the funds are collected or the basis of calculating any transfer of funds to or from the allocation.
4. If there is an end date for the allocation to remain in place.

On an annual basis Council will review its future need for the internal allocations it is holding. All decisions in respect of a review of an internal allocation will be on the basis of the best use of those funds by Council.

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

### Interest on Internal Allocations

Interest is not to be calculated and applied to internal allocations as a general rule. Where an individual specific circumstance requires interest to be applied, this must be specified in the resolution of Council including the interest rate to be used.

### Timing of Movements

Transfers from internal allocations adopted within the annual budget will be considered to have been released from the allocation on 1 July each year. Any transfers approved during the year through the budget review process will occur at the end of the month in which they were approved.

Transfers to internal allocations adopted within the annual budget will occur on 30 June each year. Any transfers approved during the year through the budget review process will occur at the end of the month in which they were approved.

### Monitoring and Reporting

A register of internal allocations will be maintained by the Finance Department. This register will include details of the current and projected notional total of the allocation, annual budgeted movements, actual movements etc. These details will also be reflected within Council's Long-Term Financial Plan.

Projected notional balances for the current financial year will be reported to Council as part of the Quarterly Budget Review Statement. This report will include the value of government debtors that remain outstanding at the time of the report.

Movements to and from internal allocations will be included and adopted as part of the annual budget process. Any further movements will be included within a monthly budget review report to Council for approval.

The actual balance of internal allocations will be determined at 30 June each year as part of the preparation of Council's Financial Statements. Given the impact of timing differences on cash, cash equivalent and investment balances at 30 June, the Manager Finance will adjust the notional balance of internal allocations to ensure that an unrestricted cash buffer exists at that date.

The actual balance of internal allocations and details of any year-end adjustments to maintain an unrestricted cash buffer will be reported to Council for approval as part of the report referring the Financial Statements to audit.

The balance of internal allocations will be reported in Council's Financial Statements.

### General

The purpose of each of Council's external restrictions is included in Attachment 1.

The purpose of each of Council's internal allocations is included in Attachment 2.

### **Definitions**

Nil.

**References and related documents**

Local Government Code of Accounting Practice and Financial Reporting

**Responsible officer (position)**

Manager Finance

**Attachments**

Attachment 1 – List of Council External Restrictions (to be provided once reviewed by Council)

Attachment 2 – List of Council Internal Allocations (to be provided once reviewed by Council)

**ATTACHMENT 1**

**MidCoast Council External Restrictions**

<b>Name of Restriction</b>	<b>Purpose of Restriction</b>	<b>Comment</b>
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To be included after formal review by Council

**ATTACHMENT 2**

**MidCoast Council Internal Allocations**

<b>Name of Allocation</b>	<b>Purpose of Allocation</b>	<b>Comment</b>
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To be included after formal review by Council