

10.10.Draft Restricted Reserves Policy

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ATTACHMENTS	1. Restricted Reserves Policy [10.10.1 - 10 pages]
CSP LINK	Outcome 5 – A thriving and resilient local economy ED1. Revitalise and grow the North Sydney CBD as an accessible high-amenity top-tier office precinct Outcome 8 – An effective, accountable and sustainable Council that serves the community G1. Develop clear goals, create a plan to achieve them, and track progress with transparency and honesty G4. Manage risks and maintain independent oversight in business operations and decision-making G8. Manage Council’s finances through robust long-term planning and ongoing financial management

PURPOSE:

The Draft Restricted Reserves Policy is presented to Council for endorsement, to proceed to public exhibition for a period of 28 days.

EXECUTIVE SUMMARY:

- This policy establishes a structured framework for the classification, use, and management of restricted reserves to enhance financial decision-making, transparency, and control.
- It supports long-term financial planning by aligning reserve balances with strategic priorities and future obligations.

RECOMMENDATION:

- 1. THAT** Council endorse the Draft Restricted Funds Policy, to be placed on public exhibition for a period of 28 days calling for submissions.
- 2. THAT** a further report be provided to Council following the conclusion of the public exhibition period, for the purpose of considering any submissions received, and to adopt the amended Restricted Funds Policy.

Report

The Draft Restricted Reserves Policy establishes a robust framework to strengthen Council's financial decision-making, transparency, and control in the management of restricted reserves.

The policy has been developed in response to internal audit recommendations focused on ensuring legal compliance, oversight and management of externally restricted reserves.

The policy applies to all Council-managed cash and investments, ensuring that both restricted and unrestricted funds are managed in accordance with legislative, contractual, and strategic requirements.

Key objectives of the policy include:

- establishing consistent practices for the classification, establishment, and management of restricted reserves;
- improving transparency in the allocation and use of funds not required for immediate operations;
- enabling effective tracking of reserve accumulation and usage over time; and
- supporting long-term financial planning by aligning reserve balances with Council's strategic priorities and future obligations.

The policy distinguishes between externally and internally restricted reserves.

The policy also sets out clear provisions for the establishment, use, transfer, and closure of reserves, as well as minimum liquidity targets for unrestricted funds.

Roles and responsibilities are clearly defined for Council staff, management, and elected representatives to ensure accountability and compliance.

The policy is aligned with relevant legislation, regulations, and accounting standards, and is supported by related Council policies and plans.

Consultation requirements

The Draft Restricted Funds Policy will place on public exhibition for 28 days.

Financial/Resource Implications

The policy also sets out clear provisions for the establishment, use, transfer, and closure of reserves, as well as minimum liquidity targets for unrestricted funds.

Legislation

The attached policy, which includes a comprehensive list of all relevant legislation considered during the preparation of this policy.

RESTRICTED RESERVES POLICY

ADOPTED/:

xxx

NEXT REVIEW:

xxx

DOCUMENT TYPE:

Council Policy

POLICY OWNER:

Director Corporate Services

POLICY REFERENCE:

CNCL_POL_ECMxxxxxxx



1. PURPOSE

1.1. This policy aims to strengthen financial decision-making, transparency, and control in the establishment, use, and management of restricted reserves.

1.2. It provides a structured framework to:

- Establish consistent practices for the classification and management of restricted reserves
- Improve transparency in the allocation and use of funds not required for immediate operations
- Enable effective tracking of reserve accumulation and usage over time
- Support long-term financial planning by aligning reserve balances with strategic priorities and future obligations.

2. SCOPE

This policy applies to all Council-managed cash and investments, including both restricted and unrestricted funds.

3. DEFINITIONS

TERM	DEFINITION
3.1 Restricted Reserves	Funds set aside for a specific purpose, including externally and internally restricted reserves.
3.2 Externally Restricted Reserves	Funds subject to legislative or contractual restrictions. They must be used only for the specific purpose for which they were provided.
3.3 Internally Restricted Reserves	Funds allocated by Council resolution for a specific strategic or operational purpose. These may be reallocated at Council's discretion.
3.4 Unrestricted Cash	Funds available for operational needs, contingencies and emergencies. These funds are not allocated to a specific purpose.
3.5 Externally Unrestricted Funds	The balance of all cash and investment not assigned to the externally restricted reserves.
3.6 Reserve Transfers	The movement of funds into or out of restricted reserves, typically supported by Council resolution or as part of the adopted budget process.

4. PROVISIONS

4.1. ESTABLISHMENT OF RESERVES

4.1.1. Externally restricted reserves

Externally restricted reserves are automatically established when funds are received with legislative, contractual or funding agreement conditions.

No Council resolution is required to establish externally restricted reserves.

Externally restricted reserves cannot be closed or repurposed unless the original legislative or contractual restriction has expired or been fulfilled.

4.1.2. Internally restricted reserves

These reserves must be established by a formal Council resolution that clearly states:

- the purpose of the reserve
- How funds are to accumulate
- Approved use of the funds
- Whether interest will be applied and at what rate

Internally restricted reserves can be closed or reallocated by Council resolution.

Upon closure, any remaining funds must be reallocated to another reserve, or returned to unrestricted cash, subject to Council approval

4.1.3. Trust Funds

Under section 411 of the Local Government Act 1993, all trust funds are held in a separate Trust Fund account and can only be used in accordance with trust conditions.

Council holds funds in trust for Wendy Whiteley Secret Garden Trust.

4.2. RESERVES TRANSFERS

All transfers to or from restricted reserves must:

- Be approved through Council's adopted budget or a Quarterly Budget Review Statement.
- Be supported by clear documentation stating the purpose of the transfer.
- Be recorded in Council's financial systems and reflected in reporting.

4.3. BORROWING FROM EXTERNALLY RESTRICTED RESERVES

Borrowing from externally restricted reserves is not permitted. If this needs to be done, the borrowing from externally restricted reserves must follow legislative processes, including Council resolution and Ministerial approval.

4.4. BORROWING FROM INTERNALLY RESTRICTED RESERVES

Council may borrow from internal reserves through a formal resolution of Council, that must specify:

- Purpose of borrowing
- Permitted use of the funds
- Source reserve
- Applicable interest (if any) and rate
- Repayment period and schedule

Internal reserves may also be used temporarily to manage short-term cashflow fluctuations during the year.

A repayment plan will be prepared by the Finance team to ensure funds are returned within the agreed timeframe.

4.5. MINIMUM LIQUIDITY TARGETS

4.5.1. Externally Unrestricted Funds

Council will maintain a minimum externally unrestricted cash and investment balance equivalent to three months of operating expenses, plus loan repayments, excluding operating expenses related to the Domestic Waste Management reserve.

This reserve will be utilised to support Council's operating cash flow requirements, fund asset renewals, contribute to Council's planned projects, and provide a contingency for unplanned asset renewal or replacement arising from asset failure or other unforeseen risks.

4.5.2. Unrestricted Funds

Council will maintain a minimum unrestricted cash balance equivalent to one month of operating expenses, plus loan repayments, excluding operating expenses related to domestic waste management.

This balance is intended to support operating cash flow and provide a contingency for unforeseen risks.

4.6. MONITORING AND REPORTING

Balances of restricted reserves are reported annually in Councils Annual Financial Statements.

Monthly investment reports and Quarterly Budget Review Statements include reconciliations of reserve movements.

Reports must detail:

- Opening balance
- Transfers in and out
- Closing balance for each reserve

4.7. ANNUAL REVIEW OF INTERNALLY RESTRICTED RESERVES

4.7.1. Internally restricted reserves will be reviewed annually as part of the budget process to identify projects to be funded from the reserves and ensure they remain relevant and aligned with Council priorities.

4.7.2. Council may amend or remove internally restricted reserves based on evolving operational or strategic priorities.

5. ROLES & RESPONSIBILITIES

RESPONSIBLE	ACCOUNTABLE
5.1 Responsible Officer	The Chief Financial Officer is the responsible officer for this policy and is accountable for its currency and communication as well as monitoring legislative requirements and funding agreements.
5.2 Mayor and Councillors	The Mayor and Councillors have a governance role in relation to Council policies. They are responsible for reviewing and adopting policies that reflect legislative requirements and community expectations.
5.3 Chief Executive Officer	Council has delegated the Chief Executive Officer the authority to exercise the responsibilities detailed in this Policy.
5.4 Executive Leadership Team	ELT are responsible for ensuring their departments adhere to the requirements of this Policy and providing guidance in respect of the strategic objectives of the Policy within their Division and the organisation.
5.5 Project Managers and Service Unit Managers	Use restricted reserves strictly for their intended purposes. Collaborate with Finance to track reserve usage and support reporting requirements.
5.6 All Council Staff	Comply with all requirements of this policy within their area of responsibility. Promote accountability, transparency, and proper financial stewardship in the use of reserve funds.

6. RELATED DOCUMENTS

DOCUMENT	LOCATION
6.1 Financial Management Policy	As published on Council's website

6.2 Long Term Financial Plan	As published on Council's website
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7. RELATED LEGISLATION AND GUIDANCE

LEGISLATION/GUIDANCE	NOTES
7.1 Local Government Act 1993 (NSW)	Governs the financial management responsibilities of councils, including the requirement to maintain accurate accounting records and use funds in accordance with statutory and community obligations.
7.2 Local Government (General) Regulation 2021 (NSW)	Provides detailed requirements for budgeting, financial reporting, and the treatment of restricted funds.
7.3 Environmental Planning and Assessment Act 1979	Enable Council to levy contributions on developments. The Act requires Council to set these funds aside to be used specifically for the provision of these facilities and services.
7.4 Code of Accounting Practice and Financial Reporting (latest version issued by the Office of Local Government NSW)	Provides a consistent framework for accounting and financial reporting in NSW councils, including treatment and disclosure of restricted reserves
7.5 Australian Accounting Standards (AASB)	AASB 101 – Presentation of Financial Statements AASB 108 – Accounting Policies, Changes in Accounting Estimates and Errors AASB 1058 – Income of Not-for-Profit Entities These standards guide the recognition, presentation, and disclosure of restricted funds and reserve balances in financial statements.

8. VERSION HISTORY

Version	Date Approved	Approved by	Resolution No.	Review Date
1	TBA	Council	TBA	TBA

9. Appendix 1: List of Restricted Reserves

The table below outlines the nature and purpose of each reserve held by Council at the time of drafting this policy:

Externally Restricted	
Developer Contributions	
Purpose:	Section 7.11 and 7.12 of the <i>Environmental Planning & Assessment Act 1979</i> enable Council to levy contributions on developments. These contributions are essential in providing quality facilities and services to an expanding local population. The Act requires Council to set these funds aside to be used specifically for the provision of these facilities and services.
Source of funds:	Developer Contributions as levied in accordance with Council's adopted Contributions Plans.
Unexpended Grants	
Purpose:	An external restriction is placed on grant funding that has been received for a specific purpose that has not been spent by the end of the financial year.
Source of funds:	Grant funding that is for a specific purpose is provided to Council from various sources.
Domestic Waste Management	
Purpose:	By virtue of Section 496 of the <i>Local Government Act 1993</i> (as amended), Council must levy a separate charge for domestic waste management services, which include garbage and recycling services. Under the legislation Council cannot finance these services from ordinary rates so the charge must be sufficient to recover reasonable costs of providing these services. Council is obliged to set these funds aside and use them for their specific purpose.
Source of funds:	Domestic Waste Services and Management Levy.
Stormwater Management	
Purpose:	In accordance with Section 496A of the <i>Local Government Act 1993</i> (as amended), Council may levy an annual charge for the provision of stormwater management services on rateable land. The funds collected are used specifically for stormwater management, including improving stormwater quality, flood mitigation, infrastructure maintenance, and environmental protection.
Source of funds:	Stormwater Management Levy.
Unexpended Special Rates	

Purpose:	Relates to rates and levies collected by Council. These funds must be used exclusively for the purpose for which they were levied and cannot be redirected to general operations.
Source of funds:	Revenue from infrastructure and environmental levy.
Unspent Loan Funding	
Purpose:	To restrict the use of cash which has been borrowed externally for a specific purpose but not yet spent.
Source of funds:	Proceeds from loans.
Other Specific Purpose Contributions	
Purpose:	An external restriction is placed on contributions that has been received for a specific purpose that has not been spent by the end of the financial year.
Source of funds:	Special purpose contributions from Transport for NSW and other government agencies.
Roads Reserve	
Purpose:	Under the Roads Act 1993 Part 4 Division 6 Section 43.4, money received by council from the proceeds of sale of the land from closed council roads is restricted use toward acquiring land for public roads or for carrying out road work on public roads.
Source of funds:	Sale of land comprising former public roads.
Internally Restricted	
Infrastructure Renewal	
Purpose:	Funds are allocated to this reserve to ensure future asset renewal investment can be aligned to its Asset Management Plans. Council will aim to allocate a minimum amount equivalent to 100% of annual infrastructure depreciation less actual renewal.
Source of funds:	General revenue
Infrastructure New/Upgrade to Fund Development Contributions Plan Projects	

Purpose:	Funds are allocated to this reserve to cover the portion of projects identified in the Development Contribution Plan that are not funded by the plan itself. Allocations to this reserve will be made only after all other internal reserves have been funded and the targeted unrestricted cash reserve level has been achieved.
Source of funds:	General revenue
Carry Forward Works	
Purpose:	This reserve restricts funds for projects that are carried forward from one year to the next.
Source of funds:	General revenue
Property Reserve	
Purpose:	Reserve to fund future property development or to acquire suitable property for strategic land use, infrastructure or environmental purposes.
Source of funds:	Income from property sales.
Employee Leave Entitlements	
Purpose:	This reserve is used to hold a level of funds anticipated to cover the short to medium term liability for employee leave entitlements. The reserve will be reviewed annually to ensure levels are adequate to cover accrued annual and long service leave balances.
Source of funds:	General revenue
Deposits, Bonds and Retentions	
Purpose:	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.
Source of funds:	Deposits, binds and retentions received.
Plant and Vehicle Replacement	
Purpose:	This reserve funds Council's plant replacement program.

Source of funds:	Income from internal plant charges.
Elections Reserve	
Purpose:	As Council elections are held every four years, Council will allocate funding to this reserve to balance the expenses over a 4-year period.
Source of funds:	General revenue
Financial Assistance Grant Advance Payment	
Purpose:	This reserve is used to allocate the prepayment of the Financial Assistance Grant (FAG) received in the prior financial year. The purpose of the reserve is to align timing of utilisation of grant with the financial year it relates to.
Source of funds:	Financial Assistance Grant received in advance.