

3.XX – DRAFT RESTRICTED CASH POLICY

1 POLICY PURPOSE

The purpose of this policy is to provide a framework for the establishment and management of Council’s restricted cash. The policy details those funds which Council recognises as external and internal restrictions and the purposes for which the restrictions will be applied.

2 POLICY OBJECTIVE

The policy seeks to ensure an appropriate level of transparency regarding Council’s cash holdings, to ensure that legislative obligations are met regarding the requirement to identify externally restricted cash on hand, and that other internal restrictions for cash holdings are endorsed by Council.

A detailed understanding restricted and unrestricted cash holdings is critical to ensure that Council can measure its liquidity and make the necessary investment decisions to remain financially sustainable.

3 POLICY SCOPE

This Policy applies to all cash restrictions held by Council, and applies to all Councillors and Council staff.

4 DEFINITIONS

TERM	DEFINITION
Act	Local Government Act 1993 (NSW) (NI).
Council	Norfolk Island Regional Council
General Manager	A person who holds an appointment under section 334 of the <i>Local Government Act 1993</i> (NSW) (NI). This includes a person acting in this position
Regulation	Local Government (General) Regulation 2005 (NSW)(NI).
Staff	For the purposes of this policy includes employees and delegates such as agency staff and contractors.

5 LEGAL AND POLICY FRAMEWORK

Legislation, Policies and Documents:

Legislation:

- *Local Government Act 1993* (NSW) (NI).
- *Local Government (General) Regulation 2005* (NSW)(NI).

Documents:

- Operational Plan and Budget
- Annual Financial Statements

- Norfolk Island Regional Council Model Code of Conduct.
- Procedures for the Administration of the Model Code of Conduct.

6 IMPLEMENTATION

Communication

This policy is to be communicated to all staff and the community via Council's intranet website.

Implementation

Implementation of this policy will reference supporting procedures, documents and relevant frameworks.

7 POLICY STATEMENT

7.1 Restricted Cash

Restricted cash reserves are established to set aside funds for Council to meet regulatory requirements, allocate against specific future projects and activities, and to ensure sufficient working capital to meet current and long term financial obligations.

Restrictions are cash backed and are established for specific purposes. Externally and internally restricted cash fall into the following categories:

TYPE	CATEGORY
Externally Restricted Cash	<ul style="list-style-type: none"> • Unexpended Commonwealth Service Delivery Agreement (SDA) funds. • Contributions received for specific purposes constrained under legislation. • Unexpended grants received from either State or Commonwealth Government agencies and provided for specific purposes. • Security deposits received. • Unexpended loan funds.
Internally Restricted Cash	<ul style="list-style-type: none"> • Employee leave entitlements. • Payables. • Plant replacement. • Liquidity management (cash expense cover). • Asset renewal.

Descriptions associated with each restricted cash category are provided in Appendix 1.

7.2 External Restricted Cash

External Restrictions over cash, cash equivalents and investments are those where there is a legislative obligation to use the funds for the purpose for which they were paid to Council. Under section 409(3) of the *Local Government Act 1993* (NSW) (NI), they are of three categories

- Money received as a result of levying a special rate or charge for a particular purpose;*
- Money that is required by legislation to be set aside of a specific purpose (e.g. developer contributions); and*
- Money received from Federal or State Government for a specific purpose (e.g. specific purpose grant funding).*

7.3 Internal Restricted Cash

Internal Restrictions over cash, cash equivalents and investments are those funds restricted only by a resolution of Council. Internal restrictions are adopted by Council to cover commitments that are included in Council's Long Term Financial Plan and where it is prudent for Council to hold cash restrictions to meet those future commitments including minimum working capital requirements.

7.4 Unrestricted Cash

Unrestricted cash are funds available to cover current and future operational needs and unexpected or emergency costs or shocks not included in the annual budget. Unrestricted cash maybe be used as a capital internal loan funding source for Council business government activities should sufficient capacity exist to avoid the need for external borrowings.

7.5 Current Restricted Cash

External and Internal restricted cash balances are reported annually in Council's annual financial statements and are reported monthly to Council in the Investment Report.

7.6 Future Restricted Cash

Additional internal restrictions may be created by resolution of Council. The Council resolution must include:

- The name and purpose of the restriction;
- The permitted use/s of the internally restricted funds;
- How the funds are collected or the basis of calculating any transfer of funds to the restriction;
- If there is an end date for the restricted funds to be utilised.
- Internal restrictions must be authorised by a resolution of Council and will not be established for future expenditure less than \$50,000. Where possible, values less than this should be accommodated within the annual budget.

7.7 Interest on Restricted Cash

Interest will be applied to external cash restrictions where required by legislation, e.g. developer contributions. The rate of interest is equal to the average return on Council's investments for the applicable financial year (unless another rate or methodology is required by legislation). Interest earnings are to be added to the balance of the restriction.

Interest is not to be calculated and applied to internal restrictions. There may be individual circumstances where interest is applied to an internal restriction and this must be specified in the resolution of Council, including the interest rate to be used.

7.8 Borrowing from External Restricted Cash

The Act acts to restrain and control the way Council raises and uses funds for its operations. As referenced above, section 409(3) of the Act states that the following restrictions apply:

- a) Money received as a result of levying a special rate or charge for a particular purpose;*
- b) Money that is required by legislation to be set aside of a specific purpose (e.g. developer contributions); and*
- c) Money received from Federal or State Government for a specific purpose (e.g. specific purpose grant funding).*

In reference to part (a) above, special rates or charges, Council may be able to utilise externally restricted funds by way of internal loan if it receives Ministerial approval to do so in accordance with subsections 410(3) and (4) of the Act.

In reference to parts (b) and (c) above, Council may be able to utilise externally restricted funds by way of internal loan 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).

7.9 Borrowing from Internal Restricted and Unrestricted Cash

Council may borrow from internal restricted cash for a specific purpose which requires a resolution of Council to do so. The full impact of the borrowings must be disclosed in the Council resolution and the agreement must set out:

- a) The reason for the borrowing;
- b) The basis of calculating the amount of the borrowing;
- c) The permitted use/s of the borrowed funds;
- d) The internal restriction that will be borrowed from;
- e) If borrowing cost (interest) is to be applied to the borrowing, and the interest rate to be used; and
- f) The loan repayment period.

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

No later than ten (10) days following the adoption of a resolution by Council approving an internal borrowing, the General Manager shall notify the First Assistant Secretary, Territories Division, Department of Infrastructure, Transport, Regional Development, Communications and the Arts of the internal borrowing and provide a copy of the borrowing agreement.

If the First Assistant Secretary objects to the borrowing by way of return notice to the General Manager within five (5) days of notification, Council shall schedule, at its next Ordinary Meeting, an agenda item outlining the First Assistant Secretary’s objections.

8 MONITORING AND REPORTING

At least every 12 months Council will review its future need for any internally restricted cash being retained.

All decisions to undertake a review of internally restricted cash will be on the basis of the best use of those funds by Council. A Council resolution is required to return funds no longer required to unrestricted cash. If an urgent, unplanned or emergency need arises during the year to access internally restricted funds for general use, Council may resolve to do so outside of the annual review process.

The monitoring and evaluation of the policy will be conducted in accordance with Council’s policy review cycle.

9 REVIEW AND VERSION CONTROL

Policy Number:	3.XX	Responsible Officer:	Manager Corporate and Finance
Next Review Date:	Month and Year		
Version:	Resolution Number:	Effective Date:	Description:
1.0	TBC	TBC	Developed and adopted
2.0			
3.0			

Appendix 1 – Description of Council External and Internal Restricted Cash Categories

EXTERNAL RESTRICTED CASH	DESCRIPTION
Unexpended Commonwealth Service Delivery Agreement (SDA) funds.	Unspent funding received by the Commonwealth government for specific purposes under the SDA agreement. Funds are released from this restriction as the SDA funding obligations are met.
Contributions received for specific purposes constrained under legislation.	Unspent contributions received by Council from either the Commonwealth or State Governments or other third parties for a specific project or purpose, subject to contractual obligations or other legislation not restricted elsewhere. Funds are released from this restriction as the grant funding obligations are met.
Unexpended grants received from either State or Commonwealth Government agencies and provided for specific purposes.	Unspent grants received by Council from either the Commonwealth or State Governments or other third parties for a specific project or purpose, subject to contractual obligations or other legislation not restricted elsewhere. Funds are released from this restriction as the project or specific purpose obligations are met.
Security deposits received.	Deposits received from customers and third parties held as security. Funds are released from this restriction as the obligation from the customer or third party is met.
Unexpended loan funds.	Any unspent loan funds will be restricted for application against the original projects or purposes identified in the certified loan documents and identified in Council's annual budget. Funds are released from this restriction as the project or specific purpose obligations are met.
INTERNAL RESTRICTED CASH	DESCRIPTION
Employee leave entitlements.	Council shall restrict a portion of its accrued employee leave entitlements to cover leave payments in excess of employee costs provided for in the annual budget e.g. employee termination payments upon resignation or retirement. Leave entitlements include annual leave, long service leave (current and non-current), and accrued time off in lieu entitlements in accordance with Council's personal leave policies.
Payables.	Outstanding creditor or other payments due and not yet paid at the end of each month.
Plant replacement.	To ensure sufficient funds are available to finance the ongoing replacement of Council's plant and fleet, any operational surplus or unexpended depreciation amount

EXTERNAL RESTRICTED CASH	DESCRIPTION
	from fleet activities will be constrained to provide for expenditure in a future period
Liquidity management (cash expense cover).	The cash expense cover ratio is a key indicator utilised to measure Council liquidity (i.e. current financial health) and to also assess ongoing financial sustainability risk. This ratio calculates how long Council can continue paying its day-to-day expenses from cash at bank without needing additional cash flow injections. Council will target achieving a minimum cash expense cover of three months operating expenditure held as restricted cash in any given financial year
Asset Renewal.	<p>Council will ensure that it maintains its assets and infrastructure on an ongoing basis at defined levels to ensure that services are able to be provided effectively to the community.</p> <p>100% of the annual depreciation charge, <u>less asset renewal each year</u>, will be constrained and made available for investment in asset renewal.</p> <p><u>For the following four (4) business units, internally restricted cash representing 100% of the annual depreciation charge, less asset renewal each year, shall be recorded on each business's respective Special Purpose Financial Statement:</u></p> <ul style="list-style-type: none"> • <u>Aviation Rescue and Firefighting Services and Airport Management</u> • <u>Electricity</u> • <u>Norfolk Telecom</u> • <u>Waste Management</u> <p>-Where funds are not fully allocated within any financial year, and the actual asset sustainability ratio achieved is less than 80%, any remaining surplus will be constrained to provide for expenditure in a subsequent period where required.</p>

Formatted: Font: (Default) +Body (Calibri)

Formatted: List Paragraph, Bulleted + Level: 1 + Aligned at: 0.63 cm + Indent at: 1.27 cm