Restricted and Unrestricted Cash Policy

Policy	3K
Officer Responsible	Chief Financial Officer
Last Review Date	27/07/2026

Strategic Policy

Objectives

To provide a framework for the establishment and management of restricted and unrestricted cash.

1. BACKGROUND

Council has significant restricted cash set aside for future purposes. They appear in Council's statement of financial position under “Cash, cash equivalents and investments". The funds are invested in accordance with Council's Investment Policy.

Over the term of the Long Term Financial Plan these restrictions are used to smooth out funding requirements for Council's programs outside the scope of normal operational activities. This allows for the equitable spread of the costs burden in establishing and maintaining Council's assets and services.

2. CLASSIFICATION OF RESTRICTED CASH

Restricted cash are funds set aside by Council for a specific purpose to meet future expenses. They are included in the annual budget which is voted annually as part of the adoption of the Operational Plan.

Restricted Cash falls into three categories based on their use:

(a) External cash restrictions

These are funds received by Council where there is a legal 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 they are of three categories:

(i) money received as a result of levying a special rate or charge for a particular purpose (e.g. proceeds of a special rate variation);

(ii) money that is required by legislation to be set aside for a specific purpose (e.g. developer contributions); and

(iii) money received from the government for a specific purpose (e.g. tied grants).

(b) Internal cash allocations

These are funds set aside by resolution of Council for a particular purpose, where there is no legal or legislative requirement governing their use. If the purpose for which the cash restriction was established does not eventuate or Council changes its priorities, these funds may be reapplied for a different purpose by resolution of Council.

(c) Unrestricted cash

These are funds which are available to be used to cover unexpected or emergency expenses not provided for in the annual budget and not covered by an available internal allocation. They are also available for:

(i) boosting Council's financial liquidity in paying suppliers, providing services and retaining staff;
(ii) meeting short term cash flow requirements to fund capital works projects;
(iii) meeting Council's operational efficiency by covering unbudgeted discretionary expenditure; and
(iv) support Council's long-term financial sustainability
(v) bringing forward projects identified in the Long Term Financial Plan.

Any application of funds to be drawn from unrestricted cash for capital projects, where required, would need to comply with the Capital Expenditure Guidelines of the NSW Office of Local Government.

3. ESTABLISHMENT OF CASH ALLOCATIONS

(a) Current External Restrictions / Internal Allocations

The purpose of each internal cash allocation is articulated in Schedule 1.

Audited externally restricted and internally allocated cash balances can be found in the Annual Financial Statements, Note C1-3, included in the Annual Report available on Council's website https://www.blayney.nsw.gov.au/council/council-information/plans-and-strategies

(b) Future External Restrictions / Internal Allocations

Additional internally allocations of cash may be created by resolution of Council. The resolution must set out:

(i) the name and purpose of the internal allocation, which must be specific and relate to the then current Community Strategic Plan and Delivery Plan of Council; and
(ii) the basis of calculating any transfer of funds to internal allocations.

4. INTEREST ON RESTRICTED CASH

Interest must be applied to external cash restrictions where required by legislation or otherwise, such as s7.11 developer charges. Interest is added to the balance in the relevant cash restriction. The rate of interest is equal to the average return on investments for the financial year.

If interest is paid on internal cash allocations, the interest is paid into the general fund.

5. BORROWINGS FROM RESTRICTED CASH

Council may borrow from internally allocated cash, [but not from externally restricted cash without consent from the Minister of Local Government]. Any such borrowing must be authorised by resolution of Council and the full impact of the borrowing disclosed. Interest must be paid on any such borrowings.

6. TRANSFERS TO AND FROM RESTRICTED CASH

Funds may only be transferred into or transferred out of a cash restriction, by resolution of Council. The authority for such transfers may be given:

(a) by specific resolution in the case of a particular project the subject of a Council resolution;

(b) in the Quarterly Budget Review Statement, by virtue of the adoption of that statement by Council; or

(c) by the adoption of the annual financial statements containing a schedule of restricted cash showing transfers in and out.

A transfer contained in a Quarterly Budget Review Statement must show the restricted cash item audited opening balance, the amount transferred in or out and the estimated closing balance.

7. REPORTING ON RESTRICTED CASH

The level of restricted cash shall be reported on in the Quarterly Budget Review Statement and annually in the Financial Statements.

Council must assess at least annually the adequacy of each internal cash restriction during the preparation of the Long-Term Financial Plan and Operational Plan.

8. DETERMINATION OF UNRESTRICTED CASH LEVELS

The level of unrestricted cash shall be reported on in the monthly Investments Report, Quarterly Budget Review Statement and annually in the Financial Statements.

The targeted level of unrestricted cash shall be the greater of $2m or 50% of current liabilities (net of those current liabilities funded by cash restrictions or allocations).

Council must assess at least annually the adequacy of each internal cash restriction during the preparation of the Long Term Financial Plan and Operational Plan.

Another measure of Council's liquidity is the Unrestricted Current Ratio. This ratio measures the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council. Immediate action will only be required to address Council's unrestricted funds should the Unrestricted Current Ratio (General Fund) fall below the industry benchmark of 1.5:1.

Schedule 1: Name and Purpose of Internal Cash Allocations held

NAME	PURPOSE	COMMENT
Asset Renewals	To fund expenditure on asset renewals.	
Bonds and Deposits	To have funds available to return amounts held as Bonds/Deposits	Includes following allocations: • Bonds – development applications • Security & key deposits – facility hire • Bore key deposits • Contract retentions & tender deposits • Miscellaneous deposits
Carryover works	To fund unexpended non recurrent capital works in progress at the end of the financial year for completion in a future year.	
Centrepoint	To help fund future large expenditure e.g. building renewals and upgrades.	
Election reserve	To set aside funds for council elections every 4 years. Based on an annual transfer of 25% of anticipated election cost.	
Emergency Works / Natural Disaster	To access natural disaster funding, Council is usually required to contribute an initial contribution towards each natural disaster event.	
Environmental Projects	Funds then set aside in 2001/02 for development of an alternative recreation location on the river.	
Financial Assistance Grant	To restrict advance payments of future financial assistance grants to the financial year in which they are allocated.	
Future Financial Sustainability	To quarantine future mining income in the event that the planned assumptions do not eventuate.	
I.T. Reserve	To help fund future large I.T. expenditure e.g. new software system or hardware replacement as part of long term I.T. Strategy.	

<table>
<tr><th>NAME</th><th>PURPOSE</th><th>COMMENT</th></tr>
<tr>
<td>Employee leave entitlement</td>
<td>To fund leave payments in excess of salary provided for in operational plan – e.g.
Employment Termination / Retirement with Council. Based on a formula calculated by reference to average age brackets of employees and total Employee Leave Entitlements.</td>
<td>Funding level is guided by industry accepted practice and determined by calculation of ELE reserves subject to an age profile.

Council manages and funds its ELE Reserve based upon a structured funding policy that assesses the age & anticipated payout date for each employee.

At the end of each year an analysis is undertaken for each Leave Liability and the value of Leave Entitlements that fall within various age bands.

Council's "ELE Funding Policy" is to fund the various age bands to a certain level as at Year End (with higher levels of funding for those employees getting closer to retirement). Funding of Gross ELE thresholds are as follows:
<table>
<tr><th>Age</th><th>Funding % of Gross ELE</th></tr>
<tr><td>60+ yrs</td><td>100%</td></tr>
<tr><td>55 – 60 yrs</td><td>80%</td></tr>
<tr><td>50 – 55 yrs</td><td>60%</td></tr>
<tr><td>45-50 yrs</td><td>30%</td></tr>
<tr><td><45 yrs</td><td>15%</td></tr>
</table>
Allowance is also made for employees with a vested liability who are anticipated to leave within the next 12 months.

If Council has a number of staff members, with high ELE liabilities, who are anticipated to be leaving in the next 12 months an allowance is also made.</td>
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<tr><th>NAME</th><th>PURPOSE</th><th>COMMENT</th></tr>
<tr><td>Plant & Vehicle Replacement</td><td>To internally fund replacement of plant and vehicles at the optimal time. Based on internal hire income and actual operating expenditure, taking into consideration depreciation plus proceeds of sales less asset purchases.</td><td></td></tr>
<tr><td>Property Account</td><td>To fund works for real estate development Council’s income producing properties plus buying and selling, maintenance and development. Based on net proceeds of sale of industrial and residential land.</td><td></td></tr>
<tr><td>Property Account – Borrowings</td><td>Council borrowed funds under the Low Costs Loan Initiative (LCLI) for completion of a residential subdivision in Streatfeild Close. Funds from the proceeds of sale of the lots were restricted to repay the principal and interest repayments.</td><td>Under the LCLI program Council qualified for a 50% interest subsidy.

The balance of sale proceeds were allocated to the Property Account.

The loan is scheduled to be finalised by June 2029.</td></tr>
<tr><td>Quarry</td><td>To have funds available to remediate land following closure of Council quarries after exhaustion of gravel reserves.</td><td>The balance should reflect the estimated cost of remediation for each quarry by a percentage based on the number of years until remediation works are required
<table>
<tr><th>Years to remediation</th><th>Funding % of total provision</th></tr>
<tr><td>1 - 5 years</td><td>100%</td></tr>
<tr><td>5-10 years</td><td>80%</td></tr>
<tr><td>10 - 15 years</td><td>60%</td></tr>
<tr><td>15 - 20 years</td><td>40%</td></tr>
<tr><td>> 20 years</td><td>20%</td></tr>
</table></td></tr>
<tr><td>Village Enhancement Program</td><td>To fund works in Villages as outlined in Village Enhancement Plan.</td><td>Remaining allocation from each financial year to be carried over to undertake works in future years.</td></tr>
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End of Policy

	Date	Minute
Adopted:	**18/03/2016**	**1603/006**
Last Reviewed:	**18/03/2016**	**1603/006**
	19/03/2018	**1803/014**
	16/04/2024	**2404/006**
	27/07/2026	**26/07/018**
Next Review:	**19/03/2030**	