

Policy



Financial Reserves

Approved by Council: 17/04/2024

Council requires cash reserves to facilitate the ongoing provision of services that meet community expectations and agreed service levels with stakeholder Councils.

Safety

Teamwork

Accountability

Respect

Background

Cash reserves are an important part of Council's financial strategy to ensure long term financial sustainability and capacity to provide quality services on an ongoing basis.

This policy provides agreed direction and control in respect to the type of reserves that are required and a target in terms of the amount of cash to be held in each reserve.

Policy statement

Basic financial planning dictates that sufficient funding is available for current operating requirements, capital expenditure and debt servicing. Further, it is prudent to plan for unforeseen events that may impact Council's ability to maintain service levels.

To achieve these aims, reserves are accumulated in a manner that avoids significant fluctuations to the price path of Council's fees and charges and minimises the impact on customers.

The *Local Government Act 1993* provides that Council may apply funds for any purpose allowed by the Act or other Acts except where:

- a) money that has been received as a result of the levying of a special rate or charge may not be used otherwise than for the purpose for which the rate or charge was levied, and
- b) money that is subject to the provisions of the *Local Government Act 1993* or any other Act (being provisions that state that the money may be used only for a specific purpose) may be used only for that purpose.

Council must create a reserve where unexpended funds have to be applied for a particular purpose as required by an Act. Funds held in accordance with legislation are described as 'externally restricted reserves.' Funds held in reserve at the discretion of Council are described as 'internally restricted reserves.'

Policy summary

An outline of this policy is as follows:

- Externally Restricted Reserves - description and purpose of each reserve
- Internally Restricted Reserves - overview and description of the reserves and targets
- Unrestricted Reserves

Externally restricted reserves

Externally restricted reserves are mandatory by virtue of legislation. There is no target reserve balance as they are only raised on an as needed basis.

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| Reserve name | Developer Contributions Reserve |
| Restriction type | External. |
| Purpose | Capital contributions paid by property developers to Council. The auspice for this charge comes from section 64 of the Local Government Act which allows Council to exercise functions under the Water Management Act 2000. The funds are applied to asset expansion works conducted by Council in accordance with the adopted Development Servicing Plan. |
| Target value | No target - income variable depending on development within the County. |
| Target rationale | Not applicable. |

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|-------------------------|---|
| Reserve name | Unexpended Grants Reserve |
| Restriction type | External. |
| Purpose | Council receives grant funds for specific projects and purposes. It is common that grants will be expended across different financial years and this reserve allows unexpended grant funds to be isolated and retained for expenditure on the project for which the grant was received. |
| Target value | No target - income variable. |
| Target rationale | Not applicable. |

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|-------------------------|--|
| Reserve name | Trust Account |
| Restriction type | External. |
| Purpose | Council requires bonds or security deposits to be paid with development applications and contract works. |
| Target value | No target - income variable depending on development and construction activity. |
| Target rationale | Not applicable. |

Externally restricted reserves may be raised within each Reporting Unit although typically they will only apply to Bulk Water, Flood Mitigation (unexpended grants) and Weeds Bio (unexpended grants).

Internally restricted reserves

Internally restricted reserves are created at the discretion of Council, and they are designed to meet a range of circumstances. The reserves in this policy have principally been created based on the different activities undertaken by Council.

Council operations can be segregated into discreet activities that, to some extent, operate independently of each other. The primary activities, referred to as 'Reporting Units', are Bulk Water, Retail Water, Flood Mitigation, Weed and Biosecurity, , Properties, and Fleet Management.

Each Reporting Unit has a unique financial strategy and the intent is that the Reporting Unit is financially sustainable over the long term. A reserve per Reporting Unit enables the cash surplus or deficit of each Fund to be isolated to that Reporting Unit and the retention of cash reserves allows that Reporting Unit to plan for the future and manage budget shocks.

Each Reporting Unit will have one internal reserve only. The exception to this will be Bulk Water which will notionally operate some specific reserves that will be included in the overall reserve for reporting purposes. Those Reporting Units with a single internal reserve may use the reserved cash for any purpose relevant to the Reporting Unit – it may be related to budget shock or asset improvement for example.

Internally Restricted Reserve Targets

Target reserve balances should be viewed from the perspective of a preferred position. In many years the preferred position may not be achievable due to either different Council priorities or financial performance does not enable the target to be achieved. There needs to be a degree of flexibility when considering target reserve balances.

All Reporting Units have one internal reserve. The targets set out in this policy are based on the following:

| Reserve Name | Type of Target |
|--------------------|---|
| Whole Organisation | Continuity of operations and loan covenants |
| Bulk Water | Continuity of operations |
| Retail Water | Continuity of operations |
| Flood Mitigation | Continuity of operations |
| Weeds BIO | Continuity of operations |
| Properties | Continuity of operations |
| Fleet Management | Continuity of operations |

All Reporting Units have a cash reserve target.

List of Internally Restricted Reserves

| Reserve names | Rous as a Whole Reserve |
|-------------------------|---|
| Restriction type | Internal – this relates to Rous overall cash reserves as a whole. |
| Purpose | Ensure continuity of operations to meet the needs and expectations of Council and the community. |
| Target | Equal to six months annual operating expense less depreciation. Annual operating expense based on the latest estimates. |
| Target rationale | Target based on operational costs and loan covenants. |

| Reserve names | Bulk Water Reserve |
|-------------------------|---|
| Restriction type | Internal - there is one internal reserve for the Reporting Unit. |
| Purpose | Isolate cash available to these Reporting Units to enable a continuity of operations to meet the needs and expectations of Council and the community. |

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| Target | Equal to four months annual operating expense less depreciation + the notional reserve balances for ELE and REERP. Annual operating expense based on the latest estimates. |
| Target rationale | Target based on operational costs + notional reserves. |

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|-------------------------|---|
| Reserve names | Retail Water Reserve, Flood Mitigation Reserve, Weed Biosecurity Reserve, Properties Reserve and Fleet Reserve |
| Restriction type | Internal - there is one internal reserve for the Reporting Unit. |
| Purpose | Isolate cash available to these Reporting Units to enable a continuity of operations to meet the needs and expectations of Council and the community. |
| Target | Equal to four months annual operating expense less depreciation. Annual operating expense based on the latest estimates. |
| Target rationale | Target based on operational costs |

List of Unrestricted Reserves

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| Reserve names | Bulk Water Reserve, Retail Water Reserve, Flood Mitigation Reserve, Weed Biosecurity Reserve, Properties Reserve and Fleet Reserve |
| Restriction type | Internal unrestricted - there is one internal reserve for the Reporting Unit. These reserves are generated when funds are received but not allocated against expenditure for a specific purpose or where there is a sufficient surplus within the internally restricted reserves to transfer funds to an unrestricted reserve. |
| Purpose | To ensure adequate cash is held that is not restricted in any way and can be used for any purpose. |
| Target | Equal to 10% of total cash held. |
| Target rationale | Target designed to cover any unplanned expenditure. |

Contact officer
Finance Manager.

Related documents

Policies
N/A

Procedures
Financial Reserves procedure

Legislation
Local Government Act 1993

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|------------------------|--------------------------------------|-----------------------------|----------------|
| Office use only | File no.: 172 | Next review date: (4 years) | |
| Version | Purpose and description | Date adopted by Council | Resolution no. |
| 2 | Financial Reserves Policy | 19/06/2019 | 42/19 |
| 3 | Simplified Reserves and Cash Targets | 17/04/2024 | 12/24 |