

Financial Reserves Policy



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Purpose:

The purpose of this policy is to:

- provide guidance to Central Otago District Council employees in regard to the accounting and management of Council's financial reserves;
- Clearly define parameters surrounding Council's financial reserves;
- Ensure Council's financial reserves are managed consistently, accurately and transparently.

Principles and objectives:

Financial Reserves serve as a "rainy day fund". Using them can be useful and lessen the impact on rates but once spent, the money is gone.

Financial Reserves are typically generated through funds accumulating as a result of the under-spending of an activity in a specific year, or where Council has rated specifically to create an emergency fund for an unplanned event, or occasionally funds are vested with the council for future use. As a general rule, income and expenditure should be budgeted in the financial year in which it occurs and should not be "set aside" in financial reserves for future use. However, the creation of financial reserves is acceptable where:

- It is anticipated that extensive works will require funding over a period of time;
- Funds are collected specifically for funding of capital works;
- To fund an unexpected, unplanned event such as an emergency event.
- Funds are vested to council for specific activities or groups.

Council manages financial reserves in a financially prudent manner that promotes and protects the current and future interests of the community. Financial reserves must be managed consistently, accurately and transparently. The management of Reserves is essential to the effective and efficient running of Council operations, enabling organisational objectives to be carried out. This may include, but not limited to the following:

- Ensuring adequate funds available for the replacement of assets;

- Maintaining appropriate intergenerational equity for the funding of assets and large projects
- Balancing the budget across years
- Managing unplanned events such as a rain event or the impact of a pandemic
- Managing unplanned expenditure requests from staff or the community.

Additional Information



The balance of financial reserve accounts may go into deficit where Council elects to fund an activity in advance and then rate to restore the reserve back to nil across the years to support intergenerational equity.

Scope and background:

Council is required to maintain a range of financial reserves and has also chosen to create financial reserves for the purpose of separately managing funds and for providing into the future. Over time these funds have accumulated and amount to significant sums. It is therefore important that they are managed consistently, accurately, and transparently.

The policy excludes non-cash reserves such as revaluation reserves. It also excludes restricted reserves that are subject to specific conditions which are binding by Council and which may not be revised by Council without reference to a third party.

This policy therefore excludes:

- **Revaluations reserves;** created to account for movements in the fair value of assets – see Council’s Accounting Policies.
- **Depreciation Reserves;** created to fund renewals – see Council’s Financial Strategy
- **Development and Financial Contributions Reserves;** created to fund growth – see Council’s Development and Financial Contributions Policy.
- **Endowment Land Reserves** – which may contain specific use or terms, including the use of interest earned during the life of the reserve.

Definitions:

Word or phrase	Definition
Financial Reserves	<p>Funds that have been set aside from operating and capital funding programmes for future funding of projects or activities. Or it may be that Council intentionally created financial reserves that have been established to manage activities that have a specific purpose. Council and community boards may also elect to use financial reserves to offset the cost of rate increases.</p> <p>From an accounting perspective the value of these funds is recorded in equity balance sheet ledger accounts.</p>
Targeted Reserve	A financial reserve that has been collected as the result of a specified activity.
General Reserve	Financial reserves that have been collected for general activities that are not targeted or specified.
Ward-based reserves	Financial reserves which can be either targeted or general, but are defined by the ward in which they are collected in.
Emergency Reserves	Financial reserves which are collected in advance to build a reserve of cash, either to restore specified assets after an unplanned event such as Emergency Roding Reserve, or they may be collected to subsidise costs post a pandemic as per the Emergency Event Policy.

Policy:

- Authority to use financial reserves is as per Council's and Community Boards Register of Delegations to Community Boards, Portfolios, Committees and the Chief Executive Officer.
- Where possible the use of a financial reserve should be proposed and planned for as part of the annual planning process.
- Where the use of a financial reserve being sought is from a targeted reserve, the purpose being used must be in line with the activity it was collected for in the first instance.
- Where the use of a financial reserve being sought is from a ward-based reserve, the purpose being used must be in line with the activity it was collected for in the first instance and within the ward that collected the funds.
- When the use of a financial reserve is being proposed and has not been planned for, the Finance Manager or the Executive Manager, Corporate Services must be notified

in the first instance to verify the validity of the request and the availability of the funds.

- Further to this any council or community board report and resolution pertaining to the use of a reserve, the resolution must be forward to the Finance Manager or Executive Manager, Corporate Services to ensure the funds are recorded accordingly.

Relevant legislation:

Local Government Act 2002

Related documents:

Revenue and Finance Policy

Development and Financial Contributions Policy

Financial Strategy

Register of Delegations to Community Boards, Portfolios, Committees and the Chief Executive Officer

Register of Delegations to Staff