Cash-Backed Reserves Policy

Responsible Division	Corporate & Strategy
Responsible Business Unit/s	Financial Services
Responsible Officer	Manager Financial Services
Affected Business Unit/s	All Branches
Document Ref	3673346

Purpose

To provide a strategic framework for the establishment and utilisation of Financial (Cash-Backed) Reserves.

Policy Statement

Reserves will be established for known or predicted liabilities, or where it is prudent to set aside funds for specific purpose expenditure in future years.

Council will support the establishment of reserves in the following categories:

1. To comply with the requirements of legislation or other contractual requirements;
2. Minimising in any one year the financial impact of major asset purchases or other significant non-recurrent expenditure;
3. Risk mitigation and strategic opportunities that minimise the impact on the City's operations in any one year from unanticipated financial risks, and provide funds to take advantage of opportunities that arise that are aligned to strategic directions;
4. Provide for a known liability listed in the Long-Term Financial Plan (LTFP) or is predicted to be incurred beyond the period of the LTFP and is of a magnitude warranting accumulation over the extended period;
5. Fund a future debt repayment liability.

Reserves will be managed as follows:

1. Interest earned on deposits in reserves shall be aggregated into the specific Reserve, to maximise the growth in the balance.
2. When the purpose for a specific reserve is complete, any residual funds will be considered to be applied towards another purpose in the Annual Budget or in accordance with the requirements of Section 6.11(2) of the *Local Government Act 1995.*
3. All transfers to and from reserves shall be reflected in the Annual Budget and Long-Term Financial Plan.

Scope

This Policy applies to all cash-backed reserves. Reserves are funds retained to help meet future needs and mitigate financial pressures during challenging economic times, as well as facilitate planning for major works in the future. Reserves are an important funding strategy to help balance the current needs with the future needs of the community.

Reserves are typically created as long-term savings plans for future major expenditure which cannot be managed in a single budgetary year. The use of reserves is restricted by the *Local Government Act 1995* and Local Government (Financial Management) Regulations 1996, and each reserve is required to be established with a clearly defined purpose.

Definitions

- Act means the *Local Government Act 1995*
- Regulations means the *Local Government (Financial Management) Regulations 1996*

Related Legislation

- *Local Government Act 1995*

  Section 6.2(4) (e) – Reserve particulars to be disclosed in the Annual Budget
  Section 6.11 – Establishment and changes in purpose or use of a reserve
  Section 6.38 – Service charges to be placed in reserve

- *Local Government (Financial Management) Regulations 1996*

  Regulation 17 – Reserve title and reserve purpose
  Regulation 18 – Public notice to change use of reserve not required
  Regulation 27(g) – Disclosure within the notes to the Annual Budget disclosures
  Regulation 38 – Disclosure within the notes to the Annual Financial Report

Evaluation and Review Provisions

The effect of the adopted policy will be re-evaluated annually as part of the Annual Budget process. The need for new reserves and the acquittal of existing will be documented and put for adoption to Council. The effectiveness of this policy will be measured by the adequate provision of cash-backed reserves to provide funding for the future capital needs of the City. If there are any significant changes to the Act, regulations or issued guidelines that warrant an earlier examination, the policy will be reviewed and referred to Council for further consideration.

Related Documentation

Strategic Budget Policy

Relevant Delegations	
Risk Evaluation	Low
Council Adoption	26 May 2020
Review/Modified	31 October 2023