



DRAFT Financial Reserves Policy

Governance Policy

Policy Owner	Chief Financial Officer		
Adopted by	Thames-Coromandel District Council		
Description of policy	A policy to provide parameters around the sources and application of Council's Special Reserves Funds where these are not covered by other policies.		
Keywords	Reserves, reserve accounts, fund, special reserves, headworks, Power New Zealand, insurance excess, disaster, TUGPR, retained earnings, depreciation, property reserve, roading reserve, solid waste levy, special projects, rates postponement, general purpose, financial contributions, development contributions.		
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Date policy first adopted	24/02/1999	Date this version adopted	
This version effective from:		Date of next review:	

Objectives

The objectives of this Policy are to outline the purpose of the Council's financial reserves and to provide guidelines and parameters for expenditure from the reserves.

The Policy does not cover reserves for LGA Contributions, Thames Urban General Purpose funds, Hot Water Beach Parking Fees or Whitianga Harbours as these have or will have separate policies to address them specifically.

Background

The Council manages a number of financial reserves which have been established over time. Information relating to how these are sourced and the types of expenditure they may be used for has previously been held in various locations and in some cases has been complete. To assist with transparency and efficiency, information relating to the reserves has been updated and incorporated into one policy document.

Implementation

All staff will be advised of the adoption of this Policy via the Council's intranet site. The Chief Financial Officer will be responsible for ensuring that relevant staff are alerted if their transactions are found to be in conflict with this policy.

Risks

The greatest risk to the implementation of this Policy is lack of awareness or care by relevant staff. While it is expected that staff with the appropriate levels of financial delegation will ensure they implement this Policy correctly, Finance staff will endeavour to identify transactions that do not comply with the Policy and alert the relevant staff.

There is an expectation, both public and legislative, that Council financial transactions are in accordance with generally accepted accounting practice.

From a Local Government Act perspective along with the status and powers conferred to Council come the accompanying responsibilities for transparency and stewardship. If the Policy is not fully implemented, the Council risks failing to discharge these responsibilities.

Measurement and Review

Effectiveness of this policy will be assessed on a yearly basis by Finance staff, who will check that all withdrawals have the correct authorisation and will track all movements in and out of reserves to an adopted Annual Plan or specific resolution of Council.

This policy will be reviewed every three years.

Definitions

Capital project – a project involving the creation of an asset that is anticipated to provide future economic benefits to the organisation/District.

Council's weighted average cost of funds – the interest rate applied to Council's internal borrowing portfolio that takes into account the following factors:

- anticipated cost of existing and new debt over the next twelve months;
- the anticipated rate of return over the twelve months, on any investment portfolio used for internal borrowing purposes;
- recovery of Finance department's treasury related operational costs. This charge is set annually during the annual budget process;
- a buffer which provides for certainty in the charging rate and avoids frequent adjustments.

Adopted:

Policy Statement

The provisions of this Policy do not apply to the following reserves:

- LGA Contributions (covered by the Thames-Coromandel District Council's Development Contributions Policy)
- Thames Urban General Purpose (covered by the Council's Thames Urban General Purpose Reserve Policy)
- Hot Water Beach Parking Fees (separate policy to be developed)
- Whitianga Harbours (separate policy to be developed)

General Policy Guidelines

- In accordance with Generally Accepted Accounting Practice, financial reserves created and controlled by Council form part of the equity of Council.
- Accounting records of Council are to be ordered in such a manner that financial reserves, and any movements therein, are separately recorded in the general ledger as part of equity.
- No transfers of money may be made from any financial reserve unless approved in the annual plan or other business plan of Council, or by a separate resolution of Council.
- Financial reserves are not invested separately and do not earn interest in their own right. Funds are held as part of the working capital of Council and interest earned forms part of the general revenues of Council.
- On the whole, financial reserves must be operated within a credit balance and not permitted to fall into deficit. If, on rare occasions, they do they will be returned to a credit balance as soon as possible.
- RMA reserves may be used for additional capacity and increased level of service/renewals.
- These policies will be only deviated from in special circumstances and then only by resolution of Council.

Transfers into Reserve Accounts

Transfers into each reserve account will be in accordance with Table 1 below.

Table 1: Sources of reserve funds

Reserve	Source								
	Annual allocation from rates	Allocation from general revenue	Sale of Power NZ Shares	Property account surpluses	Sale of surplus property	Financial Contributions	Fees and charges	Solid Waste Levies collected under Waste Minimisation Act 2008	Any other source of funding nominated by Council
District Retained Earnings	■						■		■
Local Retained Earnings	■						■		■
District Depreciation	■						■		
Local Depreciation	■						■		
Power New Zealand			■						
Disaster	■	■							■
General Purpose	■	■							■
Insurance Excess	■								
Solid Waste Levy								■	
Roading (RMA)						■			
Property				■	■				
Special Projects			■						
Rates Postponement							■		■
Hot Water Beach Parking Fees							■		
Whitianga Harbours							■		
Off Street Parking						■			
Land Subdivision						■			
Water Unused Loan						■			
Water Headworks						■			

Policies for Specific Reserve Accounts

The following policies apply to specific reserve accounts as identified below.

Retained Earnings Reserves

- The purpose of the Retained Earnings Reserve is to ensure that all income related to an activity is allocated to the relevant activity.
- Reserves may be used to correct rating imbalances to buffer impacts of significant rates changes.
- Retained earnings collected from District-wide activities will be held in a District Retained Earnings Reserve. Retained earnings collected locally will be held in a Local Retained Earnings Reserve.
- As per Table 2 below, retained earning reserves will only be allocated to the activity for which they were collected in the relevant Community Board area or, where collected for a District activity, in the District.
- At the end of the financial year movements through the retained earnings reserves will be required where actual revenue and expenditure for an activity varies with that budgeted. This will take place as part of the annual report process.

Table 2: Areas of benefit for collection and expenditure of retained earnings reserves as per the 2012 Ten Year Plan Revenue and Financing Policy.

Reserve	Area of Benefit					
	District	Thames	Coromandel	Mercury Bay	Tairua/Pauanui	Whangamata
Local Consolidated Retained Earnings:						
– Airfields		■			■	
– Parks & Reserves		■	■	■	■	■
– Libraries		■	■	■	■	■
– Harbours		■	■	■	■	■
– Local Roding		■	■	■	■	■
– Swimming Pools		■				
– Local Social Development		■	■	■	■	■
– Local Strategic Planning		■	■	■	■	■
– Local Advocacy		■	■	■	■	■
Stormwater		■	■	■	■	■
Land Drainage		■				
Water	■					
Wastewater	■					
District Retained Earnings:						
– Cemeteries	■					
– Economic Development	■					
– Building Control	■					
– District Social Development	■					
– Emergency Management	■					
– Community Health & Safety	■					
– District Leadership & Representation	■					
– District Roding	■					
– District Strategic Planning	■					
– Land Use Planning	■					
– Hazard Management	■					
– Natural & Cultural Heritage	■					
– Land Use Management	■					
– Land Information Memoranda	■					
– Public Conveniences	■					
– Solid Waste	■					
Domain Boards	■					
Moanataiari Flood		■				

Depreciation Reserve

- The purpose of the Depreciation Reserve is to retain funds collected to recover the costs of depreciation of Council assets relating to each activity as they are consumed until they are required to fund replacement capital works.
- Funds in this reserve will only be used for capital projects that are not related to growth.
- Depreciation reserves collected from District-wide activities will be held in a District Depreciation Reserve. Depreciation reserves collected locally will be held in a Local Depreciation Reserve.

- As per Table 3 below, depreciation reserves will only be allocated to the activity for which it was collected in the relevant Community Board area or, where collected for a District activity, in the District.
- Any surplus at year-end may be used to reduce outstanding ILOS (increased level of service) debt relating to the activity it was collected for as per Table 3 below.

Table 3: Areas of benefit for collection and expenditure of depreciation reserves

Reserve	Area of Benefit					
	District	Thames	Coromandel	Mercury Bay	Tairua/Pauanui	Whangamata
Local Consolidated Depreciation:						
– Airfields		■			■	
– Parks & Reserves		■	■	■	■	■
– Libraries		■	■	■	■	■
– Harbours		■	■	■	■	■
– Local Roothing		■	■	■	■	■
– Swimming Pools		■				
– Local Social Development		■	■	■	■	■
– Local Strategic Planning		■	■	■	■	■
– Local Advocacy		■	■	■	■	■
Stormwater		■	■	■	■	■
Land Drainage		■				
Water	■					
Wastewater	■					
Cemeteries	■					
Buildings:						
– Economic Development	■					
– District Leadership	■					
– Natural & Cultural Heritage	■					
Cost Pools/Admin Assets:						
– Emergency Management	■					
Cost Pools:						
– District Leadership	■					
– District Strategic Planning	■					
District Roothing	■					
Monitoring	■					
Elderly Housing	■					
Public Conveniences	■					
Solid Waste	■					

General Purpose Reserve

- Transfers out of the reserve are used for one-off items of unforeseen expenditure for which there is no approved budget and for which no repayment to the reserve will be required.

Power New Zealand Reserve

- This reserve was created using proceeds from the sale of the Power NZ shares that were originally vested in Council in 1994. The reserve is used to fund internal borrowing while the interest generated on the reserve is used to subsidise the uniform annual general charge.

- The rate of interest charged will be at Council weighted average costs of funds set as part of the Annual Plan process.

Disaster Relief Reserve

- Transfers out of the reserve are used for expenses incurred in event of natural disasters after all insurance claims and subsidies have been claimed, to repair key infrastructure including roads, water, sewerage, stormwater and stopbanks.
- Funds will be sourced annually as part of the Annual Plan process through the District Strategic Planning activity.

Property Reserve

- This reserve contains the proceeds of the sale of Council-owned property (land and buildings) and the proceeds from each will be held in a property reserve specific to the activity and Community Board Area (or District as applicable).
- Expenditure of funds from this reserve will be used solely for the purchase of property and major maintenance projects for Council-owned buildings.
- Funds in this reserve will only be used for the activity from which the proceeds were obtained and in the Community Board Area to which that activity relates. If the activity is a District-wide activity, funds will only be used for that District-wide activity.

Insurance Excess Reserve

- Expenditure of funds from this reserve will be solely for the purpose of settlements where the Council's insurance cover does not meet the full cost of any issue for which it is insured.
- Funds from this reserve will be used only for the following activities: Building Control, Community Health and Safety, Land Use Management and Land Information Memorandum.

Solid Waste Levy Reserve

- All expenditure from this reserve must comply with the relevant provisions of the Waste Minimisation Act 2008.
- Expenditure of funds from this reserve will be solely for matters that promote or achieve waste minimisation.

Special Projects Reserve

- This reserve is derived from a transfer of \$1m allocated from the Power NZ Reserve for the purpose of special Community Board projects.
- Expenditure of funds from this reserve will be used for special 'one-off' Community Board projects as approved by the Council.

Rates Postponement Reserve

- The purpose of this reserve is to fund any shortfall between the net realisation on sale of a property and the amount outstanding for postponed rates and accrued charges at the time of sale.
- An annual fee will be charged on postponed rates to cover administrative and financial costs (including a reserve fund levy of 0.25% p.a.)

RMA District Roding Reserve

- The purpose of this reserve is to retain contributions collected through conditions imposed on resource consents under the Resource Management Act 1991 until they are required for roading projects.
- All expenditure of funds from this reserve will be in accordance with the relevant sections of the Resource Management Act 1991 and will be solely for capital projects relating to district roading.

- Any funds collected for an activity granted resource consent that does not proceed will be refunded in accordance with s110 of the Resource Management Act 1991, as follows:

110 Refund of money and return of land where activity does not proceed

(1) Subject to subsection (2), where—

- (a) a resource consent includes a condition under section 108(2)(a); and
- (b) that resource consent lapses under section 125 or is cancelled under section 126 or is surrendered under section 138; and
- (c) the activity in respect of which the resource consent was granted does not proceed,—

the consent authority shall refund or return to the consent holder, or his or her personal representative, any financial contribution paid or land set aside under section 108(2)(a).

(2) A consent authority may retain any portion of a financial contribution or land referred to in subsection (1) of a value equivalent to the costs incurred by the consent authority in relation to the activity and its discontinuance.

RMA Land Subdivision Reserve

- The purpose of this reserve is to retain contributions collected through conditions imposed on resource consents under the Resource Management Act 1991 until they are required for the acquisition or development of reserve land and infrastructure.
- All expenditure of funds from this reserve will be in accordance with the relevant sections of the Resource Management Act 1991 and will be used solely for capital projects relating to the catchment from which the funds were obtained.
- Any funds collected for an activity granted resource consent that does not proceed will be refunded in accordance with s110 of the Resource Management Act 1991 as above.

RMA Off Street Parking Reserve

- The purpose of this reserve is to retain contributions collected through conditions imposed on resource consents under the Resource Management Act 1991 until they are required for the acquisition and development of carparking.
- All expenditure of funds from this reserve will be in accordance with the relevant sections of the Resource Management Act 1991 and will be solely for capital projects relating to the catchment from which the funds were obtained.
- Any funds collected for an activity granted resource consent that does not proceed will be refunded in accordance with s110 of the Resource Management Act 1991 as above.

RMA Water Unused Loan Reserve

- This reserve is derived from the balance of a loan used to fund the Coromandel Water area of benefit extension.
- Any expenditure of funds from this reserve will be used solely for water capital projects in the Coromandel/Colville Community Board area.

RMA Water Headworks Reserve

- The purpose of this reserve is to retain contributions collected through conditions imposed on resource consents under the Resource Management Act 1991 until they are required to fund ILOS (increased level of service) projects for water.
- The reserve is derived from the Coromandel/Colville and Whangamata Community Board areas only, and any expenditure of funds from the reserve will be used solely for projects in the Council water scheme in the Coromandel or Whangamata areas of benefit.

Summary of Requirements for Financial Reserves Management and Expenditure

Reserve	Purpose	Transfers require approval in Annual Plan or Business Plan, or Council resolution	Funds must be used for the activity for which they were collected	Funds must be used in the area for which they were collected *	Use of surplus funds	Minimum level	Legislative requirements apply	Comments
Retained earnings	To buffer impacts of significant rates changes.	✓	✓	✓				
Depreciation	To hold funds collected for recovery of depreciation costs until required for replacement works	✓	✓	✓	May be used to reduce outstanding ILOS debt for the relevant activity			Funds only to be used for capital projects not related to growth.
General Purpose	One-off items of unforeseen expenditure with no approved budget	✓						No repayment to the reserve required
Power NZ	<ul style="list-style-type: none"> • Funds internal borrowing for Council infrastructure • Interest subsidises UAGC 	✓			May be invested in secure bank investments			Rate of interest will conform with the 3 year Government stock rate
Disaster Relief	Repair of key infra-structure after insurance claims and subsidies have been claimed	✓						Funds sourced annually as % of rates allocated to District Strategic Planning Activity
Property	Purchase of property and major maintenance projects for Council-owned buildings	✓	✓	✓				
Insurance Excess	Settlements for Building Control, Community Health and Safety, Land Use Management and LIM activities where insurance cover does not meet full cost.	✓						
Solid Waste Levy	Promotion or achievement of waste minimisation.	✓					Waste Minimisation Act 2008	

* i.e. where reserves were collected for a specific Community Board area, they can only be spent for works in that Community Board area.

Reserve	Purpose	Transfers require approval in Annual Plan or Business Plan, or Council resolution	Funds must be used for the activity for which they were collected	Funds must be used in the area for which they were collected *	Use of surplus funds	Minimum level	Legislative requirements apply	Comments
Special Projects	For special 'one-off' Community Board Projects	✓						Projects must be approved by the Council.
Rates Postponement	To fund shortfall between net realisation on sale of property and outstanding postponed rates and accrued charges	✓						
RMA District Roading	To retain RMA contributions until required for roading projects	✓	✓	✓			Resource Management Act 1991	Any funds collected for a project that does not proceed must be refunded
RMA Land Subdivision	To retain RMA contributions until required for acquisition or development of reserve land and infrastructure	✓	✓	✓			Resource Management Act 1991	Any funds collected for a project that does not proceed must be refunded
RMA Off Street Parking	To retain RMA contributions until required for acquisition and development of carparking	✓	✓	✓			Resource Management Act 1991	Any funds collected for a project that does not proceed must be refunded
RMA Water Unused Loan	To be used solely for water capital projects in the Coromandel/Colville Community Board area	✓	✓	✓			Resource Management Act 1991	
RMA Water Headworks	To retain RMA contributions until required to fund ILOS projects for water in Coromandel/Colville and Whangamata Community Board areas	✓	✓	✓			Resource Management Act 1991	