

Special Financial Reserves Policy Governance Policy

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|-------------------------------------|---|----------------------------------|-----------|
| 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, rates postponement, general purpose, financial contributions, development contributions. | | |
| Policy Number | 10063 | New Policy Number | 10063 |
| Supersedes Doc set no. | 3176987 | Doc Set Number | 4851954 |
| Date policy first adopted | 24/02/1999 | Date this version adopted | 29/6/2016 |
| This version effective from: | 29/6/2016 | Date of next review: | 29/6/2019 |

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 or Thames Urban General Purpose funds as these have or will have separate policies to address them specifically.

Background

The Council manages a number of special financial reserves which have been established over time. 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.

Special Financial Reserves Policy

Adopted: DRAFT

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)

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 | Solid Waste Levies Collected under Waste Minimisation Act 2008 | Financial Contributions | Development Contributions | Fees and charges | 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 | | | | ■ | ■ | | | | | |
| Rates Postponement | | | | | | | | | | ■ |
| Off Street Parking | | | | | | | ■ | | | |
| Land Subdivision | | | | | | | ■ | | | |
| Water Unused Loan | | | | | | | ■ | | | |
| Water Headworks | | | | | | | ■ | | | |
| Water Headworks | | | | | | | ■ | | | |
| Hot Water Beach Parking Fees | | | | | | | | | ■ | |
| Mercury Bay Boat Trailer Parking | | | | | | | | | ■ | |
| Pa Road Car Parking | | | | | | | | | ■ | |
| Lees Road Car Park | | | | | | | | | ■ | |

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 for each Community Board area. One of the functions of the Local Retained earnings reserve is to cushion ratepayers from unexpected spikes in the local rate. Accordingly, and in line with Community Board consultation minimum balances in local retained earnings will be approximately 10% of the Local Consolidated Rate. Approval to go below this level will need to be obtained from the Community Board and Council.
- 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 2015 Long Term 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 | | ■ | ■ | ■ | ■ | ■ |
| – Harbour Facilities | | ■ | ■ | ■ | ■ | ■ |
| – Community Centres & Halls | | ■ | ■ | ■ | ■ | ■ |
| – Local Roothing | | ■ | ■ | ■ | ■ | ■ |
| – Swimming Pools | | ■ | | | | |
| – Local Grants & Remissions | | ■ | ■ | ■ | ■ | ■ |
| – Local Strategic Planning | | ■ | ■ | ■ | ■ | ■ |
| – Local Representation | | ■ | ■ | ■ | ■ | ■ |
| – Cemeteries | | ■ | ■ | ■ | ■ | ■ |
| – Public Conveniences | | ■ | ■ | ■ | ■ | ■ |
| Stormwater | ■ | | | | | |
| Land Drainage | | ■ | | | | |
| Water | ■ | | | | | |
| Wastewater | ■ | | | | | |
| District Retained Earnings: | | | | | | |
| – Economic Development | ■ | | | | | |
| – Building Control | ■ | | | | | |
| – District Grants & Remissions | ■ | | | | | |
| – Emergency Management | ■ | | | | | |
| – Community Health & Safety | ■ | | | | | |
| – District Representation | ■ | | | | | |
| – District Roothing | ■ | | | | | |
| – District Strategic Planning | ■ | | | | | |
| – Resource Consents | ■ | | | | | |
| – Coastal & Hazard Management | ■ | | | | | |
| – District Plan | ■ | | | | | |
| – Land Information Memoranda | ■ | | | | | |
| – 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 | | ■ | ■ | ■ | ■ | ■ |
| – Harbour Facilities | | ■ | ■ | ■ | ■ | ■ |
| – Community Centres & Halls | | ■ | ■ | ■ | ■ | ■ |
| – Local Roothing | | ■ | ■ | ■ | ■ | ■ |
| – Swimming Pools | | ■ | | | | |
| – Local Grants & Remissions | | ■ | ■ | ■ | ■ | ■ |
| – Local Strategic Planning | | ■ | ■ | ■ | ■ | ■ |
| – Local Representation | | ■ | ■ | ■ | ■ | ■ |
| – Cemeteries | | ■ | ■ | ■ | ■ | ■ |
| – Public Conveniences | | ■ | ■ | ■ | ■ | ■ |
| Stormwater | ■ | | | | | |
| Land Drainage | | ■ | | | | |
| Water | ■ | | | | | |
| Wastewater | ■ | | | | | |
| Buildings: | | | | | | |
| – Economic Development | ■ | | | | | |
| – District Representation | ■ | | | | | |
| Cost Pools/Admin Assets: | | | | | | |
| – Emergency Management | ■ | | | | | |
| Cost Pools: | | | | | | |
| – District Representation | ■ | | | | | |
| – District Strategic Planning | ■ | | | | | |
| District Roothing | ■ | | | | | |
| Monitoring | ■ | | | | | |
| Elderly Housing | ■ | | | | | |
| 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 Coastal & Hazard Management activity.
- Balance of reserve to not exceed \$1.5 million.

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).
- In line with Councils Distribution of asset sales proceeds policy adopted January 2015 and subject to any legislative or accounting requirements, where assets are declared surplus by the Community Board and Council therefore not considered necessary for the operation of any council service/function or considered advantageous to retain for activities currently under planning, then the following will apply:
 1. In the first instance the sale proceeds will go to repay any known debt associated with the asset. If the asset was to be replaced with a similar asset or an asset built to provide a similar purpose in the foreseeable future (1-2 years) then the sale proceeds will be held in a reserve to pay for the new asset's creation.
 2. Where the asset sales are greater than the known debt, greater than the replacement cost of a similar asset or where there is no debt and no replacement asset then the sale proceeds will be made available to:
 - a. the Council if the asset can be proven to have been bought by the Council;
 - b. the Community Board if the asset can be proven to have been bought by the Community Board
 - c. if it is not possible to prove through historic records whether the Council or Community Board bought the asset then the proceeds will be made available to:
 - i. the Council where the asset is associated with a district-funded activity
 - ii. the Community Board where the asset is associated with a local-funded activity.
 3. The activity will be deemed local or district funded for (c) above as it is stated in the Annual Plan that was applicable at the time of the Council resolution to sell the asset.
 4. The activity for the use of the funds must match the funding source of the activity from which the asset was sold as stated in the Council's Revenue and Financing Policy.
 5. Where the Council or Community Board does not have an immediate project then the funds will be held in a district or Community Board reserve, whichever is applicable.

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, Resource Consents 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.

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.

RMA Wastewater 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 wastewater.

Hotwater Beach Parking Reserve

- The purpose of this reserve is to retain the net revenue collected through the pay and display car parking at Hotwater Beach.
- Surplus funds will first be used to finance the construction of toilet and shower facilities at Hotwater beach; then
- Subsequent surpluses will be used to fund tourist related projects (operational or capital) as determined by the Mercury Bay Community Board.

Mercury Bay Trailer Boat Parking Reserve

- The purpose of this reserve is to retain the net revenue collected through the pay and display at various boat ramps in the Mercury Bay Community Board Area. These currently include Whitianga Wharf; Purangi Cooks Beach; Kuaotunu; Matarangi; Whangapoua.
- Surplus funds will first be used to finance any outstanding loans on the Mercury Bay Harbours Activity in relation to those boat ramps who financially contribute to this reserve; then
- Subsequent surpluses will be used to fund additional infrastructure in and around those boat ramps that financially contribute to this reserve.

Lees Road Car Park Reserve

- The purpose of this reserve is to retain the net revenue collected through the pay and display at the Lees Road Car Park facility located near Hahei.
- Surplus funds will first be used to finance any outstanding loans on the construction of the Lees Road Car Park and Lees Road seal extension capital projects; then
- Subsequent surpluses will be used to fund the ongoing maintenance of the Lees Road Car Park Facility and the "Greatwalks infrastructure" across the district.

Pa Road Car Park Reserve

- The purpose of this reserve is to retain the net revenue collected through the pay and display car parking at Pa Road in Hahei.
- Surplus funds will first be used to finance any outstanding loans on the construction of the Pa Road Car Park; then
- Subsequent surpluses will be used to fund tourist related projects (operational or capital) as determined by the Mercury Bay Community Board.

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 | Funds internal borrowing for Council infrastructure <ul style="list-style-type: none"> • 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 Coastal & Hazard Management Activity |
| Property | Purchase of property and major maintenance projects for Council-owned buildings | ✓ | ✓ | ✓ | | | | Subject To Councils Distribution of asset sales proceeds policy |
| 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 |
|------------------------|--|---|---|--|----------------------|---------------|--------------------------------|--|
| Rates Postponement | To fund shortfall between net realisation on sale of property and outstanding postponed rates and accrued charges | ✓ | | | | | | |
| RMA District Rooding | To retain RMA contributions until required for rooding 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 | |

| 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 |
|--|--|---|---|--|----------------------|---------------|--------------------------------|---|
| Hotwater Beach Carpark Reserve | To retain the net revenue collected through the pay and display carparking at Hotwater Beach. | ✓ | | ✓ | Use of surplus funds | | | Transfers require approval in Annual Plan or Business Plan, or Community Board & Council |
| Mercury Bay Boat Trailer Parking Reserve | To retain the net revenue collected through the pay and display at various boat ramps in the Mercury Bay Community Board Area. These currently include Whatianga Wharf; Purangi Cooks Beach; Kuaotunu: | ✓ | | ✓ | Use of surplus funds | | | Transfers require approval in Annual Plan or Business Plan, or Community Board & Council |
| Lees Road Carpark Reserve | to retain the net revenue collected through the pay and display at the Lees Road Carpark facility located near Hahei | ✓ | | ✓ | Use of surplus funds | | | Surplus funds will first be used to finance any outstanding loans on the construction of the Lees Rad Carpark and Lees road seal extension capital projects then Subsequent surpluses will be used to fund tourist related projects (operational or capital) as determined by the Mercury Bay Community Board |
| Pa Road Carpark Reserve | retain the net revenue collected through the pay and display at the Pa Road Carpark facility located in Hahei | ✓ | | ✓ | Use of surplus funds | | | Transfers require approval in Annual Plan or Business Plan, or Community Board & Council |