

Council Created Financial Reserves Policy

Governance policy

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Adopted by	Council		
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Objective

The objective of this policy is to outline the purpose of the Council's financial reserves and to provide guidelines and parameters for the use of the reserves.

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.

This policy does not cover the Thames Urban General Purpose funds as these are administered by a separate policy.

Implementation

Staff will be advised of the adoption of this policy via the Council's intranet site. The Finance Manager is responsible for ensuring that reserve transactions are compliant with this policy.

Risks

A lack of awareness or care by relevant staff is an implementation risk. This will be mitigated by ensuring that staff have appropriate levels of financial delegation and are responsible for correctly implementing the policy.

There is a responsibility to ensure that Council financial transactions are in accordance with generally accepted accounting practice.

In performing its role under the Local Government Act the Council must act in accordance with the following principles:

- conduct its business in an open, transparent and democratically accountable manner;.

- Ensure prudent stewardship and efficient and effective use of its resources in the interests of its district, including by planning effectively for the future management of its assets.

If the policy is not fully implemented, the Council risks failing to discharge its role.

Measurement and review

All movements in and out of these reserves will be tracked by the Finance Department and will be in accordance with an adopted long term plan (LTP), annual plan or Council resolution.

This policy will be reviewed every three years.

Definitions

Capital expenditure project

A project involving the creation of an asset which has a value, enables services to be provided and has an economic life or service potential greater than 12 months. The project can be to increase the level of service, renew or replace an existing asset or provide additional capacity.

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.

Policy statement

The provisions of this policy does not apply to the following reserves:

- Thames Urban General Purpose (covered by the Thames Urban General Purpose Reserve Policy).

General policy statements

- 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 LTP, annual plan or by a separate resolution of Council.
- Financial reserves are invested back into Council through internal borrowing until such time as they are required for the purpose in which they were collected.
- The interest rate applied is calculated based on Council's weighted average cost of funds.

- In principle, interest should accrue to the reserve that is being borrowed from. If this is not technically possible, then interest earned will form part of the general revenues of Council. One exception is that a portion of the interest earned from the Power New Zealand reserve will be transferred back to the reserve to protect the investment from inflation.
- Financial reserves must be operated within a credit balance and are not permitted to fall into deficit. If, on rare occasions, they do, they will be returned to a credit balance as soon as possible.
- This policy can only deviated from by a resolution of Council.

Policies for specific reserve accounts

Retained earnings reserves

These reserves contain unspent revenue from a previous year that was raised through rates and fees and charges to fund Council activities. At the end of each year as part of the annual report process, a reconciliation is performed between what revenue has been received and what expenditure has been spent. The deficit or surplus for each community board area or district infrastructure activity either comes out of or goes into the relevant retained earnings reserve. The deficit or surplus for all other district activities either comes out of or goes into the general rate reserve.

Use of reserves

Surpluses in the retained earnings reserves at year end will be used to fund expenditure in the following year in the Community Board area or district activity in which the funds were collected. The five Community Board areas and district reserve will each have a maximum budgeted balance of \$200,000 at the end of each year.

Depreciation reserves

Depreciation reserves contain funds collected from the depreciation of Council assets. Transfers into the depreciation reserves come from the community board area or district activity in which the funds were collected.

Use of reserves

Surpluses in the depreciation reserves may only be applied to fund renewal/replacement capital expenditure projects in the community board area or district activity in which the funds were collected. Any surpluses at year end will accumulate until such time as they are required for the future renewal/replacement of Council assets.

Local Government Act contribution (LGAC) reserves

The purpose of the LGAC reserves is to retain funds collected under the provisions of Council's Development Contributions Policy in accordance with the Local Government Act 2002. Development contributions are held in named reserves specific to the catchments in which the funds were collected.

Use of reserves

Surpluses in the LGAC reserves may only be applied to the funding of additional capacity capital expenditure projects for activities for which they were collected.

General purpose reserve

The general purpose reserve contains funds collected prior to 2010 to fund any one off, unbudgeted Community Board capital expenditure project. There are no further planned transfers into this reserve.

Use of reserve

Any surplus in the general purpose reserve can be used to fund one off items of unforeseen expenditure for which there is no approved budget. No repayment to the reserve is required.

Power New Zealand reserve

This reserve was created using proceeds from the sale of the Power New Zealand shares that were originally vested in Council in 1994 following the national electricity reforms. A percentage of the interest earned on the balance of the reserve will be transferred into the reserve as part of the LTP or annual plan budgets to protect the value of the reserve from inflation. The inflation factor used will be the forecast price level change adjustors obtained from BERL for the Society of Local Government Managers during the planning phase and the actual price level change adjustors will be applied during the annual report process.

Use of reserve

The value of the reserve is to be maintained to keep up with inflation. Surplus funds can be invested in secure bank investments.

Disaster relief reserve

The disaster relief reserve contains funds collected from rates to fund repairs to Council key infrastructure assets caused by natural disasters. The opening balance of the reserve will be a minimum of \$1,500,000. Funds will be budgeted from rates through the Coastal and Hazard Management activity during the annual report or LTP.

Use of reserve

Any surplus in the disaster relief reserve can be used to fund repairs to roads, water, wastewater, stormwater and stop bank assets as a result of a natural disaster after all insurance pay-outs and subsidies have been claimed.

Property reserves

The property reserves contain the surplus proceeds of the sale of Council-owned property (land and buildings).

When Council-owned property is sold 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 is 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 surplus sale proceeds will be transferred to;
 - a. the Council property reserve, if the asset can be proven to have been bought by the Council;
 - b. the applicable Community Board property reserve, if the asset can be proven to have been bought by the Community Board;

3. If it is not possible to prove through historic records whether the Council or a Community Board bought the asset then the surplus sale proceeds will be transferred to;
 - c. the Council property reserve, where the asset is associated with a district-funded activity;
 - d. the applicable Community Board property reserve, where the asset is associated with a local-funded activity.
4. The activity will be deemed local or district funded for 3. above as it is stated in the LTP or annual plan that was applicable at the time of the Council resolution to sell the asset.

Use of reserve

Any surpluses in the property reserves can be used to fund capital expenditure in the community board area or district activity where the reserve resides.

Insurance reserve

The purpose of the insurance reserve is to hold funds for settlements that are not met by Council's insurance policy. Transfers into the reserve come from the district general rate, building control, resource consents and land information memorandum activities at an amount set by Council as part of the LTP or annual plan.

Use of the reserve

Expenditure of funds from the insurance reserve will first be used to settle financial assistance package scheme (FAP) claims where the Council's insurance policy either does not cover or does not meet the full cost of the claim. Any surplus in the reserve once FAP settlements have been met, can be used for the purpose of other settlements where the Council's insurance policy either does not cover or does not meet the full cost of the claim. 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

The purpose of this reserve is for the promotion or achievement of waste minimisation. All expenditure from this reserve must comply with the relevant provisions of the Waste Minimisation Act 2008. Transfers into the reserve come from the solid waste disposal levy received from the Ministry for the Environment.

Use of reserve

Any surplus in the solid waste levy reserve will be used to fund expenditure that promotes or achieves waste minimisation.

Rates postponement reserve

The purpose of this reserve is to hold funds collected from the reserve fund levy of 0.25% charged on postponed rates. Transfers into the reserve come from the postponed rates levy.

Use of reserve

Any surplus in the rates postponement reserve is used to fund a shortfall between the net realisation on the sale of a property and the amount outstanding for postponed rates and accrued charges at the time of sale.

Resource Management Act reserves

The purpose of these reserves is to retain contributions collected through conditions imposed on resource consents under the Resource Management Act 1991 (RMA) until they are required to fund capital expenditure for which they were collected.

Any funds collected for an activity granted resource consent that does not proceed will be refunded in accordance with s110 of the RMA, 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.*

Use of reserves

- Any surpluses in the RMA reserves will be used to fund expenditure in accordance with sections 111 of the RMA and will be used solely for capital expenditure projects relating to the catchment from which the funds were obtained. RMA reserves may be used to fund capital expenditure for additional capacity, increased level of service or renewal projects.

RMA reserves to be used as follows:

- District roading reserve - used solely for district roading capital expenditure projects.
- Land subdivision reserves - acquisition and/or development of reserve land and infrastructure.
- Off street parking reserve - acquisition and/or development of car parking.
- Water unused loan reserve - used solely for water capital expenditure projects in the Coromandel/Colville community board area.
- Water headworks reserve - used solely for water capital expenditure projects in the Coromandel/Colville and Whangamata community board areas.
- Wastewater reserve - used to fund district wastewater capital expenditure projects.

Hot Water Beach parking reserve

The purpose of this reserve is to retain the net revenue collected through the pay and display car parking at Hot Water Beach. Transfers into the reserve come from the net revenue collected from the Mercury Bay Community Board parks and reserves activity.

Use of reserve

Surplus funds will first be used to finance the construction of toilet and shower facilities and car parks at Hot Water beach. Subsequent surpluses will be used to fund tourist related

operational or capital expenditure projects 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. Transfers into the reserve come from the net revenue collected from the Mercury Bay harbours activity from boat launch fees from Whitianga Wharf, Purangi, Cooks Beach, Kuaotunu, Matarangi and Whangapoua.

Use of reserve

Surplus funds will first be used to finance outstanding loans on the Mercury Bay harbours activity in relation to those boat ramps which financially contribute to this reserve.

Subsequent surpluses will be used to fund additional infrastructure in and around those boat ramps that financially contribute to this reserve.

Hahei car park reserve

The purpose of this reserve is to retain the net revenue collected through the pay and display car parking at Hahei. Transfers into the reserve come from the net revenue collected from the Mercury Bay parks and reserves activity.

Use of reserve

Surplus funds will first be used to finance outstanding loans on the construction of the Hahei car parks. Subsequent surpluses will be used to fund tourist related operational or capital expenditure projects as determined by the Mercury Bay Community Board.