

# Policy

## Financial reserve funds

<b>Reference number:</b>	<b>SG29</b>
<b>Type:</b>	Strategic
<b>Legislation:</b>	<i>Local Government Act 1995</i>
<b>Procedure:</b>	NA
<b>Delegation:</b>	NA
<b>Other related documents:</b>	Policy – Investments: Property and other non-current assets (SG14)

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## Objective

To provide an overarching structure to guide decision making on the nature and type of Reserve Funds that need to be created to support good governance in accordance with the *Local Government Act 1995*.

## Policy

1. Reserve funds are typically created as long-term savings plans for a future major expenditure, which cannot be managed within a single budgetary year, but may also be required for other purposes.
2. Reserve funds negate or minimise the need for loan borrowings for such expenditures and are a tool that facilitates sound financial management practice.
3. Within the framework of the purpose for reserves described above, reserve funds should only be created to meet the following circumstances—

### 3.1 Indefinite or long term

- (a) These reserves would typically have a long-term horizon of twenty years plus, where withdrawal of funds is not contemplated within the ten-year plan horizons. The long-term nature of the investment would also signify a more aggressive investment strategy that could be utilised with the investment of the funds, if independent investment advice suggested that it would produce a higher investment return over the long term.

- (b) For these funds, where independent financial advice recommends investment in products that are not cash backed, that is, that may have exposure to shares or properties via a managed fund investment, the funds need to be transferred out of the reserve fund prior to investment. However, the integrity of the long-term horizon objective is still maintained as such investments are covered by policy SG14.
- (c) Typically money would not be transferred from these reserves other than for recommended investment(s), but monies could be transferred based on specific events occurring.

### **3.2 10 year plan and asset maintenance reserves**

- (a) These reserves would typically have a medium term horizon of ten years to support projects within the ten-year plan. If a project were not supported within the ten-year plan, then a reserve fund would not be the appropriate mechanism to fund the project.
- (b) Where it was deemed appropriate, reserves could be created under this category to manage infrastructure and freehold asset maintenance. This reflects the importance of managing ongoing maintenance and refurbishment of facilities where the peaks and troughs of the maintenance cycle would otherwise cause significant variations in the municipal budget.
- (c) Typically, such funds would be set aside based on specific criteria, so that within the constraints of the ten-year plan, appropriate maintenance or refurbishment works could be programmed and which in turn funded by a transfer from the appropriate reserve.
- (d) A reserve created under this heading should have a balance of funds equivalent to more than 1.5% of current rates budget, because below that threshold, projects should be managed through the ten year plan in the year in which they are to be undertaken rather than through a reserve.

### **3.3 Short term reserves to meet external requirements**

- (a) Reserves created under this heading are typically short term to meet legislative requirements or the requirements of external funding bodies to signify the allocation or commitment of funds for a specific purpose as per the grant agreement.

- (b) Municipal contributions would not be directed to this category reserve of funds.

#### **4. Reporting arrangements**

- (a) Reserve funds are reported on during the annual budget and annual financial statements processes.
- (b) Any variation (or proposed variation) to the reserve fund is reported to council outside of the annual budget process.

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<b>Responsible directorate:</b>	Corporate services
<b>Reviewing officer:</b>	Manager finance and administration
<b>Decision making authority:</b>	Council
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