



Policy – Financial Reserves

The purpose of this policy is to:

- establish guidelines for the effective and prudent management of Councils financial reserves;
- identify the financial reserves this policy applies to and the purpose for holding them;
- differentiate between cash and non-cash financial reserves;
- create a consistent, transparent, and accurate process for the management of Councils financial reserves.

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Policy No.	Policy Sponsor	Approval Date and Date of Next Scheduled Review	Approved By	MORF Reference	Related Standards
C	Chief Financial Officer	Approved –	Council	A1034433	<ul style="list-style-type: none"> • Local Government Act 202 • Financial Strategy • Review & Financing Policy • Statement of Investment Policy & Objectives • Development & Financial Contributions Policy • Treasury Policy

2. Purpose of Financial Reserves

Financial reserves have two key purposes. Firstly, they provide the ability to separately account for the balance of funds or assets that relate to the purpose or activity the reserve was established for, and secondly, they provide opening and closing balances for the financial year that in turn provides transparency, accountability and the ability to manage reserve use and balances accurately to meet the demands of the activity.

3. Principles and Objectives

As a general principle, Councils income and expenditure relating to its activities should be gathered and spent in the financial year that it is budgeted in. This is the key objective of setting a balanced budget.

There are however a range of reasons or circumstances that necessitate the establishment and operation of reserves. These include but are not limited to the following:

- management of inter-year surpluses or deficits in general or targeted activity areas.
- separation of activities where transparency and accountability for allocated funds is required.
- holding depreciation funds on specific assets or groups of assets for future use.
- provision of financial resilience to fund unplanned or unexpected events.
- identifying differing types of equity that make up the Council balance sheet.
- provide independent management of vested funds or assets.

Council will manage these reserves in a prudent and transparent manner. Establishment of reserves, use of reserve funds or transfers from and to reserves will be subject to a decision of Council and will support the efficient and effective running of Council's operations.

Management principles and objectives will include:

- ensuring sufficient funds are on hand to maintain the financial viability of the Council and support any unexpected or unplanned disruption.
- assist with the balancing of budgets across financial years.
- ensuring adequate funds are available for replacement of assets.
- being able to respond to unbudgeted opportunities that arise outside of the budget planning cycles.
- ensuring the management and use of reserves takes into account the funding principles of Section 101 of the Local Government Act 2002 including the principles associated with intergenerational equity.

The staff Treasury Oversight Committee will be responsible for advising Council and attending to the objectives of this Reserves Policy.

4. Scope

This policy covers all Council reserves as Listed in **Appendix 1**. These reserves include cash and non-cash reserves.

5. Reserve limits, use and replenishment of cash reserves.

All cash reserves, where the purpose of the reserve is more than providing a repository for year end and year opening surpluses or deficits, will have a minimum balance. Minimum balances will apply to those reserves that are established for disaster response, future planned commitments, and financial resilience.

If a reserve is depleted below its minimum balance Council will restore the reserve back to that minimum balance as soon as is practicable but within three financial years without further drawdown. If additional drawdowns are made in the intervening years, the additional drawdown is to be replenished within three years or sooner depending on the reserve balance and the ability for the reserve to address issues that it was set up to do.

Reserves can go into deficit. If so, internal borrowing policies may apply.

The staff Treasury Oversight Committee will be responsible for recommending to Council the setting of reserve minimum balances for those reserves that require it and, where required, a programme of funding to achieve these minimum balances.

More detail relating to each reserve is provided in **Appendix 1**. The figures shown will show the year end balances of the most recent financial year. Minimum balances will be inserted for those reserves requiring them.

6. Reserve Structure

Council's reserves are both cash and non-cash reserves. Cash reserves are aggregated together for investment purposes and the majority are invested through Council's Managed Fund. Council's Managed Fund is made up of a variety of investments that are exposed to market conditions, therefore there is not a direct correlation between the balance of the Managed Fund and the Reserves.

Council has five categories of special reserves as follows:

- a) **Special Reserves** – funds set aside for a particular purpose such as disasters, plant, building and computers etc.
- b) **Rating Districts – Drainage Reserves** – reserve balances for each of the separate drainage districts in the region.
- c) **Rating Districts - River Areas Reserves** – reserve balances for each of the river scheme areas in the region.
- d) **Lease Area Reserves** – reserves accumulated through rental income from separate reserves across the region.
- e) **Accumulated surpluses** - as a general principle, Council's income and expenditure relating to its activities should be gathered and spent in the financial year that it is budgeted in. This is the key objective of setting a balanced budget.

and one General Reserve category as follows:

- a) **General Reserves** – reserves made up of non-cash capital assets and surplus funds available for general use.

7. Relationship to Statement of Investment Policies and Objectives and other Policies

The relationship between this Financial Reserves Policy and the Statement of Investment Policies and Objectives is that the Financial Reserves Policy identifies the reserves Council holds and sets policies regarding their management and use, whereas the Statement of Investment Policies and Objectives identifies the investment criteria and limits for the investment of those financial asset backed reserves the Council holds.

This Reserves Policy is subservient to other policies as its purpose is to identify the various reserves of Council and provide guidance as to their management and use.

8. Policy Owner

The Chief Financial Officer will be the policy owner for the purpose of ensuring it is maintained and is up to date. The policy will provide guidance to Council and be administered by the staff Treasury Oversight Committee.

9. Review

This Policy will be reviewed every three years, following its adoption.

Appendix 1**Reserve / retained earnings****@ 30.06.2023****Special Reserves**

9564. Building Reserve	(703,650)
9566. Lease Building Reserve	(575,927)
9574. Plant Replacement Reserve	(348,381)
9558. Computer Reserve	(1,000,000)
9556. Vehicle Renewal Reserve	(846,407)
9580. Infrastructural Assets Reserve	(405,211)
9562. Disaster Damage Reserve	(2,000,000)
9592. Makarewa Disaster Reserve	(186,014)
9594. Oreti Disaster Reserve	(1,630,975)
9596. Maitaha Disaster Reserve	(1,395,122)
9598. Aparima Disaster Reserve	(645,536)
9588. Orauea Disaster Damage Res	(9,362)
9606. Invercargill Disaster Reserve	(1,228,938)
9590. Waiau Disaster Damage Reserve	(1,471,868)
9578. Coastal Rentals Reserve	(487,100)
9618. Marine Fee Reserve	(1,347,748)
9608. Pest Property Reserve	(872,713)
9614. Pest Plant Reserve	(85,061)
9616. Pest Disposals Reserve	(299,131)
9620. Te Anau Basin Damage Reserve	(381,201)
9603. Waimatuku Stream Disaster Res	(61,947)
9604. Lake Hawkins Pumphouse Reserve	(3,225)
9582. Emergency Mgmt Southland Reserve	(316,946)
9583. AF8 Reserve	(11,516)
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	(16,313,979)

Rating Districts**Drainage Districts**

1745 - Aparima Rating District Total	(190,257)
1755 - Makarewa Rating District	(54,755)
1765 - Maitaha Rating District	(286,784)
1770 - Oreti Rating District	(554,104)
1775 - Te Anau Rating District	(190,731)
1799 - Makarewa Special Fund	(115,321)
1801 - Waiau Special Projects	(930,263)
1805 - Waiau Sharpridge Drainage District Total	(51,082)
1810 - Waiau Orauea Drainage District	34,301
1815 - Waiau Wairaki Drainage District	(3,489)
1820 - Waiau Fenham Drainage District	(29,474)

1825 - Waiau Lillburn Drainage District Total	(317,016)
1830 - Waiau Boundary Creek Drainage District	1,797
1840 - Clifton Drainage District	(17,109)
1845 - Duck Creek Drainage District	(66,816)
1850 - Lake Hawkins Drainage District	109,850
1855 - Otepunui Creek Drainage District	5,944
1860 - Waituna Creek Drainage District	(49,546)
1865 - Waihopai Drainage District	(47,061)
1870 - Waimatuku Drainage District	(35,209)
1875 - Upper Waihopai Drainage District	(62,783)
1880 - Upper Waikiwi Drainage District	(87,715)
1885 - Lower Waikawa Drainage District	(2,238)
1890 - Upper Waikawa Drainage District	(20,047)

River Areas

Aparima	(596,029)
Invercargill	(289,474)
Makarewa	(106,190)
Mataura	(319,816)
Oreti	65,937
Te Anau	(351,489)
Waiau	7,255
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	(4,549,712)

Lease Areas

Aparima	(40,247)
Ferry Road	(2,466,853)
Kingswell	(43,821)
Mataura	(2,871,237)
Oreti	(881,766)
Otepunui	(298,042)
Winton	(205,726)
Waihopai	(196,332)
Waituna	(64,431)
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	(7,068,456)

Accumulated surpluses

9622. Targeted rate, Biosecurity accumulated Surplus	(1,195,194)
9628. Targeted rate, Land Sustainability Accum Surplus	(1,553,354)
9630. Gravel Account Accum Surplus	(255,028)
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	(3,003,576)

Total reserves to be held as cash

(30,935,723)

9625. Internal Loan against reserves	3,000,000	<u> </u>	
Total special reserves		<u>(27,935,723)</u>	Cash
General reserves			
9552. SPNZ Buy Back Reserve	(181,814)		Cash
Council retained earnings	(15,631,190)		Non cash
Capital Reserve	(48,022,851)	<u> </u>	Non cash
		<u>(63,835,855)</u>	
Total reserves and equity of council @ 30.06.2023		<u>(91,771,577)</u>	