

Name:	Financial Reserve		
Type:	Council Policy		
Owner:	Chief Executive Officer		
Responsible Officer:	Finance Manager		
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HISTORY			
Records Number:	293037	Approval Date:	17/05/2016
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1 PURPOSE

To ensure sustainable and responsible financial management of City of Palmerston, through consistent identification, administration and usage of externally and internally restricted reserves.

2 PRINCIPLES

City of Palmerston follows the requirements in content and timing stipulated by the *Local Government Act*, *Local Government (Accounting) Regulations*, *Local Government (Administration) Regulations* and the principals of the Australian Accounting Standards.

3 DEFINITIONS

For the purposes of this Policy, the following definitions apply:

Term	Definition
Financial Reserves	The term includes Asset Revaluation Reserves under Australian Accounting Standards and other reserves as described in this policy.
Asset Revaluation Reserves	Are reserves required by the Australian Accounting Standards for the movement in fair value of assets. These are not cash backed reserves.
Internally Restricted Reserves	Are reserves established by Council to ensure that sufficient funds are available when required for a specific purpose. These reserves are cash backed.
Externally Restricted Reserves	Are reserves that are subject to external restrictions in their purpose. These reserves are cash backed.
Internal Borrowing	The transfer of reserve funds from one reserve to another, as an alternative to external borrowing, to be repaid at a future date as determined by council.

4 POLICY STATEMENT

4.1 Classification of Financial Reserves

4.1.1 Asset Revaluation Reserves

This reserve is established under the requirements of the Australian Accounting Standards. It reflects the increments or decrements of fixed asset values due to asset revaluations.

4.1.2 Externally Restricted Reserves

The following criteria apply to externally restricted reserves:

- The reserve is subject to legal requirements that govern the use of the funds; or
- The reserve includes funds that have not been utilised for the purpose for which they were received, and an obligation or requirement to return funds to its contributor exist.

The following Council reserves are externally restricted reserves:

Unexpended Grants and Contributions	This reserve holds the balance of unexpended grants and contributions received from external contributors. The funds are held in this reserve until expensed in line with the funding conditions. External restrictions apply in line with the individual funding agreements.
Developer Funds Reserve	This reserve holds the balance of unexpended funds in lieu of construction received by developers. Restrictions to these funds may apply in line with individual developer agreements.

4.1.3 Internally Restricted Reserves

The following criteria apply to internally restricted reserves:

- The reserve is not subject to legal requirements governing the use of the funds or;
- The reserve has been established for a specific internal purpose, however, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to other purposes.

City of Palmerston distinguishes between two categories of internally restricted reserves:

- Asset related reserves that are related to fixed assets and are established for the funding of renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan, Long-Term Financial Plan, Municipal Plan and other strategic plans.
- Other reserves that are not related to fixed assets and are established by Council for a specific purpose. Individual internal restrictions are placed on these reserves.

The following Council reserves are internally restricted reserves:

Asset Related Reserves	
Property Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan for Property.
Plant and Equipment Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan for Plant and Equipment.
Infrastructure Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan for Infrastructure.

Street Lighting Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets related to street lighting, and/or the establishment of new streetlighting assets in line with Council's Asset Management Plan for Infrastructure.
Other Reserves	
Election Expense Reserve	The reserve will fund expenses related to Local Government elections and By-Elections.
Disaster Recovery Reserve	This reserve will fund expenses occurred due to storms, storm surges, floods or any other natural disaster. The fund will enable City of Palmerston to recover from these disasters and return to operations.
Strategic Initiatives Reserve	This reserve will fund strategic initiatives for the future development of the City of Palmerston in line with the Municipal Plan and the Long-Term Financial Plan. Specific initiatives must be identified, and funds have to be allocated to those.
Community Grants Reserve	This reserve is in line with the Grants, Scholarship and Sponsorship Policy (FIN18) and holds funds that have been committed to initiatives in line with that policy and have not been expensed at the End of Financial Year.
Unexpended Capital Works Reserve	This reserve holds the balance of unexpended capital works funds that are requested to be carried forward to the following financial year.
Waste Management Reserve	This reserve holds funds for the direct and indirect expenditures for the rehabilitation of the Archer landfill and for development of the Archer transfer station to accommodate expected future requirements.
City Centre Improvement Reserve	The reserve holds funds for the provision, operation and maintenance of land, facilities, services and enhancements for and in connection with the City Centre.

4.2 Establishment of Financial Reserves

Asset Revaluation Reserves	Establishment of reserves follows the Australian Accounting Standards.
Externally Restricted Reserves	A reserve will be established for any value if there is a legal requirement or a requirement under the Australian Accounting Standards.
Internally Restricted Reserves	An establishment of a new reserve must be authorised by Council and shall not be established for an amount less than \$100,000.

4.3 Transfer of Funds In/ Out of Financial Reserves

Asset Revaluation Reserves	Transfer of funds will follow the Australian Accounting Standards.
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Externally Restricted Reserves	Transfer of funds are restricted to the terms and conditions of individual funding agreements. Council must authorise transfers by Council resolution.
Internally Restricted Reserves	Transfer of funds are restricted by the internal purpose of the reserve. All transfers must be authorised by Council resolution.

Appropriate records and sufficient detail must accompany any reserve transfer.

All future transfers for reserves shall be assessed at least annually during the preparation of the budget and the Long-term Financial Plan. Budgeted reserve movements will also be reviewed during the budget review process.

The following internal fund transfers shall not require Council resolution:

Surplus funds of the waste service charge under Section 157 *Local Government Act* are to be transferred to the Waste Management Reserve. Surpluses are calculated as income from waste charges less waste management related expenditure.

Operational Surplus funds shall be utilised to secure minimum balances on reserves in the first instance. Left over funds or deficit shall be distributed to/drawn from the following reserves:

- 75% Infrastructure Reserve
- 20% Property Reserve
- 5% Plant & equipment Reserve

The total of all reserves shall not exceed current assets less current liabilities held by Council. Required adjustments at the end of the financial year will be made in line with the surplus distribution mentioned above and do not need authorisation by Council resolution.

4.4 Balances for Financial Reserves

Reserve balances at the end of a financial year shall be:

Election Expense Reserve	This reserve shall be maintained at no more than \$150,000.
Disaster Recovery Reserve	This reserve shall be maintained at or near \$500,000. External funds received after the event for the purpose of disaster recovery shall be used to maintain the reserve on its ideal level of funds.
Strategic Initiatives	This reserve shall be maintained at no more than \$500,000 where initiatives are identified in the annual budget.
Community Grants Reserve	This reserve shall be maintained at the balance of any current commitments.

4.5 Internal Borrowing from Reserves

Any internal borrowings require disclosure in Council's annual financial statements and Municipal Plan and are to be repaid at a future date as determined by council.

4.6 Reporting on Finance Reserves

In line with Part 7 (15) (2) (c) of the Local Government (Accounting) Regulations, Council is required to disclose all reserves set aside for a specific purpose in its annual financial statements. In addition, these reserves are reported on as follows:

- A detailed statement with expected movements as part of the annual budget.
- A detailed statement with expected performance compared to current approved annual budget as part of the budget review reports.
- A statement of approved budgeted balances as part of the monthly finance report.

5 ASSOCIATED DOCUMENTS

- 5.1 City of Palmerston Policies
- 5.2 City of Palmerston Municipal Plan
- 5.3 City of Palmerston Long-term Financial Plan
- 5.4 City of Palmerston Asset Management Plans
- 5.5 City of Palmerston Asset Management Policy
- 5.6 City of Palmerston Subdivisional Guidelines

6 REFERENCES AND RELATED LEGISLATION

- 6.1 *Local Government Act* (NT)
- 6.2 Local Government (Administration) Regulations
- 6.3 Local Government (Accounting) Regulations
- 6.4 Australian Accounting Standards
- 6.5 Ministerial Guidelines
- 6.6 Local Government General Instructions