
Proposed Financial Reserves Policy

Responsible Officer: Group Manager Corporate and Commercial (Helen McNeil)

Recommendation

That Council:

1. Revoke the 'Financial Reserves' policy dated 19 June 2019 and any other policy revived as a result of this revocation, and
2. Approve the revised 'Financial Reserves' policy attached to this report.

Background

Council maintains cash reserves to support business operations and manage situations where revenue or expenses vary from financial forecasts. These cash reserves also ensure Council is able to fund future works and maintain its financial sustainability.

The existing Financial Reserves policy adopted by Council on 19 June 2019 was reviewed as part of Council's ordinary policy review cycle and has been updated with a focus on simplifying the basis for reserves and consolidating case reserves where possible.

Proposed Changes

Cash Reserves:

Cash funds are currently established for: -

- Externally restricted funds – these are raised when legislation dictates that the funds be used for a specific purpose. Reserves are used to isolate these funds to ensure they are only applied for the purpose/s for which they were paid.
- Internally restricted funds - are raised at the discretion of Council and they are used to meet forecast expenditure, and
- Unrestricted funds – these funds can be used for any approved purpose.

Under the revised Financial Reserves policy, the above cash funds will contain the following cash reserves:

	Cash Fund	Cash Reserve/s
1	Externally Restricted	Developer Contributions Reserve
		Unexpended Grants Reserve
		Trust Account Reserve
2	Internally Restricted	Rous as a Whole Reserve
		Bulk Water Reserve - containing notional reserves for: a. Employee Leave Entitlement (ELE) Reserve b. Renewable Energy and Emissions Reduction Plan (REERP) – formerly the 'Greenhouse Gas Abatement Reserve'.
		Retail Reserve Water
		Flood Mitigation Reserve
		Weed Biosecurity Reserve

		Properties Reserve
		Fleet Reserve
3	Unrestricted Cash	As above at (2), excluding 'Rous as a Whole'.

The Richmond Water Laboratories (RWL) Reserve identified under the existing policy within the Internally Restricted Cash Fund has been removed from the revised policy as the RWL has now ceased operating.

Cash Reserve Targets

Budget shock targets were reviewed for each cash reserve ('Reporting Unit') within the Internally Restricted Cash Fund. Under the revised 'Financial Reserves' policy, a simplified approach which removes the individual target for each Reporting Unit and combines them into the following targets is proposed:

- Rous as Whole Reserve - 6 months forecast operating expenditure less depreciation
- Bulk Water Reserve – 4 months forecast operating expenditure less depreciation + ELE + REERP
- All other Reporting Units – 4 months forecast operating expenditure less depreciation

Legal

The changes proposed under the revised 'Financial Reserves' policy have been made with regard to the requirements for financial management contained in Part 3, Chapter 13 of the *Local Government Act 1993*.

Regard was also had to the loan covenant requirement for the maintenance of cash reserves at 50% of forecast operating expenditure less depreciation for the next financial year, required under Council's loan arrangements with TCorp.

Consultation

This report was prepared in consultation with the General Manager and relevant finance staff and a summary presented at the March 2024 councillor workshop.

Conclusion

In summary, the financial reserves policy has been revised to consolidate cash reserves and simplify the targeted balance of each cash reserve held.

Forecast cash reserve balances are provided to Council with all budget updates including the Long-Term Financial Plan, Quarterly Budget Review Statements, and end of year carryovers. Actual balances are provided as part of the annual Financial Statements

Attachment:

1. Financial Reserves Policy dated 19 June 2019 (for **revocation**).
2. Revised Financial Reserves Policy (for **approval**).