
Financial (Cash-Backed) Reserves Policy

Policy Owner: Director Corporate Strategy and Performance
Contact Person: Manager Finance
Date of Approval: 7 April 2020

POLICY OBJECTIVE

To provide strategic support and direction for the establishment and utilisation of Financial (Cash Backed) Reserves (**Reserves**).

BACKGROUND

- Reserves are funds retained by an organisation to help meet future needs. Holding a certain amount of funds in reserve can help an organisation to operate effectively in challenging economic times, as well as facilitate planning for major works in the future.
- Retaining an appropriate level of Reserves is an important funding strategy to help balance the current needs with the future needs of its community.
- Reserves are typically created as long term savings plans for future major expenditure which cannot be managed in a single budgetary year.
- The use of Reserves is restricted by the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 and each reserves is required to be established with a clearly defined purpose.
- Reserves may be required to meet statutory requirements or to restrict a specific funding source to the linked expenditure over a longer period.
- The balance and the increments/decrements to the Reserves are incorporated in the Long Term Financial Plan.

POLICY STATEMENT

Administration will only maintain such Reserves as are prudently required for known or predicted liabilities in the future with a quantum such that they are not able to be funded in any one year out of normal operations.

Council will generally support the establishment of Reserves in the following categories:

1. To comply with the requirements of Legislation or other contractual requirements.
2. Asset Reserves for the purpose of minimising the impact on the City's operations in any one year from the expenditure of funds on asset purchases or to set aside funds to cover major expenditure on assets in future years.
3. Risk Mitigation & Strategic Opportunity Reserves that will minimise the impact on the City's operations in any one year from unanticipated financial risks, and provide funds to take advantage of opportunities that arise that are aligned to strategic directions.

For a Reserve to be created and maintained it must meet at least one of the following criteria:

- Provide for a known liability listed within the Long Term Financial Plan or is predicted to be incurred beyond 10 Years but is of a magnitude warranting accumulation over the extended period;
- Provide for the annual capital requirements for the Plant Replacement Program;
- Fund a future debt repayment liability;
- Be required for contractual or legislative reasons or where the funding source is required to be tied to expenditure over a longer period;
- Have specific but unquantifiable future strategic requirements that recognise the unique challenges imposed on the City of Wanneroo arising from growth demands and the potential for unforeseen requirements or significant changes to priority.

Management Procedures have been developed for the management of each Reserve, which will support the following principles:

- Interest earned on deposits in Reserves shall be aggregated into the specific Reserve, thereby maximising the growth in the balance.
- When the purpose for a specific Reserve is complete, any residual funds will be considered to be applied towards another purpose in the Annual Budget or in accordance with the requirements of Section 6.11(2) of the Local Government Act 1995.
- All transfers to and from Reserves shall be reflected in the Annual Budget and Long Term Financial Plan.
- Administration to determine the appropriate amount to transfer to and from The Strategic Projects Reserve during the preparation of the Annual Budget and the Statutory Financial Statements.

SCOPE

This Policy applies to all Cash and Investment Backed Reserves other than “Scheme Reserves”. “Scheme Reserves” are Reserves created for the specific purpose of completing infrastructure works in the development of land. The relevant developer pays an amount per lot for the City to complete Infrastructure works either during or after development of the lots and are disclosed separately within the Equity class of the City’s Statement of Financial position.

This Policy is the overarching instruction to Administration and individual Management Procedures have been developed that sets out how each Reserve is incremented and decremented and the balance that is required to be maintained. The Annual Budget process will provide the opportunity for Council to adopt or review annual balances and allocations.

LEGAL BACKGROUND

The Local Government Act 1995 (**Act**) and associated Regulations (**Regulations**) note the following in respect to Reserves.

Act

- 6.2 (4) (e) – whereby particulars must be disclosed in the Annual Budget
- 6.11 – governs the establishment and changes in purpose or use of a Reserve
- 6.38 – where Reserves can be established for Service charges levied

Regulations

- 17 - deals with having a full and clear title identifying the Reserve's purpose
- 27 (g) - details of Annual Budget disclosures concerning Reserves
- 38 - details of Annual Report disclosures concerning Reserves

CONSULTATION WITH STAKEHOLDERS

All Directorates will have input into the adequacy and methods of operation pertaining to those Reserves in their area of responsibility. Council will have the opportunity throughout the Budget process to influence the existence and quantum of Reserves.

IMPLICATIONS (Financial, Human Resources)

The Reserves at all times will comply with the provisions of the Act and Regulations where stated. The existence and adequacy will be reflected in the City's Annual Budget and Long Term Financial Plan.

IMPLEMENTATION

This Policy will be implemented during the Long Term Financial Planning process.

ROLES AND RESPONSIBILITIES

The Director Corporate Strategy & Performance will provide the framework for the efficient use of Reserves via Management Procedures. The Finance Unit will administer the Reserves under the framework and methodology set for each particular Reserve. Council will be responsible for agreeing the Reserve balances through adoption of the Annual Budget.

DISPUTE RESOLUTION

Not applicable.

WHO NEEDS TO KNOW ABOUT THIS POLICY?

All Directors, Managers and Coordinators will need to be aware of this policy.

EVALUATION AND REVIEW PROVISIONS

The effect of the adopted Policy will be re-evaluated annually as part of the Annual Budget process. The need for new Reserves and the acquittal of existing will be documented and put for adoption. The effectiveness of this policy will be measured by the adequate provision of cash backed Reserves to provide funding for the future capital needs of the City.

DEFINITIONS

None

RELEVANT POLICIES/MANAGEMENT PROCEDURES/DOCUMENTS OR DELEGATIONS

Management Procedures will be detailed for each Reserve

REFERENCES

Not applicable.

RESPONSIBILITY FOR IMPLEMENTATION

Director Corporate Strategy & Performance

Version	Next Review	Record No:
1.0	August 2014	12/59837[v1]
5 April 2016	April 2020	12/59837[v2]
7 April 2020	April 2026	12/59837[v3]