

 <p>DISTRICT COUNCIL of TUMBY BAY</p>	<p>POLICY# 5.26</p> <p>Reserves</p> <p>POLICY AREA</p> <p>Finance & Internal Control</p>	<p>Version No:</p> <p style="text-align: center;">2</p>
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	<p>Next Review:</p> <p style="text-align: center;">2016 Audit Committee</p>	

Reserves

1. Introduction

Council has significant cash backed reserves. A reserve is where accumulated surpluses have been set aside for a specific purpose. A cash backed reserve is when Council deducts from its budget result cash sufficient to fund these reserves.

Cash backed reserves are funds set aside for future purposes. For example the replacement of the Council's assets, whether they are plant and equipment or infrastructure. Until these funds are required they can be used for other purposes.

Over the term of the Long Term Financial Plan there are some years where there will be peaks in asset expenditure. If funds are not set aside for these peaks then further borrowings will be required. The repayment of those borrowings will then reduce the ongoing funds available for further asset expenditure.

1.1 Objectives

This Reserve Policy provides clear direction to management, staff and Council in relation to the reserve function and establishes a decision framework that:

- indicates when funds are to be set aside for future expenditure
- reduces the requirement for borrowing in the Long Term Financial Plan
- provides a framework for access to funded reserves in lieu of borrowing

1.2 Legislative Requirements

There are legislative requirements to set funds aside for unspent separate rates and service charges. Funds also need to be quarantined for some developer contributions and unspent grant monies.

2. When Does Council Have Reserves

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

2.1. External Sources of information

An alternative to borrowing, in the case of capital expenditure peaks and troughs, is to build up cash reserves in years when capital expenditures are lower and to use the cash reserves in years when higher expenditures are incurred. An inherent danger in cash reserves is that they can readily be diverted to other uses than those originally intended, leaving the Council with the alternative of raising funds from other sources (borrowing) or reducing operational expenditure. Cash reserves need to be carefully managed to both achieve optimum investment incomes and to be available when needed for the planned capital expenditure. Additionally, cash reserves and borrowings need to be monitored carefully to ensure an optimal net interest impact.

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As part of the annual budget process Council will also consider existing cash backed reserves held and the interest savings on using those funds rather than external debt.

3. Using Cash Backed Reserves For Other Purposes

Some cash backed reserves will not need to be drawn upon for many years. Where additional funds are required in the budget it may be more cost effective for Council to use these funds rather than borrow externally. However subsequent budgets in line with the Long Term Financial Plan, need to allow for the replenishment of these cash backed reserves for when they are required.

4. Budget Result

Council has to maintain liquidity to be able to pay its liabilities when they fall due. Council's budget result is defined as follows;

- Current Assets
- Less: Trade & Other Payables
- Less: Short Term Provisions
- Less: Cash Backed Reserves

Equals the Budget Result

5. Annual Review

Each year a report is to be presented to the audit committee which summarises borrowings from cash backed reserves and their scheduled repayment.

Strategic Link:
Delegation:

Documentation: Nil

Authority: Adopted by Council: 8/10/2013 {Motion No }
Reviewed by Council: 10/11/2015 {Motion 7c/112015}

SIGNED:
Responsible Officer
Date: ____/____/____

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