



Name	FIN04 Financial Reserves
Policy Type	Council Policy
Responsible Officer	Director of Corporate Services
Approval Date	13/12/2017
Review Date	12/12/2021
Document ID	LITCHFIELD-454211611-3

1 Purpose

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

2 Principles

Litchfield Council 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:

Financial Reserves	The term includes Asset Revaluation Reserves under Australian accounting Standards and other reserves as described in this policy.
Asset Revaluation Reserves	Reserves required by the Australian Accounting Standards and are not cash backed reserves.
Internally Restricted Reserves	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	Reserves that are subject to external restrictions in their purpose. These reserves are cash backed.

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 as result of an asset revaluation.

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:

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 expended in line with the funding conditions. External restrictions apply in line with the individual funding agreements.
Developer Contribution Reserve	This reserve holds contributions received by Council by developers in line with the Litchfield Council Developer Contribution Plan. Restrictions apply as set out in both the Plan and under provisions outlined in the Planning Act.

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

Litchfield Council 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 strategic goals.
- 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:

Internally Restricted Reserves: Asset Related Reserves	
Asset 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 Plans ..

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.
Internally Restricted Reserves: Other Reserves	
Waste Management Reserve	The reserve holds funding for activities related to Waste Management. This could be the renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan for Waste Management or strategic development of the Waste Service delivery.
Election Reserve	The reserve will fund expenses related to Local Government By-Elections that are unplanned.
Disaster Recovery Reserve	This reserve will fund expenses occurred due to storms, storm surges, and floods or any other natural disaster. The fund will enable Litchfield Council to recover from these disasters and return to operations.
Strategic Initiatives Reserve	This reserve will fund strategic initiatives and Information Technology improvements for the future development of Litchfield Council in line with the Municipal Plan and the Long Term Financial Plan. Specific initiatives must be identified in order to have funds allocated.
Thorak Regional Cemetery	This reserve holds the funds available for Thorak Regional Cemetery.

4.2 Establishment of Financial Reserves

Asset Revaluation Reserves	Establishment of the reserve 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	The 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 Financial Reserves

For financial management purposes all reserve transfers must be detailed separately.

Asset Revaluation Reserves	Transfer of funds follow the Australian Accounting Standards.
Externally Restricted Reserves	Transfer of funds are restricted to the 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.
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- 4.3.1 All transfers for reserves shall be assessed at least annually during the preparation of the budget and the Long Term Financial Plan. Distribution of surplus funds at the end of the financial year shall be utilised under this policy and do not require authorisation by Council resolution.
- 4.3.2 Surplus Funds collected as a Waste Charge or otherwise associated with waste shall be transferred to the Waste Management Reserve at the end of each financial year.
- 4.3.3 Surplus Funds collected through the operation of THorak Regional Cemetery shall be transferred to the Thorak Regional Cemetery Reserve at the end fo each financial year.
- 4.3.4 Available Net Working Capital shall be calculated at the end of the financial year with the following calculation:

Item of Financial Statements	Explanation
Total Current Assets	
(LESS: Total Current Liabilities)	Immediate financial commitments
(LESS: Externally restricted Reserves)	Financial commitment
(LESS: Internally recstricted Reserves)	Financial commitment of Council
= WORKING CAPITAL	
(LESS: Non-current Employee Provisions)	Whilst not an immediate financial commitment, Council identifies the importance of those commitments to current employees
= NET WORKING CAPITAL	

Unless otherwise determined by Council resolution, the Net Working Capital shall be utilised to replenish reserve balances in 4.4 in the first instance and then transferred to the Asset Reserve.

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

4.4 Maintaining Balance of Financial Reserves

Election Reserve	This reserve shall be maintained at no more than \$100,000.
Disaster Recovery Reserve	This reserve shall be maintained at or near \$500,000.

Strategic Initiatives Reserve	This reserve shall be maintained at no more than \$500,000.
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4.5 Reporting on Financial Reserves

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

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

5 Associated Documents

- 5.1 Litchfield Council Policies
- 5.2 Litchfield Council Municipal Plan
- 5.3 Litchfield Council Long Term Financial Plan
- 5.4 Litchfield Council Asset Management Plans
- 5.5 Litchfield Council Asset Management Policy
- 5.6 Litchfield Council Subdivisional Guidelines
- 5.7 Litchfield Council Developer Contributions Plan

6 References and Related Legislation

- 6.1 Northern Territory Local Government Act
- 6.2 Northern Territory Local Government (Administration) Regulations
- 6.3 Northern Territory Local Government (Accounting) Regulations
- 6.4 Australian Accounting Standards
- 6.5 Ministerial Guidelines

7 Review History

Date Reviewed	Description of changes (Inc Decision No. if applicable)
17 September 2015	New policy 15/0097/02
13 December 2017	Review