FINANCIAL RESERVE

COUNCIL POLICY

PURPOSE

To ensure sustainable and responsible financial management of City of Palmerston's cash reserves, through consistent identification, administration and usage of these reserves.

PRINCIPLES

City of Palmerston is committed to the responsible use and allocation of public funds with consideration of long-term financial sustainability and responsible asset management.

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 cash backed 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.

POLICY STATEMENT

1. Classification of Financial Reserves

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.

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 reserve is an externally restricted reserve:

Unexpended Grants and Contributions	The unexpended grants reserve holds unspent grants and contributions received that will be applied to a future project or financial year that do not meet the requirements of the conditions under AASB 1058 but retain enforceable 'non sufficiently specific performance obligations' (in accordance with AASB 1058).

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.

The following Council reserves are internally restricted reserves:

Asset Renewal Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets, including infrastructure, property and fleet. Specific renewals must be identified, and funds are to be allocated to those.
Election Expense Reserve	This reserve will hold funds for any upcoming Council election, or to help fund a by-election.
Major Initiatives Reserve	This reserve will fund major initiatives for the future development of the City of Palmerston in line with identified major capital works, the Municipal Plan and the Long-Term Financial Plan. Specific initiatives must be identified, and funds are to be allocated to those.

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.
Developer Contribution Reserve	This reserve holds the balance of unexpended funds in lieu of construction received by developers.
Disaster Recovery Reserve	This reserve will fund expenses incurred due to storms, cyclones, floods or any other natural disaster. The fund will enable City of Palmerston to recover from these disasters and return to normal operations.
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.

1.4. Working Capital Reserve

The following criteria of this reserve is:

- This reserve is not subject to any legal obligations and;
- The funds in this reserve are not currently allocated to a specific purpose.

Working Capital Reserve	This reserve holds funds that have not been allocated to a specific purpose.

2. Establishment of Financial Reserves

Asset Revaluation Reserves	Establishment of reserve follows the Australian 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.

3. Transfer of Funds In/ Out of Financial Reserves

Asset Revaluation Reserves	Transfer of funds will follow the Australian Accounting Standards.
Externally Restricted Reserves	Transfer of funds are restricted to the terms and conditions of individual funding agreements. All transfers must be authorised 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.
Working Capital Reserve	Transfer of funds will occur at the end of the financial year or during budget review processes if excess funds exist or funds are required. All transfers must be authorised by Council resolution.

Appropriate records and sufficient detail must accompany any reserve transfer.

All transfers of reserves shall be assessed during the preparation of the annual budget and the annual financial statements. Budgeted reserve movements will also be reviewed during the budget review process.

If any unexpected money is received during the financial year, it will be allocated to the Working Capital Reserve or to a specific purpose reserve via Council Resolution.

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 against the Working Capital Reserve, however any operational surplus funds shall be utilised to secure minimum balances on reserves in the first instance.

The following internal fund transfers shall not require Council resolution:

Surplus funds of the waste service charge under Section 239 of the *Local Government Act 2019* (NT) are to be transferred to the Waste Management Reserve. Surpluses are calculated as income from waste charges less waste management related expenditure.

Externally restricted reserves as the funds must be expended for the purpose that they were received.

4. Balances for Financial Reserves

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

Disaster Recovery Reserve	This reserve shall be maintained at a minimum of $500,000 and no greater than $1 million. External funds received after the event for the purpose of disaster recovery may be used to maintain this reserve beyond this threshold.
Election Expense Reserve	The Election Expense Reserve will be increased to a minimum of $350,000 in line with the Long Term Financial Plan. This reserve shall be increased annually over the Council term. This reserve should be maintained at the level projected for the Election Expense for the next Election.
Working Capital Reserve	The ideal balance for this reserve is $5 million subject to the prioritisation of the projects for use of the reserve fund. When the Working Capital Reserve exceeds $5 million, options will be considered to:

	• enhance asset renewal programs and introduce new initiatives. • reallocate surplus funds to Disaster Recovery Reserve, Asset Renewal Reserve, and Major Initiative Reserve.
Asset Renewal Reserve	This reserve shall be increased to fund future renewal programs subject to Working Capital Reserve exceeding $5 million.
Major Initiative Reserve	This reserve shall be increased progressively over the Council term when Working Capital Reserve exceeds $5 million.

5. Internal Borrowing from Reserves

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

6. Reporting on Finance Reserves

In line with 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.

ASSOCIATED DOCUMENTS

- City of Palmerston Municipal Plan
- City of Palmerston Long-term Financial Plan

REFERENCES AND RELATED LEGISLATION

- *Local Government Act 2019* (NT)
- *Local Government (General) Regulations 2021* (NT)
- Australian Accounting Standards

POLICY DETAILS

OWNER	CEO	RESPONSIBLE OFFICER	General Manager Finance and Governance
APPROVAL DATE	17 June 2025	NEXT REVIEW DUE	Term of 11th Council
RECORDS NUMBER	634611	COUNCIL DECISION	10/1935