

Audit and Finance Working Party
Tuesday 4 June 2019 at 2.30

AGENDA

Audit and Finance Working Party Agenda

Meeting to be held in the Whale Bay Room
36 Water Street, Whangārei
on Tuesday 4 June 2019, commencing at 2.30

Please note: working parties and working groups carry NO formal decision-making delegations from council. The purpose of the working party/group is to carry out preparatory work and discussions prior to taking matters to the full council for formal consideration and decision-making. Working party/group meetings are open to the public to attend (unless there are specific grounds under LGOIMA for the public to be excluded).

MEMBERSHIP OF THE AUDIT AND FINANCE WORKING PARTY

Chairman, Councillor David Sinclair

Independent Financial Advisor, Councillor Bill Shepherd Councillor Joce Yeoman
Mr Geoff Copstick

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Operating Costs Reserve Policy

This policy establishes a dedicated unrestricted reserve (“the Operating Costs Reserve”) within the equity of Northland Regional Council. The purpose of the reserve and the cash holdings representing it, is to ensure that portion of annual operating costs in any year that are intended to be funded from gains from Northland Regional Council’s managed funds is guaranteed and not exposed to volatility in financial markets or other adverse circumstances.

Purpose

The purpose of the Operating Costs Reserve Policy is to ensure the stability of work-programs, employment, and ongoing day to day operations of the Northland Regional Council.

The Operating Costs Reserve is intended to provide a source of funds to cover any unanticipated loss in councils funding arising from adverse economic conditions or volatility in financial markets.

The Operating Costs Reserve is not intended to replace a permanent loss of funding or eliminate an ongoing budget gap.

The Operating Costs Reserve Policy will be implemented in line with council’s other governance and financial policies and is intended to support council’s strategic goals and operational plans.

Target amount for the Operating Costs reserve

The Operating Costs Reserve is a designated fund set aside at a target amount equal to the annual budgeted amount of general funding required from councils managed fund portfolio.

The target amount will exclude investment fees. Investment fees will be funded by Managed Fund gains and any shortfall will be funded from the capital balance of the corresponding Managed Fund.

The target amount will be calculated each year after council approval of the annual budgets, and the target will be set on 1 July of each year.

It is the intention of Northland Regional Council that the Operating Costs Reserve is replenished, or increased to its targeted amount using surplus gains in excess of budget in the subsequent years.

Accounting for the Operating Costs Reserve

The Operating Costs Reserve will be held in segregated fixed rate term deposits or other liquid assets in accordance with council’s treasury management policy.

Interest or gains generated from the assets representing the Operating Costs Reserve will be reinvested back into the Operating Costs Reserve.

When the value of the aggregated cash holding is in excess of the targeted amount, the excess will be repaid to council’s long term managed fund portfolio.

As the costs to be covered by the Operating Costs Reserve are known, the cash holdings which represent the reserve must have the lowest feasible risk setting most likely to be cash and term deposits of appropriate duration. Any fixed vs floating parameters set under council’s Treasury Management Policy therefore do not apply to such cash and term deposits

The Operating Costs Reserve will be established by council resolution and will be recognised in the financial statements as a council designated unrestricted special reserve.

Funding of Operating Costs Reserve

The Operating Costs Reserve will be funded from unrestricted surplus operating funds and historical managed fund investment gains.

Council may from time to time direct that a specific source of revenue be set aside in the Operating Costs Reserve.

Use of Operating Costs Reserve (book entry and cash withdrawal)

Use of the Operating Costs Reserve requires three steps:

1. Identification of appropriate use of the Operating Costs Reserve

The Chief Executive will identify the need for access to the Operating Costs Reserve and confirm that the use is consistent with the purpose of the reserve as described in this Policy.

2. Authority to use Operating Costs Reserve

- a.** Authority for recognising the use of the Operating Costs Reserve (by way of a transfer from reserve in the financial statements) is delegated to the Chief Executive.
- b.** Authority to physically withdraw funding from the assets representing the Operating Costs Reserve is delegated to the Chief Executive in consultation with the Chair of the Audit and Finance Working party.

3. Reporting and monitoring.

The Chief Executive is responsible for ensuring that the Operating Costs Reserve is maintained and used as described in this Policy.

The Chief Executive will report any exercising the authority under clauses 2a and or 2b to council at their next scheduled meeting, accompanied by a plan to respond to market volatility and restoration of the Operating Costs Reserve to its target amount.

Review of Policy

This Policy will be reviewed by the Audit and Finance working party when warranted by internal or external events or changes.

Changes to the Policy will be recommended by the Audit and Finance working party for resolution by Council