

Cash/Investment Backing for Reserve Accounts Policy

Objective

The policy is intended to ensure that where possible, all reserve accounts are backed by cash or investments.

The objectives of the Policy on Cash / Investment Backing for Reserve Accounts are to:

- Provide a framework in which future Reserve accounts are fully backed by acceptable funds
- Confirm that cash or investments are an acceptable form of funds to support reserve accounts.
- Ensure that, where reserve accounts are not currently fully backed by cash or investments, a strategy is in place to identify, report and manage any shortfalls.

Policy Statements

Although there is no statutory requirement, it is the policy of the City of Albany that where possible, Reserve Accounts will be 100% backed by either cash, or investments made under the “Policy on Investment of Surplus Funds”

Where, due to the erosion of the fair value of investments, reserve accounts are not fully cash/investment backed (a funding shortfall), the City will in the next annual accounts identify:

- the amount of any shortfall
- the reason for the shortfall
- the process whereby the shortfall will be eliminated
- when the shortfall is likely to be eliminated

Acceptable methods of eliminating shortfalls are:

- to apply interest earned on reserve fund investments to the shortfall
- to apply annual operating surpluses to offset investment shortfalls
- loss mitigation action (e.g. legal action)
- Council borrowings

Council borrowings shall be used as a last resort should the reserve funds be required for operational purposes.

Scope

The policy applies to all City of Albany Reserve Accounts.

Legislative and Strategic Context

Legislation covering reserves funds includes:

- Local Government (Financial Management) Regulations 1996 – Regulation 38 (1) (f).

Review Position and Date

This policy and procedure is to be reviewed by the document owner annually.

Associated Documents

- Investment of Surplus Funds Policy.

Definitions

- **Reserve Account:** amounts set aside (generally for a specific purpose) for use in a future financial year.
- **Reserve Funds:** cash/investments which represent (or back) the amounts in Reserve Accounts.
- **Reserve Shortfall:** occurs when total Reserve Funds are less than the amounts held in Reserve Accounts.

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