

Equity Reserve Policy

Strategic Reference	Outcome 5 – Leadership Strategy 3.2 – Council takes a responsible approach to financial sustainability.
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Responsibility	Office of Chief Executive Officer
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Applicable Legislation	Local Government Act 1999
Related Policies	N/A
Related Documents	Treasury Management Plan

1. Purpose

Traditionally, Council has segregated cash into separate funds for specific purposes. The reasons for doing so arose from:

- Legislation requiring funds to spent on a specific purpose, including revenue raised through a separate charge;
- Saving for a future purpose; and
- Historical practice.

This practice of ‘shoe box accounting’ meant Council held large cash reserves while also holding borrowings, that incurred higher interest rates than those achieved on the cash reserves.

Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets, where all unrestricted revenues and investments are applied to meet planned expenditure outlays and extinguish borrowings where possible.

In certain circumstances however, it may be appropriate account for future expenditure commitments as ‘reserves’ (not cash) and disclose them in Council’s annual financial statements.

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2. Objectives

This policy sets out a framework as to when an equity reserve is to be created, and how it should be treated on an ongoing basis.

3. Legislation

There is no specific legislative requirement or accounting standard that requires Council to maintain an equity reserve for future commitments.

SA LG Model Financial Statements, prescribed by the South Australian Local Government (Financial Management) Regulations 2011, states:

There are two basic types of reserves:

- *Asset Revaluation Reserves (ARR) arise in compliance with the accounting standards as a consequence of the disclosure of certain assets on the fair value basis.*
- *Reserves for future expenditure arise as a result of a formal resolution by Council to set aside a portion of its resources for a specified future purpose. They should be limited to only those projects that have a realistic chance of being undertaken within the near future and should be few in number.*

4. Policy Statements

Council's Treasury Management Policy does state not to retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties, so reserves that fall outside of these categories should be carefully considered with the intention to only create additional reserves in exceptional circumstances.

Should this occur, Council may choose to use equity reserve accounting as a useful means of recognising and planning for future proposals.

Council recognises equity reserves (other than the ARR) within its balance sheets to identify allocations for future purposes. These allocations do not represent cash balances or legal liabilities to expend funds, merely a current intention/commitment to spend funds in the future.

Council understands the administration expense of accounting for equity reserves and only creates an equity reserve when it is beneficial to report to the users of its financial statements a future commitment that is material in nature.

All equity reserves for future commitments arise from a formal resolution by Council. The resolution includes:

- The name of the reserve;
- The purpose of the reserve;
- What items are to be treated as transfers into the reserve i.e. specific revenue items;

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- Whether interest should accrue on any balances;
- What items are to be treated as transfers out of the reserve i.e. specific expenditure items;
- Whether an administrative fee should be charged; and
- The anticipated timeframe the reserve will be in place.

As equity reserves for future commitments arise from resolutions of a particular council, a newly elected council will at the commencement of its four-year term, resolve which equity reserves will appear in the financial statements and those items detailed above for each equity reserve.

Once Council has fully extinguished a commitment to spend funds on a specific purpose, it will through a formal resolution, close the reserve.

5. Availability/Accessibility

This policy will be reviewed every four years, or as required.

This Policy is available for inspection at Council's offices during normal business hours and Council's website and will be emailed to interested parties on request (please lodge request in writing via email to council@coorong.sa.gov.au).

6. Document History

This Policy will be reviewed at least every three (3) years or more frequently if legislation or Council requires.

Version	Adopted	Minute No	Description of change(s)
1	19 September 2023	222/23	New policy