

## FINANCIAL RESERVES POLICY

|                              |   |
|------------------------------|---|
| Type                         | Governance  |
| Category                     | Finance   |
| Responsible Officer          | Manager Corporate Services                                    |
| First Issued / Adopted       | 24 June 2009 (Reserves Policy)                                |
| Review Period                | 4 Years   |
| Last Reviewed                | 15 December 2021, 26 March 2019, 23 March 2016, 23 April 2014 |
| Minutes Reference            | OM430/21, OM127/19, OM78/16                                   |
| Next Review Date             | December 2025   |
| Applicable Legislation       | Local Government Act 1999                                     |
| Related Documents            | Nil   |
| Public Consultation Required | No  |
| File Reference               | 9.63.1.4  |

### 1. PURPOSE

To provide clear direction in relation to the management of financial reserves and establish a framework that:

- identifies when funds are to be set aside for future use;
- sets out how the management of financial reserves; and
- how financial reserves contribute to treasury management.

### 2. SCOPE

A financial reserve is a record of funds that have been set aside for a specific purpose. A financial reserve is “funded” when funds are assigned from its general investments, or by a separate investment account.

The purposes of financial reserves are generally:

- Legislation requiring funds to be spent for specific purpose, including revenues raised through a separate charge;
- for the future replacement of infrastructure assets;
- to identify funds received from third parties for specific purposes;
- to keep a record of funds received and expended for specific purposes.

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**2. SCOPE (Cont'd)**

Consistent with the LGA Financial Sustainability Program, the number of financial reserves are to be kept to a minimum, to reinforce the principle of a holistic approach to Council financing.

The Treasury Management Policy sets out a holistic approach to the management of financial assets and liabilities, where all funds are first applied to meet expenditure payments and then used to extinguish borrowings.

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

There is no specific legislative requirement or accounting standard to maintain financial reserves (other than a requirement for the non-funded Asset Revaluation Reserve).

**3. DEFINITIONS**

*Externally Restricted Reserves* Created as a result of a legislative requirement or binding agreement, governing the use of the funds. These funds must be fully expended for the specific purpose described and are not able to be used for any other purpose. Where there is a funding agreement and the funds are not fully expended they must be returned to the funding program.

Council will endorse the creation and management of these reserves, when they are required.

*Internally Restricted Reserves* Created where Council has determined that the funds are to be used for a specific purpose. Council may resolve to change that purpose.

**4. POLICY STATEMENT**

**4.1 Management Of Reserves**

The creation of a new Reserve, amendment to the purpose or conditions of an existing Reserve, or the cancellation of any existing Reserve may only be by a formal resolution of the Council.

**4.2 Current Reserves**

Asset Revaluation Reserve

- Established under the requirements of the Local Government Act and Regulations, and Australian Accounting Standards.
- Reflects the accumulated increments and decrements of non-current assets as a result of asset revaluation.

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**4. POLICY STATEMENT (Cont'd)**

**4.2 Current Reserves (Cont'd)**

Externally Restricted Reserves

- For amounts held under legislative requirements that govern the use of the funds; and
- For amounts held that have not been utilised for their intended purpose.

These include:

- CWMS (Community Wastewater Management Scheme) Reserves  
For net cost of operations and fees and charges for the CWMS in Crystal Brook and Napperby, including capital improvement and replacement, major repairs, ongoing maintenance and depreciation.
- Developers Contributions Reserve  
For contributions received from property developers in lieu of infrastructure and open space construction.
- Unspent Grants Reserve  
Grant funds received in a previous financial year where the nature of the planned expenditure is restricted by the funding program agreement or obligations and includes the repayment of unexpended funds.

Where required interest earned on the balance of each of the financial reserves will be applied to each of the respective reserves on at least a quarterly basis.

Internally Restricted Financial Reserves

- For amounts held for a specific purpose, without prescribed legislative or external obligations.

These include:

- Fisherman's Wharf Reserve  
For mooring fees received to be applied towards future capital works for this facility.

**4.3 Funded Reserves**

The balance held for some reserves is matched with the same amount in an investment, particularly the externally restricted reserves. This is to ensure that adequate funds are set aside to meet any commitments that arise.

At various times there maybe a significant amount of funds held to support the full or partial balance of one or more of the reserves.

Consistent with the Treasury Management Policy part or all of the available investment balance will used to minimise any net interest costs, by utilising funds to meet planned expenditure outlays and extinguish borrowings where possible.

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**4. POLICY STATEMENT (Cont'd)**

**4.3 Funded Reserves (Cont'd)**

Where interest earned has not been recognised when received as a result of this approach to financial management, the amount due will be calculated and applied to each reserve as if the calculated balance of the reserve was present and accumulating interest.

**4.4 Review**

A summary of the movement and balance of each financial reserve is included in the monthly financial report to Council.

**5. FURTHER INFORMATION**

This policy will be available to be downloaded, free of charge, from Council's internet site: [www.pirie.sa.gov.au](http://www.pirie.sa.gov.au)

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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## Appendix

### Asset Revaluation Reserve

| <b>Reserve Name</b>       | <b>Asset Revaluation Reserve</b>  |
|---------------------------|---|
| Purpose                   | Reflects the accumulated increments and decrements of non-current assets as a result of asset revaluation   |
| Calculation Base          | Revaluation of all classes of Non-current Assets as per Revaluation Schedule. External providers are sought to undertake these valuations which must be independent of Council. All valuations are reviewed by the Asset Management Committee, Audit & Risk Management Committee and adopted by Council |
| Interest applied          | Not Applicable  |
| Transfers from/to Reserve | Revaluation increments and decrements   |
| Target Balance            | No Target   |
| Responsible               | Director Corporate & Community  |
| Approval                  | Australian Accounting Board Standards.  |

### Externally Restricted Financial Reserves

| <b>Reserve Name</b>       | <b>Community Wastewater Management Scheme (CWMS) Reserves</b>  |
|---------------------------|--|
| Purpose                   | Net cost of operations for the CWMS in Crystal Brook and Napperby, including capital improvement and replacement, major repairs and ongoing maintenance.   |
| Calculation Base          | Raised on all properties in Crystal Brook and Napperby   |
| Interest applied          | Yes  |
| Transfers from/to Reserve | CWMS connection fee and Service charge income, net of all capital purchases and installation, repairs and maintenance, operating expenses, licencing, testing, inspections, pump outs, administration / operational overheads and a measure of the risk based cost of capital. |
| Target Balance            | No Target  |
| Responsible               | Director Development & Regulation  |
| Approval                  | Council at the time of establishment of the CWMS.  |

| <b>Reserve Name</b>    | <b>Developers Contributions Reserve</b>   |
|------------------------|---|
| Purpose                | For contributions received from property developers in lieu of infrastructure and open space construction |
| Calculation Base       | In accordance with Contribution Plans   |
| Interest applied       | Yes   |
| Transfers from Reserve | Cost for the construction of open space, parks and gardens  |
| Target Balance         | Developer contribution cash received is all fully expended in accordance with the planned works program   |
| Responsible            | Director Development & Regulation   |
| Approval               | Council at the time of establishment  |

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| <b>Reserve Name</b>    | <b>Unspent Grants Reserve</b>   |
|------------------------|---|
| Purpose                | Council receives grant funds for specific projects and purposes that are often unexpended across financial years. This reserve allows unexpended grant funds to be identified and retained for expenditure on the specific project/s for which the grant was intended in accordance with the funding agreement. |
| Calculation Base       | Unexpended grant at year end, restricted by specific obligations, as set out in grant agreement   |
| Target Balance         | No Target   |
| Interest applied       | When required under the terms of the funding agreement  |
| Transfers from Reserve | To expend as per conditions of the grant funding agreement  |
| Responsible            | Manager Corporate Services  |
| Approval               | Council - As required by the funding program or agreement   |

### **Internally Restricted Financial Reserves**

| <b>Reserve Name</b>       | <b>Economic Development Reserve</b>   |
|---------------------------|---|
| Purpose                   | Provide for development costs associated with preparation of valid parcel title and the provision of services to the land |
| Calculation Base          | Income received from sales of land  |
| Interest applied          | No  |
| Transfers from/to Reserve | Net amount from land asset sales for land development costs   |
| Target Balance            | No Target   |
| Responsible               | Chief Executive Officer   |
| Approval                  | Council 27 March 2019 (OM90/19)   |

| <b>Reserve Name</b>    | <b>Fisherman's Wharf Reserve</b>  |
|------------------------|---|
| Purpose                | Funds collected from mooring fees to be allocated to fund future Capital Works on Fisherman's Wharf                                       |
| Calculation Base       | Income received from the users of the Wharf as set out in the Fees and Charges Register   |
| Interest applied       | No  |
| Transfers from Reserve | Asset Purchases, Repairs and Maintenance, Depreciation, Power, Insurance, Licencing, Inspections, Administration / Operational Overheads, |
| Target Balance         | No Target   |
| Responsible            | Director Infrastructure   |
| Approval               | Council (unknown)   |

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