



Business Units Surplus Policy

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A - INTRODUCTION

1. Business Units are discrete areas of the organisation that operate on commercial or business principles. That is they operate in an environment of selling goods or services, setting prices and managing costs in order to provide a return or minimise the cost to Council. As such, a Business Unit is not necessarily defined by being a 'profit making' operation and can be deficit funded to provide services, albeit in a 'commercial like' environment (eg Recreation Centres). Business Units should be fully costed including finance, depreciation and a share of corporate costs. They are expected to develop good business cases for capital investment decisions.
2. The application of these disciplines enables Council to assess the performance of Business Units in commercial terms, examine pricing issues, asset utilisation, and the extent of subsidisation. It encourages managers to consider all costs when looking at revenue targets, as well as improving marketing analysis and techniques, and asset utilisation. This practice also protects Council from allegations of unfair competition by private operators of similar business.

B - SCOPE

1. This Policy applies to the following Business Units:
 - a. Nursery Business Unit
 - b. Water Business Unit
2. The Policy may also apply to Business Units (subject to Council resolution) for which the following questions can be answered in the affirmative:

- a. Is the Business Unit sufficiently large to justify a process of retained earnings?
- b. Is the Business Unit expected to make significant surpluses on a regular basis?
- c. Is there a purpose for utilising retained earnings in the Business Unit (eg future business investment needs, asset replacement, offset losses, dividend distribution etc)?

C – POLICY PURPOSE/OBJECTIVES

1. This Policy:
 - a. Establishes the use of Retained Earning Funds (Reserve Account) to prevent Business Units from inadvertently subsidising general council operations and compromising the rating effort needed to support normal services;
 - b. Specifies the purposes for which a Retained Earnings Fund may be used.

D - DEFINITIONS

1. **Business Unit** – discrete areas of the organisation that operate on commercial or business principles.
2. **Deficit** – a negative budget result after all operating income and expenditure has been accounted for, including finance, depreciation, provisions and a share of corporate costs.
3. **Retained Earnings Fund** – a Reserve Account into which budget surplus/deficit earnings from a Business Unit are transferred at the conclusion of each financial year.
4. **Surplus** – a positive budget result after all operating income and expenditure has been accounted for, including finance, depreciation, provisions and a share of corporate costs.

E - POLICY STATEMENT

1. The use of a Retained Earnings Fund will be limited to Business Units specified within this Policy.
2. A Retained Earnings Fund may be used for the purpose of:
 - a. Providing a buffer to offset against any future losses or other risks to the Business Unit;
 - b. Reinvesting in the business of the Business Unit;
 - c. Assisting in the replacement of assets of the Business Unit;
 - d. Distributing ‘dividends’ to Council general operations.
3. A Retained Earnings Fund may be comprised of one or more accounts (for example one for retained earnings and one for asset renewal) with separate transaction records maintained for each account.
4. Where borrowings exist for a Business Unit, in the first instance, cash generated from the funding of depreciation will be allocated to reduce those borrowings. Where borrowings have

been eliminated, any cash generated from the funding of depreciation may be allocated to any account within the Retained Earnings Fund.

F - LEGISLATION

1. *Local Government Act 1999*
2. *Local Government (Financial Management) Regulations 1999.*

G - REFERENCES

1. City of Salisbury Financial Reporting Process

Document Control

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