



City of Salisbury Values: Respectful, Accountable, Collaborative, Helpful

Business Units Reserves Policy

Adopted by:	Council
Responsible Division:	Financial Services
First Issued/Adopted:	25 July 2011
Last Reviewed:	27 March 2023 (Resolution No. 0175/2023)
Next Review Date:	December 2026

1. Purpose

1.1 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.

1.2 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. Business Units should recognise the full cost of operations including finance, depreciation and a share of corporate costs. They are expected to develop good business cases for capital investment decisions.

- 1.3 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 the consideration of all costs when setting 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.

2. Scope

- 2.1 This Policy applies to the following Business Units:
- a. Salisbury Water
- 2.2 The Policy may also apply to Business Units (subject to Council resolution) for which the following questions can be answered in the affirmative:
- b. Is the Business Unit sufficiently large to justify a process of retained earnings?
 - c. Is the Business Unit expected to make significant surpluses on a regular basis?
 - d. Is there a purpose for utilising retained earnings in the Business Unit (eg future business investment needs, asset replacement, offset losses, dividend distribution etc)?

3. Legislative Requirements and Corporate Policy Context

- Local Government Act 1999
- Local Government (Financial Management) Regulations 2011.

4. Interpretation/Definitions

- 4.1 **Business Unit** – discrete areas of the organisation that operate on commercial or business principles.
- 4.2 **Retained Earnings Fund** – a Reserve Account into which actual surpluses and deficits from a Business Unit are transferred at the conclusion of each financial year.
- 4.3 **Surplus** – a positive result after all operating income and expenditure has been accounted for, including finance, depreciation, provisions, and a share of corporate costs.
- 4.4 **Deficit** – a negative result after all operating income and expenditure has been accounted for, including finance, depreciation, provisions, and a share of corporate costs.
- 4.5 **Water License** – Is a license to obtain water from a prescribed watercourse, lake, well or underwater or surface water source.

5. Policy Statements

- 5.1 The use of a Retained Earnings Fund will be limited to Business Units specified within this Policy.
- 5.2 A Retained Earnings Fund may be used for the purposes detailed below following Council resolution:
 - a. Reinvesting in the business of the Business Unit;
 - b. Assisting in the replacement of assets of the Business Unit;
 - c. Offsetting future deficits up to but not exceeding the available balance
 - d. Distributing 'dividends' to Council general operations.
 - e. Specifically, for Salisbury Water, assisting in the acquisition of new water licenses as or when they become available
- 5.3 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.
- 5.4 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 Asset Renewal Account.
- 5.5 Ongoing Deficits which exceed the available balance for the respective business unit indicates that the operations are no longer commercially viable, and this policy should therefore not apply.
- 5.6 Allocations from a Retained Earnings account created under this policy can only be made in the following circumstances:
 - a. Following a resolution of Council
 - b. In the case of Salisbury Water, for the acquisition of water licenses up to an annual total of \$150,000, which will be subsequently reported in the relevant budget review or appropriate end of financial year report for purchases made subsequent to the Third Quarter Budget Review. Should additional funds be required this will necessitate a Council decision.

6. Related Policies and Procedures

- 6.1 N/A

7. Approval and History

Version	Approval Date	Approval By	Change
1	25 July 2011	Council 2011/522	Initial Policy
2	23 September 2013	Council 2013/1927	
3	26 October 2015	Council 2015/0688	Minor formatting
4	27 November 2017	Council 2017/2183	Treatment of Deficits added to the policy
5	25 November 2019	Council 0334/2019	Minor formatting
6	27 March 2023	Council 0175/2023	Policy updated to reflect revised formats. Inclusion of specific details in relation to the Salisbury Water Business Unit earnings.

8. Availability

- 8.1 The Policy is available to be downloaded, free of charge, from Council's website www.salisbury.sa.gov.au
- 8.2 The Policy will be available for inspection without charge at the Civic Centre during ordinary business hours and a copy may be purchased at a fee as set annually by Council.

City of Salisbury Community Hub
34 Church Street, Salisbury SA 5108
Telephone: 84068222
Email: city@salisbury.sa.gov.au

9. Review

This Policy will be reviewed within 12 months of a Council election and thereafter as necessary; or If deemed necessary by Council.

Further Information

For further information on this Policy please contact:

Responsible Officer: Senior Accountant

Address: 34 Church Street, Salisbury SA 5108

Telephone: 8406 8222

Email: city@salisbury.sa.gov.au