



## Business Units Reserves Policy

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<b>Approved By:</b>	Council	<b>Decision No:</b>	2008/1206, 2011/522, 2013/1927, 2015/0688, 2017/2183, 0334/2019
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<b>Department:</b>	Business Excellence	<b>Division:</b>	Financial Services
<b>Function:</b>	7 - Financial Management	<b>Responsible Officer:</b>	Manager Financial Services

### 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. 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. 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. **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.
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. **Deficit** – a negative 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 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.
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 Asset Renewal Account.

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.

## **F - LEGISLATION**

1. *Local Government Act 1999*
2. *Local Government (Financial Management) Regulations 2011.*

## **G - REFERENCES**

1. City of Salisbury Financial Reporting Process

### **Document Control**

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