


POLICY		Responsible Department	Finance
		Original Adoption Date	16.09.2005
		Current Adoption Date	27.09.2017
		Audit Committee Review Date	22.09.2017
		Date of Review	27.09.2020

TITLE	POLICY - BUSINESS UNITS FINANCIAL ACCOUNTING
Latest Review Changes	<p>27.07.2017</p> <p>Amended to reflect additional business units and revised method of allocating overheads</p>
Previous Council Reviews	<p>25.06.2012</p> <p>04.10.2012</p> <p>19.11.2012</p> <p>25 June 2012, 4 October 2012, 19 November2012</p>
Previous Audit Committee Reviews	<p>03.12.2015</p> <p>08.11.2012</p> <p>12.06.2012</p>

Applicable Legislation:

Local Government Act

Related Policies (alphabetical list):

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Related Procedures:

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Reference Documents:

<p>AEC (Australian Energy Regulator) 2008, <i>Electricity distribution network service providers, Cost allocation guidelines</i>, Canberra, June.</p> <p>SA Water, 2012, <i>Cost Allocation Methodology. SA Water Regulatory Business Proposal 2013. Version 1.0</i>, August.</p>

Local Government Association of SA, *A Guide to Implementing Full Cost Attribution*.
June 2001

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1. INTRODUCTION

The appropriate allocation of costs between, and within, each business unit is important to ensure Council knows the cost of each of the service it provides. It is particularly important to have accurate information about the cost of services when decisions are made about the allocation of resources and the setting of prices. Also, Council has many external reporting responsibilities and when it reports to its external stakeholders this should be done in a consistent, reliable and defensible way.

Paragraph 11 of the Local Government (Financial Management) Regulations 2011 requires that any external financial report of Council is to be made “according to a full cost attribution basis.” Council is required to make representation to the Essential Services Commission each year on its compliance, or otherwise, with the National Water Initiative Pricing Principles. One of these principles, Cost Recovery, requires a commitment to full cost recovery. Each year Council is required to complete a Supplementary Return for the Grants Commission each year. The information guide for this return explicitly requires administrative and indirect costs to be fully allocated to services.

2. BUSINESS UNITS

The provisions of the Roxby Downs (Indenture Ratification) Act 1982 (*“the Act”*), effectively create three (3) separate entities which for funding purposes have to be accounted for on a separate basis. These entities are:

- Municipal Operations;
- Roxby Power (Electricity Supply); and
- Roxby Water (Water & Sewerage Services).

In addition, Council believes it is appropriate to show the operations of Roxby Link (Cultural, Leisure and Sporting services) as a separate business unit.

3. GENERAL

For the purposes of determining the costs of operating each business unit, the following accounting principles will apply for all costs:

- Expenditure and Income is calculated on an “accrual basis”.
- Administrative costs incurred by the Municipal Operation associated with Roxby Link, Roxby Power and Roxby Water is to be apportioned on a full cost attribution basis to each relevant business unit by way of an internal overhead apportionment that “credits” the Municipal Operation with income.

4. PRINCIPLES

The following principles are to be observed in the distribution of overheads:

1. Overheads will be allocated to business units using a proportional cost allocation method.
2. Overhead costs shall be allocated to business units based on a causal allocator and within business units using the most practical method possible.
3. Overheads be calculated and journaled to business units on a quarterly basis based on actual expenses. Business unit overheads be included on all external budget reports and all financial statements.
4. Overhead allocations within business units to be made in Council’s reporting spreadsheets.
5. Overheads will not be allocated to capital expenditure.

5. ROXBY WATER

Under clause 13(22) of Schedule 1 of the Act, Roxby Water is permitted to return a Commercial Dividend to the Municipal Operation. This shall be only carried out when the amount of water & sewerage surplus is deemed prudent by the Council to do so.

6. DOCUMENTATION

The method of allocating overheads shall be documented and reviewed by the Senior Management Team each year.

7. REVIEW & EVALUATION

The effectiveness of this policy will be reviewed and no less than once every 3 years.