

POLICY



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Policy title: WATER BUSINESS RETURN TO COUNCIL
Directorate: ORGANISATIONAL SERVICES
Branch: FINANCE
Policy objective: To provide a policy framework for the setting and payment of returns to Council from the water business.

Policy scope:

This policy is to apply to Finance branch and the water business.

Definitions:

Not applicable.

Policy statement:

1. The water business pays a return to Council each year that includes income tax equivalents, a corporate charge and a dividend.
2. Income tax equivalents will be calculated in accordance with the Local Government Tax Equivalents Regime Manual and Rulings. Income tax equivalents will be calculated and paid monthly.
3. Corporate charges include the cost of services provided to the water business by other branches of Council, competitive neutrality adjustments, and land tax and duty equivalents. These charges are calculated during the annual budget process using an approved methodology. These charges will be paid on a monthly basis in accordance with the approved budget but may be subject to variation at year end where material differences are identified.
4. The dividend is a share of after tax profit distributed to the Council as owner of the water business. This dividend will be paid based on the actual performance of the water business.
5. The estimated dividend payable for the budget year will be determined through the annual budget process. This will take into consideration the budgeted business performance, the required dividend payout ratio, the debt requirements for the Capital Expenditure Program and the remaining cash flow available. The budgeted dividend will not exceed the budget net profit after tax.
6. The actual dividend will be calculated by multiplying the budgeted dividend percentage, or dividend payout ratio, by the actual net profit after tax of the water business. The actual dividend payable will vary from the budget due to fluctuations in the actual net profit after tax. The dividend will be calculated and paid on a monthly basis. At year end, the calculated dividend payable will be subject to there being sufficient cash flow available after funding of operational activities, capital expenditure and loan repayments.

7. Where the calculated dividend at year end exceeds the budgeted dividend, amounts may be transferred to the Water Reserve and Sewerage Reserve which are held in the water business's accounts, subject to the approval of the Executive Leadership Team (ELT). These transfers should be guided by the long term financial plan with a maximum of \$2 million held per Reserve (total of \$4m) to provide funding for future capital works.
8. Where the calculated dividend payable to Council at year end is less than the budgeted dividend, the shortfall will be met from the Water Returns Variation Reserve held in the accounts of the Finance branch.
9. Where the calculated dividend at year end is more than the budgeted dividend, the additional amount excluding any transfers to the Water Reserve and Sewerage Reserve in item 6, may be transferred to the Water Returns Variation Reserve. This decision will be guided by the balance of the Water Returns Variation Reserve.
10. Differences at year end in actual payments compared to budget for income tax and corporate charges, may be transferred to or from the Water Returns Variation Reserve. This decision will be guided by the balance of the Water Returns Variation Reserve.
11. The Water Returns Variation Reserve will only be used for the specific purpose of meeting shortfalls in the water business's budgeted dividends, income tax and corporate charges. The balance in the Water Returns Variation Reserve will be reviewed on an annual basis with a minimum held of 15% of the current year budgeted dividend. The percentage held will be subject to review by ELT. It will be the responsibility of the Finance branch to monitor the balance of this reserve and recommend options for funding where required.
12. Where income tax equivalents, corporate charges and the dividend differs from budget on a monthly basis, a monthly adjustment to or from reserve will be transacted in the Finance branch to ensure there is a nil impact on Council's accumulated surplus/(deficit).

Related policies/legislation/other documents:

DOC ID	DOCUMENT TYPE	DOCUMENT NAME