

2.6 SURPLUS FUNDS

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Policy Responsibility	Finance Manager		

Document History

Version	Date Amended	Details Comments e.g. Resolution Number
2.6.001	10/2/16	Remove years from policy

OBJECTIVE

This Policy outlines the process that should be followed to allocate surplus funds.

POLICY STATEMENT

Objectives

This Policy aims to ensure that surplus funds are allocated in a manner consistent with Council's view of long term financial sustainability and in line with best practice financial management.

Background

Section 127 of the Local Government Act and Section 13 of the Local Government (Accounting) Regulations both state that "a council must not budget for a deficit".

Section 13 of the Local Government (Accounting) Regulations define a deficit as:

A deficit occurs if overall expenditure for a financial year (disregarding depreciation) exceeds income. Transfers into, and out of, specific reserves are to be taken into account.

The above definition is followed when compiling the annual budget and the resulting Coomalie Shire Strategic Plan represents the reconciliation of Council's funding inflows, including transfers from reserves, matched with Council's funding outflows, including transfers to reserves.

Provided the net funding result from the annual budget is zero or positive, Council has met the requirements of the Local Government Act and Local Government (Accounting) Regulations.

A surplus occurs when funding inflows exceed funding outflows and the net funding result is positive.

Surplus funds can occur at any time including at the end of the financial year. Throughout the financial year, if surplus funds are identified then they are normally allocated through the quarterly budget review. At the end of the financial year it is necessary to wait until the annual financial statements have been verified through external audit to determine if surplus funds exist in the form of available net working capital. If available net working capital does exist at this time, and Council decides to utilise those funds as a surplus, then it should be dealt with under the process outlined in this Policy as should any significant surplus identified at any other time. An end of financial year surplus is considered to have occurred when net working capital is positive as measured by a review of working capital and the liquidity ratio.

Working capital is calculated by deducting current liabilities from current assets. If the result is positive then the entity has sufficient assets readily convertible to cash, including cash at bank and investments, to cover its current debts owed. In practical terms, working capital is having enough money to pay the current bills as they fall due.

Policy Statement

Surplus funds should not be used to fund discretionary expenditure throughout the year unless the expenditure falls within one of the priority groups outlined in this Policy.

The following priorities should be considered when allocating surplus funds in the order listed. However, Council's individual circumstances at the time the surplus funds are identified may impact on the order of priorities at that time.

Consider priorities in the Long Term Financial Plan

The first priority when allocating surplus funds should be to review Council's Long Term Financial Plan and the priorities contained therein. Specifically, Council should consider:

- Whether there are any projects that are funded from loan borrowings that could instead could be fully or partly funded by the surplus;
- Whether there are any priority projects deferred due to lack of available funding that could now be brought forward and funded by the surplus;
- Whether there are any areas in the Long Term Financial Plan where the surplus could be applied to alleviate pressure on rate increases or other fee and charge increases.
- If a priority is identified in the Long Term Financial Plan then the surplus should be transferred to a reserve clearly marked for that specific purpose until it is required.

Existing Borrowings

A review of existing borrowings should be undertaken if surplus funds are available as paying off existing debt will release funding equivalent to the annual loan repayment within the budget to redirect to other priorities.

Assess adequacy of Reserves

If surplus funds are available, a review should be undertaken to assess the adequacy of Council's reserves to determine if current levels are sufficient to meet future commitments.

Unfunded New Initiatives

Surplus funds could be considered to fund any priority new initiatives that were not funded in the current year's budget.

Future Year Budget Priorities

If the above priorities have been considered and surplus funds remain then any remaining funds should be transferred to a reserve to fund future year budget priorities.

Calculation of End of Financial Year Available Net Working Capital

To determine if available working capital at the end of financial year exists the following calculation should be undertaken, which is based on the working capital calculation adjusted for non-cash items. The required figures are available from the audited Statement of Financial Position as at 30 June:

Item	Reason Why Calculation Adjusted
Total Current Assets	
Less: Total Current Liabilities	
Less: Cash-backed Reserves	
= Working Capital	
Less: Non Current Assets Held for Sale if disclosed as a current asset	While cash may be received from the sale of assets, these funds will be placed in a reserve at the time they are received
Plus: Current Borrowings (principle only)	Current loan repayments are already included in the budget
Less: Non Current Employee Leave Entitlement Provisions	While not a current liability, all ELE provisions should be provided for
= Available Net Working Capital	

The calculation should be reviewed in line with the effect on the liquidity ratio.

Council's liquidity ratio target is greater than 1.00:1. If the effect of utilising the available working capital reduced the liquidity ratio to below the target then it should not be used.

Council does not have any borrowings so the liquidity ratio based on the financial statements is not applicable. Should items within the Statement of Financial Position be reclassified or new items appear in the future then the above calculation would need to be reviewed in line with this.

Risk Considerations

Utilisation of available working capital as a surplus should be undertaken in the context of Council's overall approach to risk. Consideration should be given to the level of cash-backed internal reserves and the budgetary environment that Council is operating in at

the time. In periods of uncertainty available working capital can provide a buffer against budget shocks or unforeseen events.

Legislation, terminology and references

Legislation

Section 127 of the Local Government Act

Section 13 of the Local Government (Accounting) Regulations

Implementation and delegation

Implementation of this policy is by way of identification of surplus funds and application of this policy in review of allocation of surplus funds.

Evaluation and review

This policy will be reviewed bi-annually or as required by changes in legislation.