

# Allocation of surplus funds

## Policy No. 3020.100.E.R

### 1 Purpose

This policy outlines the process that should be followed to identify and allocate surplus general funds and to ensure that surplus general funds are allocated in a manner consistent with City of Darwin’s view of long-term financial sustainability and the long term needs of City of Darwin.

### 2 Scope

This policy applies to the allocation of any surplus funds that are identified after the end of financial year, resulting from budget savings or increased revenue.

### 3 Policy statement

Working capital is calculated annually, after the financial statements have been verified by external audit by deducting current liabilities from current assets (net 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 obligation/bills as they fall due. However, it is prudent to hold excess cash as the timing of payables and actual receipt of receivables can fluctuate significantly throughout the financial year.

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, circumstances at the time the surplus funds are identified may impact on the order of priorities at that time.

#### 3.1 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 any projects that funded from loan borrowings could instead be fully or partly funded by the surplus
- whether there are any priority projects deferred due to lack of available funding, such as maintenance and renewals, that could now be brought forward and funded by the surplus.

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.

Version:	Decision Number:	Adoption Date:	Next Review Date:
3	ORD737/23	28 November 2023	28 November 2027

**Responsible Officer:** Chief Financial Officer

*Electronic version current. Uncontrolled copy valid only at time of printing.*

### Other following priorities for consideration in order of rank:

- repayment of existing borrowings (when economic benefit is achieved) and/or offsetting City of Darwin's variable loans to reduce interest.
- ensuring adequacy of City of Darwin's reserves.
- improving City of Darwin's Asset Renewal Ratio performance via transfer to Asset Replacement & Refurbishment Reserve to support future ongoing capital renewal programs.
- funding new initiatives, in order of prioritisation made in the annual budget deliberations, that were not funded in current year's budget.
- funding future year budget priorities.

### 3.2 Calculating end of financial year available 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 for adjustment
Total current assets	
Less total current liabilities	
= <i>Working capital</i>	There should be sufficient liquidity to cover a minimum of 2:1 current liabilities for day-to-day operations before proceeding to next steps.
Less cash-backed reserves	Working capital must be able to fund cash backed reserves before declaring any surplus.
= 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. For example, usually only fleet operations and is required in the budget to go towards replacements, therefore not free/available surplus funds.
Less non-current employee leave entitlement provisions	While not a current liability, all ELE provisions should be backed by realisable assets. Currently they are backed by working capital and therefore this amount is not considered to be free/available funds.
= Free / available working capital	

If the result of the calculation is positive then available working capital exists that can be allocated as per this Policy. Utilisation of the available working capital as a surplus should be undertaken in the context of Council’s overall approach to risk. As such a reasonable balance (minimum of 1% general rates revenue) of the above free/available working capital calculation should be retained as available working capital as a buffer against budget shocks or unforeseen events.

To remain prudent and conservative a second test should be undertaken to check the possibility that there is insufficient cash liquidity at preceding financial year end to cover cash-backed reserves 30 June plus any proposed transfer to reserve or other utilisation of the apparently free/available working capital of the above calculation as if that transfer was being actioned at 30 June.

This test can be conducted by following the table below:

Item
Cash and cash equivalents at 30 June
Plus other financial assets and investments at 30 June
= Total financial assets at 30 June
Less total other reserves at 30 June (internally and externally restricted ‘cash-backed’ reserves only)
= Unrestricted financial assets at 30 June
Less proposed transfer of available working capital to cash-backed reserves (or other proposed utilisation)
= Remaining unrestricted financial assets (negative result means insufficient liquidity to action the transfer or other utilisation)

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.

## 4 Definitions

**Current assets** means assets expected to be realised within 12 months after the reporting period.

**Current liabilities** means liabilities expected to be settled within 12 months after the reporting period.

**Net current assets** means current assets less current liabilities.

**Working capital** means net current assets. In other words, net assets that are continually circulating.

## 5 Legislative references

N/A

## 6 Procedures / related documents

0067.100.E.R Financial Reserve Policy

AASB 101 Presentation of Financial Statements

## 7 Responsibility / application

The Chief Financial Officer is responsible for the implementation and ensuring compliance with this policy.

This policy will be reviewed every four years or as required.