

# Allocation of Surplus Funds Policy

Council Policy



|                     |                                    |                  |            |
|---------------------|------------------------------------|------------------|------------|
| Policy Name         | Allocation of Surplus Funds Policy |                  |            |
| Type                | Council Policy                     |                  |            |
| Owner               | Chief Financial Officer            |                  |            |
| Responsible Officer | Manager Finance                    |                  |            |
| Decision Number     | 22819                              | Approval Date    | 28/11/2023 |
| Records Number      | D2024/003689                       | Next Review Date | 2027       |

## 1 Purpose

This policy outlines the process that should be followed to calculate and allocate surplus funds (or untied cash position) to ensure that they are allocated in a manner which is consistent with Alice Springs Town Council's Long-Term Financial Plan and its strategic priorities.

## 2 Definitions

For the purposes of this policy, the following definitions apply:

| Term                    | Definition                                                                                    |
|-------------------------|-----------------------------------------------------------------------------------------------|
| Current assets          | Assets expected to be realised within 12 months after the reporting period (AASB 101)         |
| Current liabilities     | Liabilities expected to be settled within 12 months after the reporting period (AASB 101)     |
| Non-current assets      | Assets not expected to be realised within 12 months after the reporting period (AASB 101)     |
| Non-current liabilities | Liabilities not expected to be settled within 12 months after the reporting period (AASB 101) |
| Working Capital         | Net current assets, which are net assets that are continually circulating (AASB 101)          |

## 3 Policy Statement

This policy applies to the calculation and allocation of surplus funds that are identified after the end of year resulting from budget expenditure savings or increased revenue.

Surplus funds should be calculated annually after the financial statements have been verified by the external audit. Surplus funds should not be used to fund discretionary expenditure throughout the year unless the expenditure falls into one of the priority categories set out in this policy. Council should consider the surplus cash position and its allocation as part of the End of Financial Year Report.

The calculation should be in accordance with the methodology set out in this policy.

# Allocation of Surplus Funds Policy

## Council Policy



This policy should be reviewed annually to consider any changes required to the calculation methodology, should any reclassification of items within the Statement of Financial Position occur or new items appear.

### 3.1 Calculation Methodology

To determine if surplus cash at the end of the financial year exists, the following calculation should be undertaken. The required figures are available from the audited Statement of Financial Position as at 30 June each year. The calculation deducts current liabilities from current assets. It takes account of cash provisions and also cash-backed reserves.

| Item                                         | Explanation                                                                                                                                             |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Cash at Bank</b>                          | Includes cash at bank on hand in operations account and also term deposits invested for fixed periods                                                   |
| Add:<br><b>Trade &amp; other receivables</b> | Includes outstanding rates and user charges, accrued revenues and makes allowance for doubtful debts                                                    |
| Less:<br><b>Trade &amp; other payables</b>   | Includes grants and subsidies paid in advance, accrued expenses (employee entitlements and other), trust account and rates paid in advance.             |
| Less:<br><b>Employee provisions</b>          | Includes provision for annual leave and long service leave (current and non-recurrent). Even non-current liability should be backed by realisable cash. |
| Less:<br><b>Other Provisions</b>             | Includes other cash provisions such as landfill restoration. This should be backed by realisable cash.                                                  |
| Less:<br><b>Reserves</b>                     | Includes all externally and internally restricted cash-backed reserves. This should be backed by realisable cash.                                       |
| Equals:<br><b>Surplus Cash Position</b>      | Funds available for allocation in accordance with policy.                                                                                               |

If the result of the above calculation is positive then surplus cash exists to be allocated in accordance with this policy.

A reasonable balance (minimum of \$1,000,000) of the above surplus cash should be retained as available working capital as a buffer against budget shocks or unforeseen circumstances.

When undertaking a cashflow analysis to determine available funds for investment, in accordance with the Investment Policy, sufficient cash at bank on hand should be maintained for Council's ongoing operations.

A working capital (total current assets less total current liabilities) to current liabilities ratio of 2:1 should be maintained. In practical terms, working capital is having enough money to pay the current obligations as they fall due. To remain prudent and conservative and ensure that there is sufficient cash liquidity, this ratio calculation should be undertaken prior to any surplus cash is allocated.

# Allocation of Surplus Funds Policy

Council Policy



## 3.2 Allocation of Surplus Cash

The allocation of any surplus cash should be in accordance with the following priorities:

- Allocation to reserves for future renewal of infrastructure assets.
- Bringing forward of any projects or initiatives which are included in the Long-Term Financial Plan (including Four-Year Capital Expenditure Program), with the appropriate adjustments to the Long-Term Financial Plan to reflect the revised timing.
- Projects or initiatives which align to Council endorsed strategies and plans.
- Allocation to projects or initiatives that will result in efficiencies and cost savings, with a reasonable return on investment period.
- Allocation to urgent maintenance which was not evident at budget adoption.

The proceeds from sale of assets should be transferred to reserve for the replacement or renewal of the same asset category, unless specifically determined otherwise by Council. Proceeds from sale of land should be allocated to facilities renewals unless Council deems that another asset category has a greater priority.

## 4 Responsibilities

- The Chief Financial Officer is responsible for calculating the surplus cash position.
- The Chief Executive Officer is responsible for approving the calculation and presenting to Council for endorsement.
- The Chief Executive Officer is responsible for recommending allocation of surplus cash based on this policy.
- Council is responsible for enduring the surplus cash position and its allocation based on this policy.
- The Chief Executive Officer and Directors are responsible for arranging delivery of projects and initiatives to which surplus cash has been allocated to.

## 5 Related Documents

- Investment Policy
- Reserves Policy

# Allocation of Surplus Funds Policy

Council Policy



## 6 Version History

| Version | Date       | Action/Description of changes made | By                          |
|---------|------------|------------------------------------|-----------------------------|
| V00.01  | 19/10/2023 | Draft of new policy                | Director Corporate Services |
|         |            |                                    |                             |
|         |            |                                    |                             |

## 7 Communication and Training

|                                                                                 |                         |
|---------------------------------------------------------------------------------|-------------------------|
| Will this policy be communicated through internal communications?               | No                      |
| Where will this policy be available?                                            | ASTC Website            |
| Will training needs arise from this policy?<br>If yes, who will be responsible. | Chief Financial Officer |