11. ALLOCATION OF WORKING CAPITAL

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The purpose of this report is to advise the Council of surplus working capital available and obtain authority to apply it to future years budgets to reduce and smooth future rate increases.

BACKGROUND

The outcome of each year's financial operations usually produces a small surplus or deficit which is normally carried by an adjustment to the Council's working capital balance.

Working capital is the net amount in the accounts needed to finance net current assets and liabilities and these fluctuate from year to year depending on the issues outstanding at any time. With the introduction of accrual accounting there have progressively been new liabilities which the Council has been required to recognise in its balance sheet and many of these have not had funding set aside for them. This has been a cause for concern.

REVIEW OF WORKING CAPITAL REQUIREMENTS

From time to time I undertake a full review of the level of working capital reserves needed for the Council's operations, usually following the completion of the annual audit. Such a review has just been completed.

With the exception of current debt (which is otherwise allowed for) all the current liabilities on the Council's balance sheet are now fully funded and this gives the Council a more comfortable working capital position. After allowing for the funding of projects carried forward it is apparent that there is a surplus of $4 million which can now be made available for other purposes.

APPLICATION OF SURPLUS

The Council uses the annual plan process as its prime method of prioritising expenditure and often the Council has to drop out projects which it sees as worthy but are lower priority than other issues. It is therefore appropriate that these funds should be reallocated through that process rather than applying them directly to one particular project in isolation.

The Council has quite reasonably expressed concern about forward rate forecasts over the next few years and the careful application of these funds has the potential to reduce these increases. This can best be achieved by transferring the funds into the Income Equalisation Reserve, which the Council created last year, and allowing the Annual Plan Subcommittee to apply the funds in a way which will help to smooth out the increases over several years. If applied all at once it could have the impact of producing a steeper increase in the following year.

CONCLUSION

These funds have accumulated from surplus income over previous years and should be reserved to be applied in reduction of rates in future years.

Staff Recommendation: That a sum of $4 million be transferred from working capital to the Income Equalisation Reserve and be considered by the Annual Plan Subcommittee as a source of funds to apply in the next annual plan round to smooth and reduce future rate increases.

Chair's Recommendation: That the above recommendation be adopted.