

Prudential Management Policy

Strategic Reference	Objective 3; a prosperous and sustainable district. Strategy 3.8; ensure Council finances and assets are managed to support changing community needs in a sustainable and cost-effective manner.
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Responsibility	Community & Corporate Department
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Applicable Legislation	Local Government Act 1999 section 48 Work Health and Safety Regulations 2012 (SA)
Related Policies	Procurement Policy Internal Control Policy Risk Management Policy
Related Documents	Long Term Financial Plan 2016/17 – 2025/26 Financial Sustainability Information Paper No. 27: Prudential Management at http://www.lga.sa.gov.au/ Infrastructure & Asset Management Plan Risk Management Plan Contract Management Procedure

1. Purpose and scope

This document sets out Coorong District Council's policy for prudential management of projects.

For large projects, commercial or non-commercial, section 48(1) of the Act requires that a full prudential report be prepared for Council. A report under section 48 will be regarded as the highest-level, most thorough type of due diligence report (DDR) for the purposes of this policy.¹

Section 48(aa1) of the Local Government Act requires Council to also develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the Council:

¹ Information about the legal requirements and restrictions that apply to a full prudential report under section 48 of the Act are outlined in the LGA's Financial Sustainability Information Paper No. 27: *Prudential Management* at <http://www.lga.sa.gov.au/goto/fsp>

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- (a) acts with due care, diligence and foresight;
- (b) identifies and manages risks associated with a project;
- (c) makes informed decisions;
- (d) is accountable for the use of Council and other public resources.

As such, this Policy applies to all Council projects (as defined below), no matter how large or small, to ensure that decisions are taken based on reliable, accurate and timely information. All projects should be considered in the context of not only this policy, but also Council's Risk Management Plan and Policy.

2. Definitions

For the purposes of this policy:

“Project” - a new and discrete undertaking or activity that would involve the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset.

This should not be interpreted to mean that all Council activities are “projects”. Regular, ongoing delivery of Council services are not “new and discrete” activities and therefore are not included within this definition. A project is a temporary endeavour with a defined beginning and end. The nature of projects stands in contrast to business as usual (or operations) which are repetitive, ongoing functional activities to provide services.

Simply purchasing an item of plant or equipment, (e.g. a single vehicle) or a parcel of land will constitute a “project” if the purchase is not part of a wider project or part of ongoing operations. Any purchase must comply with Council's Acquisition of Goods and Services Policy. However, a “project” will typically involve more than merely purchasing. It will always involve Council staff time, often in undertaking activities in association with other organisations. On the other hand, a project need not entail any expenditure. It may include, for example, receiving land or other assets for free, or granting permission for a private activity on Council land.

“Prudential Management” - taking a precautionary approach to proposed projects.

Prudential management attempts to foresee what adverse financial consequences might arise from any project that Council is contemplating, and requires managing the project in such a manner as to capture the proposed benefits, while minimising, offsetting or otherwise taking account of the foreseeable financial risks.

“Decision-maker” - the elected Council or, where able to be delegated, the CEO and his sub-delegates

“Due Diligence” - the conduct of a systematic review of a transaction, prior to entering the transaction.

It has been defined in landmark legal cases as:

“a minimum standard of behaviour involving a system which provides against contravention of relevant regulatory procedures and adequate supervision ensuring the system is carried out” and

“indistinguishable from the obligation to exercise reasonable care”

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3. Policy Statement

Coorong District Council recognises the need to balance the value of community outcomes against the cost of achieving those outcomes.

The efficient and cost effective use of public funds is a fundamental of good government. A culture of public sector management that fosters accountability, integrity and due process results in the efficient use of public resources.

The objective of this policy is to ensure that Council projects:

- achieve identified public benefits and/or needs and
- minimise financial risks

by:

- making a decision to proceed only after an appropriate level of due diligence has been applied;
- appropriate management of the project; and
- evaluation after the project.

The objectives of this Policy shall be considered in a report on any potential project, regardless of the financial impact or the size of the project.

4. Deciding upon an appropriate level of due diligence

Any proposed project must first be assessed as to the level of due diligence that is required.

Council's record of delegations lists the powers that the Council has delegated to the Chief Executive and/or other managers, including the power (depending upon budgetary allocations and other Council policies) to approve some projects. The record of delegations may distinguish types of projects that a specific manager is permitted to approve.

Therefore, for a particular proposed project, (depending on the record of delegations) the decision-maker may be the Council, the Chief Executive Officer, or a manager.

When approval is being sought or considered for a specific proposed project, information must be provided to the decision-maker to indicate approximately, at first instance:

- the specific benefits or needs to be addressed;
- the extent to which it may be substantially similar to other past projects;
- the expected whole-of-life costs of the proposed project; and
- what, if anything, is known about the levels of financial risk that may be involved.

4.1 Two threshold questions

The decision-maker will then make an evaluation as to the extent of due diligence that must be embarked upon before any subsequent decision is made whether or not to proceed with the proposed project.

As a first step, the decision-maker must ascertain:

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- whether funding of the whole-of-life costs of the proposed project will (or might) require additional allocations beyond those already accommodated in Council's Long Term Financial Plan; and
- whether the proposed project will (or might) generate any additional financial risk for the Council.

Seeking the answers to these two questions is a threshold 'due diligence' test. If the decision-maker is sure that whole-of-life costs and financial risks are already accounted for, Council will record its reasons for *not* obtaining a due diligence report and no further action is necessary. However, in many cases, the decision-maker will not be sure of these answers, and will require a further step.

4.2 Due diligence report (DDR)

To resolve any remaining doubt, the decision-maker must request preparation of a due diligence report.

The minimum requirements for effective due diligence includes:

- management procedures and controls to be put in place to undertake the project
- benefits and costs of the project to be identified
- assessment of the risks of the project including financial, political, social, community and environmental impacts.

4.3 Prudential management report

A full prudential report may also be commissioned under section 48, "for any other project for which Council considers that it is necessary or appropriate". All projects (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body):

- (a) where the expected expenditure of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or
- (b) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4.5m (indexed)² require a full prudential report in accordance with the Act.

4.4 Work Health Safety (WHS) Management Plan

The Work Health Safety Regulations SA 2012 place specific requirement on construction projects. Under regulation 292, where the cost of construction work is \$450,000 or more, a WHS Management Plan is required. A WHS Management Plan for a construction project must include:

- the name, position and responsibilities of everyone at the workplace who has specific health and safety responsibilities for the project
- arrangements in place, between any Person Conducting Business or Undertaken (PCBU) at the workplace where the construction project is being undertaken, for consultation, co-operation and the co-ordination of activities in relation to compliance with their duties under the Work Health and Safety Act 2012 (SA) and the WHS Regulations
- arrangements in place for managing any work health and safety incidents that occur

² Section 48(6d) provides for the indexation of this threshold amount, in line with the Consumer Price Index for Adelaide. Between 2009 and 2015, the figure was adjusted from \$4 million to \$4.52 million.

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- any site-specific work health and safety rules, and the arrangements for ensuring that everyone at the workplace are informed of these rules
- arrangements for the collection, assessment, monitoring and review of Safe Work Method Statements at the workplace.

Refer to Regulations 309-313 of the WHS Regulations for details of more specific obligations relating to WHS Management Plans.

Council may require WHS Management Plans for projects of a lesser value from time to time, dependent on risk.

5. Due diligence before a decision on whether to proceed

Depending upon the extent of due diligence required by the decision-maker, a DDR of greater or lesser detail will be prepared. This DDR shall include, in relation to the proposed project:

- an analysis of the need or demand;
- identification and quantification of the expected financial and other benefits;
- identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- assessment of the associated financial risks, (including the financial risks of not proceeding or delaying the project) and consideration of ways they can be managed and/or mitigated;
- an evaluation that weighs up all of the factors above.

For the smallest projects with least financial risk, this DDR may comprise only a single page and may be prepared by a single staff member. Larger, more complicated and/or financially riskier projects will require a DDR containing correspondingly more information and risk assessment and identified risk mitigation measures, as required by the decision-maker, with input from two or more officers. The DDR will be typically prepared by the Community & Corporate Department, but will be commissioned by the staff member responsible for the project and/or the decision maker.

For example, the decision-maker may request a DDR from a working party of Council officers, or an external consultant, or a combination of both. Consideration will be given to whether those preparing a DDR require special skills such as engineering, finance, project management, town planning etc.

In requesting and preparing a DDR, the decision-maker and Council officers must consider whether the proposed project has, over the life of the project, a likelihood of financial risk that cannot be regarded as minor or unlikely to occur.

6. Due diligence during a project

After a decision has been made to commence a project, it will be managed according to the principles of due diligence.

Coorong District Council will take action to manage the project so that:

- the project remains focussed upon the expected public benefits and/or needs that have been identified in the DDR; and
- **all risks** identified in the DDR are managed appropriately.

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7. Due diligence after a project

After a substantial project has been completed, it will be evaluated, according to the principles of due diligence, to determine the extent to which the project:

- has achieved the public benefits and/or needs identified in the DDR that it was intended to achieve or satisfy; and
- has avoided or mitigated **all** risks identified in the DDR.

The subsequent report will be provided to Council's 'Elected Members' and 'Audit Committee'.

8. Further information

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's website: www.coorong.sa.gov.au.

Coorong Civic Centre

95 - 101 Railway Terrace
Tailem Bend
Phone: 1300 785 277
Fax: 8572 3822

Meningie Hub

49 Princes Highway
Meningie

Information

Tintinara Customer Service Centre

37 Becker Terrace
Tintinara

Copies will be provided to interested parties upon request. Email council@coorong.sa.gov.au.

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer of Council.