

## 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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Next review date	Every three years, March 2024 (or when significant legislative changes occur pertaining to s48 of the Local Government Act 1999)
Applicable Legislation	Local Government Act 1999 section 48
Related Policies	Procurement Policy Internal Control Manual
Related Documents	Long Term Financial Plan

### 1. Purpose and scope

This policy has two objectives:

- i. To ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project; and
- ii. To ensure that each Council project is:
  - Managed during the project;
  - Evaluated after the project, to achieve identified public benefits or needs; and
  - To minimise financial risks.

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### **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. For example, purchasing an item of plant or equipment (ie. a single vehicle) or a parcel of land will constitute a “project” if the purchase is not part of a wider project or ongoing operation. Any purchase must comply with Council’s Procurement Policy and Disposal of Land and Other Assets Policy.

**“Due Diligence”** – describes the conduct of a systematic review of a transaction, prior to entering the transaction and an obligation to exercise reasonable care.

### **3. Policy**

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.

Council describes prudential management as taking a precautionary approach to proposed projects. Prudential management attempts to foresee what adverse financial consequence may arise from any project that Council is contemplating, and requires management of the project in such a manner as to capture the proposed benefits, while minimising, offsetting or otherwise taking account of the foreseeable financial risks.

### **4. Legislation**

This policy is made pursuant to Section 48(aa1) of the Local Government Act 1999 which provides:

*A Council must develop and maintain prudential management policies practices and procedures for the assessment of projects to ensure that the Council:*

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

Without limited Subsection 48(aa1), a Council must obtain and consider a report that addresses the prudential issues set out in Subsection (2) before the Council:

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- (a) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body);
- (i) 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
- (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
- (iii) where the Council considers that it is necessary or appropriate.

Section 48(3) of the Act states that:

*A report is not required under subsection (1) in relation to:*

- (a) road construction or maintenance; or  
(b) drainage works

As such, this policy applies to all Council projects that are covered under the legislative definitions above, and other projects deemed necessary by the Council or Chief Executive Officer based on the general risk of the project proposal.

### **5. 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.

The Chief Executive Officer has delegated authority to exercise some of Council's powers (depending upon budgetary allocations and other Council policies) to approve project and expend funds. Therefore, for a particular project, the decision maker may be the Chief Executive Officer, relevant departmental Director or the Council.

As a guide, Prudential Reports will only be obtained based on the provisions of Section 48(1)(b) of the Local Government Act 1999.

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

- the specific benefits or needs to be addressed by the proposed project;
- the extent to which the proposed project 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.

### **6. Two threshold questions**

The decision maker accordingly will 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.

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As a first step, the decision maker must ascertain:

- 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 and a recorder reasons for *not* obtaining a due diligence report is required, no further action is necessary. However if not, the decision maker will be required to take a further step.

### **7. Due diligence report (DDR)**

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

For large commercial or non-commercial projects, 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 and most thorough type of DDR for the purposes of this policy.

A full prudential report may also be commissioned under Section 48 for "any other project for which the Council considers that it is necessary or appropriate".

For any project that involves:

- (i) other than insignificant or minor whole of life costs; and/or
- (ii) other than an insignificant or minor likelihood of financial risk occurring.

A DDR must also include a project feasibility study to provide a high level consideration of the expected costs and revenues over the life of the project, using discounted cash flow analysis. One important aspect that will be considered in such a study is the reliability of these costs and revenues within these calculations, particularly if revenues are dependent on future market conditions.

### **8. Due diligence before a decision on whether to proceed**

Depending on the extent of due diligence required by the decision maker, a DDR of greater or lesser detail will be prepared. This DDR will 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 proposed 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

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financially riskier projects will require a DDR containing correspondingly more information and assessment, as required by the decision maker, with input from two or more officers.

### **9. 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.

Council will take action to manage the project so that:

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

After a 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 or needs identified in the DDR that it was intended to achieve or satisfy; and
- has avoided or mitigated the financial risks identified in the DDR.

### **10. Prudential management process summary**

1. Determine if the proposed project falls within the definition of “project” in the policy. If yes, follow policy requirements. If no, refer to other policy documents (Procurement Policy).
2. Determine if the project is captured by Section 48 of the Local Government Act 1999 (see page 4) thereby requiring a Prudential Report. If yes, obtain Prudential Report. If not, the level of due diligence is determined by the Chief Executive Officer based on information provided including:
  - 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 project; and
  - what, if anything, is known about the levels of financial risk that may be involved.

The Chief Executive Officer will need to ascertain:

- 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.
3. The Chief Executive Officer/Director may require a Due Diligence Report. Such a report will include:
    - an analysis of the need or demand;
    - identification and quantification of the expected financial and other benefits;
    - identified and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;

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- assessment of the associated financial risks (including the financial risk 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.

#### **11. Availability/Accessibility**

This policy is available for inspection at Council's offices during normal business hours and on Council's website.

#### **12. Document history**

This policy shall be reviewed at least every three (3) years or more frequently if legislation or Council requires.

### **Prudential Management Policy**

<b>Version</b>	<b>Adopted</b>	<b>Minute No</b>	<b>Description of change(s)</b>
1	18 December 2012	450/12	New policy
2	21 April 2015	081/15	Cyclical review
3	21 March 2017	046/17	Cyclical review
4	16 October 2018	210/18	Cyclical review
5	20 April 2021	073/21	<ul style="list-style-type: none"><li>• Consolidation of Purpose and Scope</li><li>• Removal of superfluous definitions</li><li>• Consolidation of Policy Statement</li><li>• New clauses:<ul style="list-style-type: none"><li>- Legislation</li><li>- Deciding on an appropriate level of due diligence</li><li>- Due Diligence Report provisions</li></ul></li><li>• Summary of the prudential management process</li></ul>