

PRUDENTIAL MANAGEMENT POLICY	
Council Policy	
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1. POLICY STATEMENT

- 1.1 Council must develop and maintain prudential management policies, practices, and procedures for the assessment of projects to ensure that the Council:
- acts with due care diligence and foresight; and
 - identifies and manages risks associated with a project; and
 - makes informed decisions; and
 - is accountable for the use of Council and other public resources.

2. PURPOSE

2.1 Purpose

- 2.1.1 To ensure that a Council project is undertaken only after an appropriate level of 'due diligence' (refer LGA's *Financial Sustainability Information Paper No. 27*) is applied to the proposed project; and
- 2.1.2 To ensure that each Council project is:
- managed during the project; and
 - evaluated after the project,
- 2.1.3 to achieve identified public benefits or needs; and to minimise financial risks as per Section 48 of the Local Government Act.

2.2 Scope

This Policy applies to all Council projects, no matter how large or small, to ensure compliance with this provision, and that decision-making in respect of any project is made with reliable, accurate and timely information.

2.3 Definitions

A **project** may be defined as '*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*'

The temporary nature of projects stands in contrast to business as usual (or operations) which are repetitive, ongoing functional activities to produce products or services.

All projects should be considered in the context of not only this policy, but also Council's Risk Management Plan.

2.4 Strategic Reference

5 Governance and Financial Sustainability

5.3 We are in a surplus financial operating position

5.5 We meet or exceed legislative and accreditation requirements for all relevant programs.

3. PRINCIPLES

3.1 DECIDING UPON AN APPROPRIATE LEVEL OF 'DUE DILIGENCE'

- 3.1.1 Any proposed project must first be assessed as to the level of due diligence that is required.
- 3.1.2 A Director or the Chief Executive Officer has delegated authority to exercise some of the Council's powers to approve projects (depending upon budgetary allocations and other Council policies). Therefore, for a particular project, the decision-maker may be a Director, the Chief Executive Officer or the Council.
- 3.1.3 When approval is being sought or considered for a specific 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, including both operating and capital costs, of the project; and
 - what, if anything, is known about the levels of risk that may be involved (*refer LGA Financial Sustainability Information Paper No. 22*).

3.1.4 Two Threshold questions

The decision-maker accordingly should 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:

- 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 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 risks are already adequately managed and accounted for, then no further action is necessary. However, in many cases, the decision-maker will not be sure of these answers, and will require a second step.

3.1.5 Due Diligence Report

To resolve any doubt, the decision-maker must request preparation of a **due diligence report** (DDR). Section 48(1) of the Act requires that a full prudential report be prepared for Council for large projects (excluding road works and drainage) as specified in the legislation:

- Where the expected expenditure of the Council over the ensuing five years is likely to exceed 20% of the Council's average annual operating expenses over the previous five financial years (as shown in Council's financial statements); or
- Where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed).

A report under Section 48 will be regarded as the 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’.

3.2 DUE DILIGENCE BEFORE A DECISION ON WHETHER TO PROCEED

3.2.1 Depending upon 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:

- a) an analysis of the need or demand;
- b) identification and quantification of the expected financial and other benefits;
- c) identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- d) 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;
- e) an evaluation that weights up all of the factors above.

3.2.2 For the smallest projects with least risk, this DDR may comprise only a single page and may be prepared by a single staff member. Larger, more complicated and/or 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. Consideration will be given to whether those preparing a DDR require special skills such as engineering, finance, banking, town planning etc.

3.2.3 In requesting and preparing a DDR, the decision maker and Council Officer must consider the level of project risk, by reference to Council’s Risk Management Policy. For projects where the risk is determined to be high or extreme, 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.

3.3 DUE DILIGENCE DURING A PROJECT

3.3.1 After a decision has been made to commence a project, it will be managed according to the principles of due diligence. The Council will take action to manage the project so that:

- a) the project remains focussed upon the expected public benefits or needs that have been identified in the DDR; and
- b) financial risks identified in the DDR are managed appropriately.
- c) actual expenditure is monitored against the budget during the project period.

3.4 DUE DILIGENCE AFTER A PROJECT

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

- a) has achieved the public benefits or needs identified in the DDR that it was intended to achieve or satisfy; and
- b) has avoided or mitigated the risks identified in the DDR.
- c) has been completed within the allocated budget.

The evaluation report will be submitted to the Audit and Risk Committee and Council for noting.

4. RESPONSIBILITY & REVIEW

4.1 Responsible Officer

Director - Corporate and Community Services

4.2 Availability

This policy will be available on Council's website.

4.3 Review

This policy will be reviewed within 12 months of a General Election for Local Government, or as required to meet other obligations.

5. REFERENCES

5.1 Legislation

Section 48 Local Government Act 1999

5.2 Other References

LGA Financial Sustainability Information Paper No. 27 - February 2015
Risk Management Framework
Internal Financial Controls Policy
Fraud and Corruption Policy
Procurement Policy
Risk Management Policy