

Policy Document

PRUDENTIAL MANAGEMENT POLICY

Policy No: DCSB-FM-07.13	Version No: 1.2	Administered by: Chief Executive Officer
Approved by: Council	Approved on: 19 March 2020	Agenda Item/Minute Book No or Approval Ref: 61/20
Last Reviewed: 23 June 2016	Review Date March 2023	File No: F16/351
Classification: Financial Management		
Strategic Plan link: Strategy 1.1.7 Ensure compliance of relevant Council policies and procedures with legislative requirements.		
References and related Policies & Procedures: DCSB- FM-07.05 Procurement Policy DCSB – FM-07.03 Internal Financial Control Policy DCSB – G-09.11 – Risk Management Policy DCSB – FM-07.10 – Disposal of Land and Assets Policy LGA Financial Sustainability Information Paper 27 – Prudential Management Long-term Financial Plan Asset Management Plan(s) Risk Management Plan and Framework Strategic Management Plan 2016 – 2026		

1 Purpose and scope

This document sets out the policy of the District Council of Streaky Bay for prudential management of projects. Section 48(aa1) of the *Local Government Act 1999* (the Act) requires Council to 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;
- (b) identifies and manages risks associated with a project;
- (c) makes informed decisions; and
- (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 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 Policy and Framework.

2 Definitions

“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 deliveries of Council services are not “new and discrete” activities and therefore are not included within this definition. A project is an 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 Procurement 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 delegated, the Chief Executive Officer (CEO) and his/her 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”

The minimum requirements for effective due diligence are:

- Compliance: Council will implement project management procedures to standardise how projects are assessed
- Benefits or needs: The benefits of the project will be identified and measures developed to ensure that these benefits are realisable
- Risks: An assessment of all the risks of the project will be undertaken.

These risks will be considered in the context of the size of the project, and the social, political, community and environmental impacts of the project.

“Whole of Life Costing” – the total cost of owning an asset over its entire life such as design and building costs, operating costs, associated financing costs, depreciation, and disposal costs. Whole of life cost also includes environmental impact and social costs.

3 Policy Statement

The District Council of Streaky Bay 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 or needs;
- 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 falling within the parameters of this Policy will be initially assessed as to the level of due diligence that is required.

In order to ensure the investment of time and resources into prudential/due diligence assessments and decisions is effective, efficient and adds value relative to the pre-project resources consumed:

- Any Project that is defined as a requirement as per the Local Government Act – Section 48(1)
- Projects that are outside the scope of regular, ongoing deliveries of Council Services exceeding \$500,000 in planned expenditure, will be subject to evaluation and decision regarding any further Due Diligence Report

For the initial consideration of each 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 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 regarding whether 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 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 (DDR) and no further action is necessary. However, in many cases, the decision-maker will not be sure of these answers and will require a DDR.

4.2 Due Diligence Report (DDR)

To resolve any remaining doubt, the decision-maker must request preparation of a Due Diligence Report.

For large commercial or non-commercial projects, S48(1) of the Act requires that a full prudential report be prepared for Council. A report under S48 will be regarded as the highest-level, most thorough type of DDR for the purposes of this Policy.¹

A full prudential report may also be commissioned under S48, for "any other project for which the Council considers that it is necessary or appropriate".

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 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 project) and consideration of ways they can be managed and/or mitigated;
- an evaluation that weighs up all 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 assessment, as required by 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, banking, town planning, as per the LGA's Financial Sustainability Information Paper 27 – Prudential Management.

In requesting and preparing a DDR, the decision-maker and Council Officers must consider *where* the proposed project should be placed within each of the following two tables.

Financial risk over the whole of life (FR)	Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood of FR	FR less than \$100,000	FR between \$100,001 and \$1,000,000 or 1% of rate revenue	FR between \$1,000,001 and \$2,500,000 or 2.5% of rate revenue	FR between \$2,500,000 and \$5,000,000 or 5% of rate revenue	FR greater than \$5,000,001
Almost certain					
Likely					
Possible					
Unlikely					
Rare					

	Insignificant	Minor	Moderate	Major	Serious
Whole of life (WoL) costs	WoL costs less than \$25,000	WoL costs between \$25,000 and \$100,000	WoL costs between \$100,000 and \$250,000	WoL costs between \$250,000 and \$1,000,000	WoL costs greater than \$1,000,000

For any project that falls into the shaded area of either table, 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.

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.

The District Council of Streaky Bay 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.

7 Due diligence after a project

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.

The subsequent report will be provided to Council via the District Council of Streaky Bay's Finance and Risk Audit Committee.

8 Records

All records shall be kept and disposed of in accordance with Council's Records Management Policy and procedure and the current General Disposal Schedule.

9 Further information

This policy will be available for inspection at the Council Office listed below during ordinary business hours and provided to interested parties as per Council's Fees and Charges Register.

District Council of Streaky Bay
29 Alfred Terrace
Streaky Bay SA 5680
Phone: (08) 8626 1001
Fax: (08) 8626 1196

Copies are available to be downloaded, free of charge, from Council's internet site:
www.streakybay.sa.gov.au

10 Grievances

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