

	<h1>Prudential Management Policy</h1>	Version No:	1.2
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Policy Level	Mandatory
Next review date:	Council will endeavour to review this policy every 2 years
Applicable Legislation:	Local Government Act 1999 – Section 48
Related Policies/Procedures:	Procurement & Disposal Policy Financial Management & Internal Control Policy Risk Management Policy and Framework Asset Management & Accounting Policy Delegations Register Project Due Diligence Report Template

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1. INTRODUCTION

This document sets out the policy of the Wudinna District Council for prudential management of all its projects. This policy applies to all projects (as defined below) regardless of size.

2. 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”

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 so therefore are not included within this definition. A project is a temporary endeavour with a defined beginning and end. The temporary 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 & Disposal 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 expenditure. It may include, for example, receiving land and other assets for free, or granting permission for a private activity on Council land.

All projects should be considered in the context of not only this policy, but also Council’s Risk Management Policy and Framework.

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Whole of Life Cost may be defined as:

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-life costs also include environmental impact and social costs.

Due Diligence is an expression used to describe 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”.

Effective due diligence requires a Council to devote at least some attention to:

- compliance;
- benefits or needs; and
- financial risks.

3. POLICY OBJECTIVES

This policy has two Objectives.

1. to ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project; and
2. to ensure that each Council project is:
 - effectively managed during the project; and
 - evaluated after the project, to achieve identified public benefits or needs; and to minimise financial risks.

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. LEGISLATION

This Policy is made pursuant to section 48(aa1) of the Local Government Act 1999 (“the Act”) 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 risks associated with a project; and*
- 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, 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.

Projects requiring a full Prudential Report

Under the Local Government Act 1999, a report addressing the prudential issues set out in S48(2) must be prepared for any project that meet the criteria set out in S48(1) of the Act:

1. Where the expected operating expenditure of the Council over the ensuing five years is likely to exceed 20 percent of the Council’s average annual operating expenses over the previous five financial years (as shown in Council’s Audited Financial Statements); or
2. Where the expected capital costs of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
3. Where the Council considers it necessary or appropriate.

The report must be prepared by a person Council reasonably believes to be qualified to address the prudential issues outlined in S48(4) of the Act and must not be a person with an interest in the relevant project as defined in S48(6a) – (6c).

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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 Council's record of delegations lists the powers that the Council has delegated to the Chief Executive Officer 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 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.

5.1 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 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, 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.

5.2 Due diligence report

To resolve any doubt, the decision-maker must request preparation of a **due diligence report** (DDR). See section 6 below.

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, 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".

If a full prudential report is not sought, the Council will record its reasons for *not* obtaining such a report. This might be satisfied simply by noting (if appropriate) that the proposed project has been assessed under 5.1 of this policy, or under a DDR as being of low or negligible financial risk.

6. 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 risk, (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.

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For the smallest projects with least financial risk, this DDR may compromise 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, with input from two or more officers.

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 where the proposed project should be placed within the following table and undertake the relevant DDR assessment.

Due Diligence Assessment Matrix

Financial risk (FR) over the whole of life Likelihood of FR occurring	Insignificant ie. FR less than \$50,000 OR are fully known and managed	Minor ie. FR between \$50,001 and \$100,000 OR are known and significant component managed	Moderate ie. FR between \$100,001 and \$250,000 new OR are introduced and moderate new treatments are required	Major ie. FR between \$250,001 and \$1,000,000 new OR are introduced and significant new treatments are required	Serious ie. FR greater than \$1M new, high or extreme OR are introduced and significant new treatments are required
Almost certain	Basic DDR – Decision Maker to consider Project Feasibility Study	Project Feasibility Study	Project Feasibility Study	Business Case	Business Case – Decision Maker to consider Prudential Management Report
Likely	Basic DDR	Basic DDR – Decision Maker to consider Project Feasibility Study	Project Feasibility Study	Business Case	Business Case – Decision Maker to consider Prudential Management Report
Possible	Basic DDR	Basic DDR – Decision Maker to consider Project Feasibility Study	Project Feasibility Study	Project Feasibility Study	Business Case – Decision Maker to consider Prudential Management Report
Unlikely	Basic DDR	Basic DDR	Project Feasibility Study	Project Feasibility Study	Business Case
Rare	Basic DDR	Basic DDR	Project Feasibility Study	Project Feasibility Study	Business Case

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Note: FR refers to Financial Risk and OR refers to Organisational Risk

In relation to the relevant DDR assessment as outlined above, the Decision Maker may elect to undertake a higher order assessment in accordance with the following order:

Level 1 Assessment	Basic DDR
Level 2 Assessment	Project Feasibility Study
Level 3 Assessment	Business Case
Level 4 Assessment	Prudential Management Report

Council or the Chief Executive Officer may approve a lower DDR assessment level in extenuating circumstances, which must be documented appropriately. The operation of this clause is limited to the extent that the requirements of section 48(1) of the Act will always apply.

7. 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 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.

8. 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.

9. AVAILABILITY OF POLICY

This Policy will be available for inspection at Council's office during ordinary business hours and on the Council's website www.wudinna.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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APPENDIX

Project Proposal DUE DILIGENCE REPORT

As per Prudential Management Policy, projects with a whole-of-life financial risk over \$50,000 require a Due Diligence Report (at a minimum) presented and considered by Council. The amount of detail required will depend on the extent of the project.

Name/Position:

Date:

Description of Project:

Attachments/Supporting Documentation (if any):

Need or Demand of Project:

Corporate Action Plan Reference:

Expected Benefit of Project (financial and/or other benefits):

Estimated Project Cost – Initial:

Estimated Whole-of-Life Cost (ongoing management, maintenance, staffing, etc.):

Assessment of Financial Risk:

(ie. risk of not proceeding or delaying the proposed project and risk of proceeding including a consideration of way that the risk can be managed or mitigated)

Project Proposal Evaluation (Summary):

Further Assessment Required?

(Project Feasibility Study, Business Case, Prudential Management Report)