

POLICY

Policy Name	Prudential Management Policy
Policy Category	Statutory Requirements
Department / Officer	Office of Chief Executive Officer / Group Manager Governance and Finance
Date Adopted	24 June 2013
Date/s Reviewed	27 August 2018, 28 November 2022
Review Frequency	Every 3 Years
Strategic Plan Reference	Aspiration 6 – We are a financially sustainable and well-governed organisation

Attachments

1. Purpose

This policy is intended to provide further guidance to Council in regard to the management of all its prudential projects regardless of size.

2. Scope

This Policy applies to all Council projects, irrespective of size, to ensure that decision-making in respect of any project is made with reliable, accurate and timely information and to ensure that each Council project is managed in line with legislative requirements and gives consideration to Council's strategic plans. :

3. Policy Statement (Summary)

The City of Victor Harbor will support prudential decisions, which balance the value of community outcomes against the cost of achieving those outcomes to facilitate financial sustainability.

4. Legislation and Compliance

Pursuant to Section 48(aa1) of the *Local Government Act 1999* (the Act), 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.

5. Definitions

Due Diligence is the conduct of a systematic review of a transaction, prior to entering the transaction.

Prudential Report is a formal report with specific due diligence and format requirements in accordance with Section 48(2) of the *Local Government Act 1999*.

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 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.

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

Whole-of-life cost is an assessment of all costs associated with any Project from inception, implementation, maintenance and decommissioning of assets and or services arising from a Project and includes all cash, depreciation and financing considerations.

6. Policy Content

6.1 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 Delegation Register lists the powers and functions 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 Delegation Register may distinguish types of projects that a specific manager is permitted to approve.

Therefore, for a particular proposed project, (depending on the Delegation Register) the decision-maker may be the Council, the Chief Executive Officer or Director 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.

6.2 Two Threshold Questions

The decision-maker 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.

To resolve any doubt, the decision-maker must request preparation of a due diligence report. See section 6.3 below.

6.3 Due Diligence Report

To resolve any doubt, the decision-maker must request preparation of a due diligence report. (refer to section 6.4)

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 Due Diligence Report for the purposes of this Policy. The following issues must be considered in the report (*Section 48(2)*):

- (a) The relationship between the project and relevant strategic management plans;
- (b) The objectives of the Development Plan in the area where the project is to occur;
- (c) The expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the

- proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;
- (d) The level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;
 - (e) If the project is intended to produce revenue, revenue projections and potential financial risks;
 - (f) The recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
 - (g) The financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;
 - (h) Any risks associated with the project, and the steps that can be taken to manage, reduce eliminate those risks (including by the provision of periodic reports to the Chief Executive Officer and to the Council);
 - (i) The most appropriate mechanisms or arrangements for carrying out the project.
 - (j) If the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the *Land Valuers Act 1994*.

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, 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 6.2 of this policy, or under a Due Diligence Report as being of low or negligible financial risk.

6.4 Due diligence before a decision on whether to Proceed

Depending upon the extent of due diligence required by the decision-maker, a Due Diligence Report of greater or lesser detail will be prepared. This Due Diligence Report 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 Due Diligence Report may comprise only a single page and may be prepared by a single Council Employee. Larger, more complicated and/or financially riskier projects will require a Due Diligence Report 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 Due Diligence Report 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 Due Diligence Report require special skills such as engineering, finance, project management, town planning etc.

For any project that falls into an area where there is an extreme to high financial risk using the Risk Management Framework, a Due Diligence Report 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 cashflow 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.

6.5 Due diligence during a project

Council will 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 focused upon the expected public benefits or needs that have been identified in the Due Diligence Report; and
- financial risks identified in the Due Diligence Report are managed appropriately.

6.6 Due diligence after a project

Council will, after a project has been completed, evaluate the project, 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 Due Diligence Report that it was intended to achieve or satisfy; and
- has avoided or mitigated the financial risks identified in the Due Diligence Report.

7. Risk Management

The contents of this Policy relate to financial issues arising from Council 'projects' hence using the term 'prudential management' to refer to the management of these particular risks. However, as not all risks associated with projects relate to financial risks, Council will apply Council's Risk Management Framework and Policy for the overall management of Council projects. Adequate resources will be allocated to the prudential management of projects and staff will be appropriately trained.

8. Implementation/Delegations

The Chief Executive Officer has the delegated authority to commission a prudential report pursuant to Section 48 of the *Local Government Act 1999*.

9. Related Documents

Procurement Policy
Internal Control Policy
Risk Management Policy
Risk Management Framework and Strategy
Major Tender and Quotation Procedure
Disposal of Land and Other Assets Policy

10. Availability of Policy

This policy is available on Council's website at www.victor.sa.gov.au.