COUNCIL POLICY

Prudential Management

Policy Number:	PO161		
Strategic Plan Objective	Goal 5 – Responsible Governance		
Policy Owner:	Chief Executive Officer	**Record Number:**	17/49723
Responsible Officer:	Director Corporate & Community Services	**Minute Reference:**	**264/2017 (11/10/2017)**
Date Adopted:	September 2017	**Next Review Date:**	September 2019

1. POLICY OBJECTIVES

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 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.

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:
   a) Managed during the project; and
   b) Evaluated after the project, to achieve identified public benefit or needs and to minimise financial risks.

2. SCOPE

This policy applies to all projects (as defined below) regardless of size, no matter how large or small, to ensure that 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 Framework.

For large projects, commercial or non-commercial, section 48(1) of the Act requires that a full prudential report is to 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.

Section 48(aa1) of the Local Government Act 1999 requires Council to also develop and maintain prudential management policies and practices 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.

3. 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 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. *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 a 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 Members of Council or, where able to be delegated, the CEO and his 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"*

4. POLICY STATEMENT

4.1 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 record of delegations lists the powers that the Council has delegated to the Chief Executive 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, 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;
- the extent to which it 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.

a) Two threshold questions

The decision-maker 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.

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 and no further action is necessary. However, in many cases, the decision-maker will not be sure of these answers, and will require a further step.

b) Due Diligence Report (DDR)

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

The minimum requirements for effective due diligence include:

- management procedures and controls to be put in place to undertake the project;
- benefits and costs of the project to be identified; and
- assessment of the risks of the project including financial, political, social, community and environmental impacts.

c) Prudential Management Report (PMR)

Council must obtain and consider a report that addresses Prudential issues for all projects (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body):

(a) where the expected expenditure of Council over the ensuing five years is likely to exceed 20 per cent of Council's average annual operating expenses over the previous five financial years (as shown in Council's financial statements); or
(b) where the expected capital cost of the project over the ensuing five years is likely to exceed $4.5m (indexed)[1] require a full PMR in accordance with the Act.
(c) where Council considers that it is necessary or appropriate.

A PMR is not required to be completed, where the project is in relation to road construction or maintenance and/or drainage works.

The Chief Executive Officer (CEO) will appoint a suitably qualified independent person who will be skilled in the assessment of the proposed project. This may include engineering, finance, infrastructure and project management skills. The person appointed may be a member of staff.

Prudential issues that should be considered within a PMR include:

(i) the relationship between the project and relevant strategic management plans;

(ii) the objectives of the Development Plan in the area where the project is to occur;

(iii) 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;

(iv) 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;

(v) if the project is intended to produce revenue, revenue projections and potential financial risks;

(vi) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;

(vii) 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;

(viii) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the CEO and Council); and

(ix) the most appropriate mechanisms or arrangements for carrying out the project.

[1] Section 48(6d) provides for the indexation of this threshold amount, in line with the Consumer Price Index for Adelaide. Between 2009 and 2015, the figure was adjusted from $4 million to $4.52 million.

Council cannot delegate the consideration of a PMR. The report will not be read in isolation and will be considered together with Council's long term financial, asset management and risk management plans.

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 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 project) and consideration of ways they can be managed and/or mitigated; and
- an evaluation that weighs up all of the factors above.

For the smaller projects with least financial risk, the 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 more information and assessment, as required by the decision-maker, with input from two or more officers. The report will be typically prepared by a Council officer deemed appropriate by the CEO, but will be commissioned by the staff member responsible for the project and/or 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 report 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 utilise the Risk Management Framework, to evaluate the level of risk and determine whether the proposed project has, over the life of the project, a likelihood of financial risk that cannot be regarded as moderate, minor or unlikely to occur.

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.

Due diligence after a project

After a substantial 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's Audit Committee and the elected Council.

5. COMPLAINTS

Council welcomes complaints as a way of improving its services and programmes as well as an opportunity to put things right. Complaints in relation to this policy are to be directed in writing to the Director Corporate and Community Services. All complaints will be managed in accordance with Council's Complaints Policy PO147. Internal complaints will follow the Dispute Resolution Procedures provided in their respective Enterprise Agreement.

6. REVIEW

This Procedure will be reviewed by the Manager Financial Services within two years of adoption and/or accordance with any changes to legislation, codes, guidelines or Government Policy.

7. RELATED COUNCIL POLICIES AND DOCUMENTS

PO091 Risk Management Policy

Long Term Financial Plan

Asset Management Plans

8. REFERENCES AND LEGISLATION

Local Government Act 1999 – section 48

9. COUNCIL DELEGATION

Details of Delegation:	CEO
Delegate:	Director Corporate and Community Services

10. VERSION HISTORY

Archived Policy Name	Policy Number	Date Adopted	Last Reviewed
Prudential Management	PO161	Oct 2017	Sept 2017