

Prudential Management Policy



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Responsible Officer	Director - Corporate & Financial Services
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1. Purpose

- 1.1 This Policy has two objectives:
 - 1.1.1 To ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project; and
 - 1.1.2 To ensure that each Council project is:
 - Managed during the project;
 - Evaluated after the project, to achieve identified public benefits or needs; and
 - To minimise financial risks.
- 1.2 The objectives of this Policy shall be considered in a report on any potential project regardless of the financial impact or size of the project.

2. Definitions

- 2.1 **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 endeavor 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. For example 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 ongoing operation. Any purchase must comply with Council’s relevant procurement policies.
- 2.2 **Due Diligence** is an expression used to describe the conduct of a systematic review of a transaction, prior to entering the transaction and an obligation to exercise reasonable care.

3. Policy

- 3.1 This document sets out the Policy of the Mid Murray Council for prudential management of all its projects.

- 3.2 This Policy applies to all projects as defined regardless of size to ensure that decision making in respect to any project is made with reliable, accurate and timely information.
- 3.3 Prudential management may be described as taking a precautionary approach to proposed projects. Prudential management attempts to foresee what adverse financial consequence may arise from any project that Council is contemplating, and requires management of the project in such a manner as to capture the proposed benefits, while minimising, offsetting or otherwise taking account of the foreseeable financial risks.

3.4 Legislation

- 3.4.1 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.*

- 3.4.2 Without limited Subsection 48(aa1), a Council must obtain and consider a report that addresses the prudential issues set out in Subsection (2) before the Council:

- a) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body);
 - i. *where the expected expenditure of the Council over the ensuing five years is likely to exceed 20 per cent of the Council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or*
 - ii. *where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or*
 - iii. *where the Council considers that it is necessary or appropriate.*

- 3.4.3 Section 48 (3) of the Act states that:

A report is not required under subsection (1) in relation to –

- a) road construction or maintenance; or*
- b) drainage works*

- 3.4.4 As such, this Policy applies to all Council projects that are covered under the legislative definitions above, and other projects deemed necessary by the Council or the Chief Executive Officer based on the general risk of the project proposal.

3.5 Deciding upon an appropriate level of Due Diligence

- 3.5.1 Any proposed project must first be assessed as to the level of due diligence that is required.
- 3.5.2 The Chief Executive Officer or Manager has delegated authority to exercise some (depending upon budgetary allocations and other Council Policies) of the Council's powers to approve projects and expend funds. Therefore, for a particular project, the decision-maker may be the Chief Executive Officer, Departmental Director or the Council.
- 3.5.3 As a general guide Prudential Reports will only be obtained based on the provisions of Section 48(1)(b) of the Act.
- 3.5.4 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.

Two threshold questions

- 3.5.5 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.
- 3.5.6 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.
- 3.5.7 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.

Due Diligence Report

- 3.5.8 To resolve any doubt, the decision-maker must request preparation of a **due diligence report** (DDR). See section below.
- 3.5.9 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.
- 3.5.10 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".
- 3.5.11 For any project that involves:
- i. other than insignificant or minor whole of life costs; and/or
 - ii. other than an insignificant or minor likelihood of financial risk occurring.
- 3.5.12 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.

3.6 Due diligence before a decision on whether to proceed

- 3.6.1 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:
- 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.
- 3.6.2 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, with input from two or more officers.

3.7 Due diligence during a project

- 3.7.1 After a decision has been made to commence a project, it will be managed according to the principles of due diligence.

3.7.2 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.

3.8 Due diligence upon completion of a project

3.8.1 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.

3.9 Prudential Management Process Summary

3.9.1 Determine if the proposed project falls within the definition of “project” in the Policy.

- c) If yes, follow Policy requirements.
- d) If no, refer to other Policy documents i.e. Council's Procurement Policy.

3.9.2 Determine if the project is captured by Section 48 of the Act (Refer to Legislation in the Policy) thereby requiring a Prudential Report.

If yes, obtain Prudential Report.

If no, the level of due diligence required is determined by the Chief Executive Officer/Director based on information provided including:

- 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.

The Chief Executive Officer/Director will need to 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.

3.9.3 The Chief Executive Officer/Director may require a Due Diligence Report. Such a report will include:

- 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 risk of not proceeding or delaying the project) and consideration of ways they can be managed and/or mitigated;
- an evaluation that weighs up all of the factors above.

4. Policy Responsibility

The Director – Corporate and Financial Services is responsible for ensuring the proper operation of this Policy.

5. Availability/Accessibility

5.1 This Policy and Council's Fees and Charges Register are available to be downloaded free of charge from Council's website: www.mid-murray.sa.gov.au.

- 5.2 This Policy is available for inspection at Council's principal office during ordinary business hours. Hard copies, for a fee in accordance with Council's schedule of Fees and Charges, can be provided upon request.

6. Legislative Framework / Other References

- 6.1 [Local Government Act 1999](#)
6.2 [Procurement Policy](#)

7. Document History

This Policy shall be reviewed at least every four (4) years or more frequently if legislation or Council requires.

Version	Adopted	Minute	Description of Change
	14 July 2015	17182/1	The reformatted draft of the Policy to be forwarded to the Audit Committee for review and recommendation to Council.
2	11 August 2015	17330/3	Subject to alterations made at the meeting, the Policy (July 2015) adopted.
2.1	December 2017		Updated with new Policy document format and layout.
2.2	11 February 2020	20901/5	Council review - no changes
3.0	15 August 2023	C08-23/018	Council review, updated with new Policy document format and layout.