

Prudential Management Policy



Record number	D20/108784
Responsible Manager	Manager Finance and Rating Operations
Other key internal stakeholders	Director Organisational Services and Excellence
Last reviewed	8 December 2020
Adoption reference	Council
Resolution number	688
Previous review dates	11/08/15, 13/11/12, 12/12/17
Legal requirement	Section 48(aa1) required that Council must develop and maintain prudential management policies
Due date next review	2020

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1. PURPOSE

This policy has the following objectives:

- a. To ensure that major Council projects are undertaken only after an appropriate level of Due Diligence is applied to the proposed project
- b. To ensure that each major Council project is:
 - managed during the project
 - evaluated after the project
- c. To achieve identified public benefits or needs; and to minimise financial risks.

The objectives of this Policy will be considered in a report on any potential Project, regardless of the financial impact or the size of the Project.

2. POLICY

2.1 Deciding upon an Appropriate Level of Due Diligence

Any proposed Project must first be assessed to determine the level of Due Diligence that is applicable. This will be managed in accordance with Council's Delegations Register.

All proposed Projects, must follow the Project Management Framework requirements and include at a minimum:

- a. The specific benefits or needs to be addressed by the proposed Project
- b. The inclusion of impacts or learnings from similar past Projects
- c. The expected whole of life costs of the proposed Project
- d. Any key financial risks relating to the Project.

2.2 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:

- a. 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
- b. Whether the proposed Project will (or might) generate any additional financial or other risks 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.

2.3 Due Diligence report (DDR)

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.

The Act requires that a report must be developed 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 where the expected capital cost of the Project over the ensuing five years is likely to exceed \$4,000,000 (indexed).

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.

A report is not required in relation to road construction or maintenance or drainage works.

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 this policy, or under a DDR as being of low or negligible financial risk.

In the event of an emergency or business interruption scenario, consideration for community and staff safety and wellbeing may require a level of financial commitment to be made without seeking a full prudential report. When business as usual circumstances are restored, such decisions will be reviewed by the Chief Executive Officer.

2.4 Due Diligence before a decision on whether to proceed

This DDR will include, in relation to the proposed Project:

- a. An analysis of the need or demand
- b. Identification and quantification of the expected financial and other benefits
- c. Identification and quantification of the likely whole of life financial and other costs, including staffing and project management costs
- d. 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
- e. Assessment of other non-financial risks
- f. An evaluation that weighs up all of the factors above.

For the smallest Projects with low financial risk, this DDR may comprise only a single page and may be prepared by a single staff member and their corporate leader. Larger, more complicated and/or financially high risk 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 determine and manage risks as outlined in the Enterprise Risk Management Framework and follow the process requirements specified under the Project Management Framework.

3. DEFINITIONS

For the purposes of this policy the following definitions apply:

Act

Local Government Act 1999

DDR

Due Diligence report

Due Diligence

In the context relative to a project refers to a functional review process comparative to the entire project life cycle to protect against incurring liability that may influence the overall success of the project

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 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 within the context of this policy and the requirements under Council's Project Management Framework and Enterprise Risk Management Framework.

4. LEGISLATIVE FRAMEWORK

4.1 Local Government Act 1999

Section 48(aa1) of this Act requires each Council to have prudential management “policies, practices and procedures” that must be applied to all Council projects, not just large ones. These “policies, practices and procedures” are intended 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
- (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.

4.2 Other references

Council’s document including:

- a. Fees and Charges Register
- b. Risk Management Policy
- c. Financial Sustainability Policy
- d. Project Management Framework
- e. Procurement Policy
- f. Enterprise Risk Management Framework
- g. Business Continuity Plan
- h. Emergency Management Plan

External document including:

- a. LGA’s Financial Sustainability Information Paper No. 27: Prudential Management
This Policy is based on a model policy developed by the Local Government Association.

5. STRATEGIC PLAN/POLICY

5.1 Strategic Plan

The following strategic objectives in Council’s Strategic Plan 2025 are the most relevant to this report:

Objective	Comments
Leadership	
<i>Leadership and advocacy is focused on the long term interests of the community</i>	The Prudential Policy aims to ensure that major Council projects are undertaken only after an appropriate level of Due Diligence is applied to the proposed project
<i>Planning considers current and future community needs</i>	
<i>Delivery of services is sustainable and adaptable</i>	
<i>Decision making is informed, based on evidence and is consistent</i>	To ensure the Long Term Financial Plan outcomes are maintained, sound

<i>Major strategic decisions are made after considering the views of the community</i>	financial management for major investments should be treated in line with the Prudential Management Policy.
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5.2 Organisation Plan

Our Strategic Plan is supported by an Organisation Plan which focuses on five key themes of organisational excellence. The theme most relevant to this policy is Finance and systems.

6. POLICY IMPLEMENTATION

This Policy will be implemented by the Chief Executive Officer or relevant portfolio director and managed in accordance with Council's scheme of delegations.