PRUDENTIAL MANAGEMENT POLICY

Corporate Plan:	*Financial Management*
Classification:	*Financial Management*
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Responsible Officer(s):	*CEO*
Council File Reference:	
Applicable Legislation:	*Local Government Act 1999*
Relevant Policies:	*Procurement Policy* *Risk Management Plan* *Internal Financial Controls Policy*
Related Procedures:	
Delegations:	*CEO*

1. Introduction:

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

2. Purpose:

This Policy is intended to provide further guidance to Council, the community and employees in regard to the management of prudential projects and issues. It is intended to enhance the legislative directions provided in the Act (Local Government Act 1999), rather than repeat or replace the existing requirements.

3. Additional Guidance:

This should not be interpreted to mean that all Council activities are “projects”. Regular, ongoing delivery 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.

4. Definitions

Key Term – Acronym	Definition
Prudential Project	A project or commercial activity being undertaken by Council or a subsidiary of Council that requires prudential legislative requirements to be followed.
Engage in a Prudential Project	When Council has agreed to commit funds to a project.
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."*
DDR	Due Diligence Report.
Project	*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"*
Prudential Management	Requires the financial risks or adverse financial consequences of a project to be considered, minimised or offset to ensure that the proposed benefits of the project are achieved.
Whole of Life Costs	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 cost also includes environmental impact and social costs.

5. Roles and Responsibilities:

Responsible Officer	Roles and Responsibilities
Council	Ensure policies in place to assist staff with prudential management.
Audit and Risk Committee	The role of the Audit and Risk Committee is to receive any prudential reports and provide advice to Council.
Chief Executive Officer	Receive regular reports on prudential management.
General Managers	To ensure that relevant projects are assessed as to the level of due diligence that is required.
Project Managers	For each project determine what level of due diligence assessment is required.

6. Policy Objectives

This policy has four Objectives.

6.1. to ensure that a council project is undertaken only after an appropriate level of "due diligence" is applied to the proposed project; and

6.2. to ensure that each council project is:
- managed during the project and
- evaluated after the project,

6.3. Gives consideration to Council's strategic plans; and

6.4 Inform Council of any risks and opportunities the project may bring 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.

7. 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.

8. 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 or another Council officer.

8.1 Approximate Level of Due Diligence:

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:

- **Whole of Life Revenue/Benefits** - the specific benefits or needs to be addressed by the proposed project;
- **Past Experience** - the extent to which the proposed project may be substantially similar to other past projects;

- **Whole Of Life Costs** - the expected whole-of-life costs of the proposed project; and
- **Financial and Operational Risks** - what, if anything, is known about the levels of financial risk that may be involved.

8.2 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:

- **Funding** - 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
- **Financial Risk** - 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.

8.3 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 8.2 of this policy, or under a DDR as being of low or negligible financial risk.

8.4 **Author Independence**:

- Section 48 (4) states that the prudential issues report must be prepared by a qualified person who is independent and does not have an interest in the proposed project. In addition to the legislated requirements this person should also be external to Council (i.e. not an employee).
- It should also be noted that Council's external auditor cannot be engaged to provide a Section 48 Prudential Issues report.

9. 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 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 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.

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 each of the following two tables.

Financial Risk (FR) over the whole of life Likelihood of FR occurring	**Insignificant** (ie FR less than $50K)	**Minor** (ie FR between $51K and $200K)	**Moderate** (ie FR between $201K and $500K)	**Major** (ie FR between $501 and $1M)	**Serious** (ie FR greater than $1M)
Almost Certain					
Likely					
Possible					
Unlikely					
Rare					

Whole of Life (WoL) costs	**Insignificant** (ie WoL costs less than $50K)	**Minor** (ie WoL costs between $50K and $250K)	**Moderate** (ie WoL costs between $251K and $1M)	**Major** (ie WoL costs between $1M and $5M)	**Serious** (ie WoL costs greater than $5M)

For any project that falls into the shaded area of either table, 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 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.

10. 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 focused upon the expected public benefits or needs that have been identified in the DDR; and
- financial risks identified in the DDR are managed appropriately.

11. 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.

12. Further Information

This policy will be available for inspection at the council offices listed below during ordinary business hours and available to be downloaded, free of charge, from council's website: www.berribarmera.sa.gov.au

5 Riverview Drive, Berri

Copies will be provided to interested parties upon request. Email bbc@bbc.sa.gov.au

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the chief executive officer.

13. Confidentiality

Any information provided will be treated as strictly confidential. Information provided to the Council's Chief Executive Officer (CEO) will be securely retained within Council's records.

Electronic version on the website is the controlled version.
Printed copies are considered uncontrolled.
Before using a printed copy, verify that is the current version.