Prudential Management Policy

Policy Number	C10
Responsible Officer(s)	Manager Finance.
Policy Adopted	February 2023
Minutes reference	2023/02-15
Next review date	February 2027
Applicable Legislation	*Local Government Act 1999*
Related Policies	Disposal of Land & Other Assets Policy; Procurement (Purchasing) Policy; Community Engagement Policy; Risk Management Policy.
Related Documents	Risk Management Framework.

1. POLICY PRINCIPLE

Wakefield Regional Council strives to make prudent decisions and will undertake appropriate due diligence on its projects to get the best possible outcomes for the community.

2. POLICY OBJECTIVE

- To ensure major Council projects are undertaken only after an appropriate level of due diligence is applied to the proposal;
- To ensure that each major Council project is well managed during the project and appropriately evaluated after the project;
- To comply with Section 48(aa1) of the *Local Government Act 1999* ("the Act").

3. DEFINITIONS

Due diligence: is the conduct of a systematic review of a transaction prior to entering into that transaction.

Exclusions: road construction or maintenance; or drainage works (stormwater drainage).

Project: may be 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.

CPI: means the Consumer Price Index (All Groups Index for Adelaide) published by the Australian Bureau of Statistics.

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.

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 (Purchasing) Policy*. 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 Framework, Strategic Management Plans and annual plans and budgets.

4. POLICY DETAIL

Prudential management aims to foresee what adverse financial consequences might arise from any Council project. It requires managing the project in a manner that captures the proposed benefits and minimises, offsets and takes account of the foreseeable financial risks.

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. When approval is being sought for a specific project, information must be provided to the correct delegated authority to approve the project which may be Council, the CEO or other officers with delegated authority to make such approval.

This information will include:

- 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
- Levels of financial risk that may be involved.

4.2 Two threshold questions

The delegated authority will make an evaluation as to the extent of due diligence that must be undertaken before a decision is made to whether to proceed with the proposed project. This is the threshold due diligence test. It must be ascertained:

- 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 budget; and
- Whether the proposed project will generate any additional financial (or other) risk for the Council.

If the delegated authority is unsure of these answers, a second step will be required.

4.3 Due Diligence Report

If there is any uncertainty, the delegated authority must request preparation of a Due Diligence Report ("DDR"). There are three levels of due diligence reporting available (basic, comprehensive or feasibility), along with the Prudential report that may be required under Section 48 the Act. The type of report a responsible officer must provide is determined as follows:

Financial risk Including upfront & ongoing costs (whole of life) **Likelihood** of financial risk occurring	**Minor** Financial risk $50-$100,000	**Moderate** Financial risk $100- 250,000	**Major** Financial risk $250-$500,000	**Serious** Financial risk $500,000 to the indexed amount as per section 48 of the Act	**Section 48** Financial risk greater than the threshold as per section 48 of the Act
Almost Certain	Basic	Comprehensive	Project Feasibility	Project Feasibility	Prudential Report
Likely	Basic	Comprehensive	Comprehensive	Project Feasibility	Prudential Report
Possible	Basic	Basic	Comprehensive	Comprehensive	Prudential Report

Unlikely	Basic	Basic	Basic	Comprehensive	Prudential Report
Rare	Basic	Basic	Basic	Basic	Prudential Report

A Basic DDR is required for smaller projects, or those with a lower likelihood of financial risk occurring; a Comprehensive DDR will be required for some larger projects with more likelihood of financial risk; and a Feasibility DDR is required for larger projects with greater financial risks. All DDR's will include estimated income and expenditure for the activity for the first five years and will be presented to a meeting of the Management Executive Team.

A Prudential Report must be prepared for Council for large projects where the expected capital or operating expenses calculated on an accrual basis of the Council over the ensuing five years is likely to exceed 20 percent of Council's average annual operating expenses over the previous five financial years (as shown in the Council's annual financial statements); or

Where the expected capital cost of the project over the ensuing five year is likely to exceed $4,000,000 (indexed). In line with S48 (6d) of the Act, $4,000,000 (indexed) means that the amount is to be justified for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009. Below is an example of how this indexed amount is calculated as at 1 January 2023:

September 2009 CPI index	=	93.7
September 2022 CPI index	=	128.6
Proportion	=	1.37 (128.6/93.7)
Indexed amount as at 1 January 2023	=	$5,489,861 (4,000,000 X 1.37)

A report under section 48 of the Act 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 of the Act, for any other project for which the Council considers that it is necessary or appropriate.

If a full prudential report is not sought, the decision maker will record they reasons for not obtaining such a report. This might be satisfied simply by noting (if appropriate) that the proposed project has been assessed under the threshold questions of this policy, or under a DDR indicating a 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.

4.4 Due diligence before a decision on whether to proceed

Depending upon the extent of due diligence required by the delegated authority, a DDR of greater or lesser detail will be prepared. All DDRs will include, in relation to the proposed project:

- An analysis of the need or demand;
- Identification and quantification of the expected financial and other benefit;
- 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;
- An evaluation that weighs up all of the factors above.

Basic DDR

For small projects with least financial risk, the DDR may comprise only a single page and may be prepared by a single staff member.

Comprehensive DDR

Larger, more complicated and/or financially riskier projects will require a Comprehensive DDR containing correspondingly more information and assessment, as required by the decision-maker, with input from two or more officers. This may include information and input 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, banking, town planning etc.

Project Feasibility DDR

Any project that falls within the realm of PF, 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.

4.5 Due diligence during a project

After a decision has been made to commence a project, the responsible officer 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.

4.6 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:

- Achieved the benefits or needs that it was intended to achieve or satisfy (as identified in the DDR); and
- Avoided or mitigated the financial risks identified in the DDR.

A brief project evaluation report will be prepared and reported to Council.

5. REVIEW

This Policy shall be reviewed every 48 months, or more frequently if required by legislation or Council. No revision or amendment of this Policy will affect any process that has already commenced.

Document history:

Version	Adopted	Description of Change
1.0	Aug 2014 – Min 46	New Policy.
	November 2014	Policy numbering system changed and inclusion of document history table.
2.0	Sept 2016 – Min 69	Inclusion of Financial Risk table, figures entered into table and explanation of DDRs included.
3.0	February 2019 – 2019/02-07	New template, grammatical and word changes. Updated financial risk figures in matrix to reflect more current operating environment.
4.0	February 2027	New policy template; inclusion of mandatory reporting requirement in accordance with section 48 of the Act; inclusion of the definition of CPI; remove the operating expenditure threshold of $2.76M for preparing prudential management report.