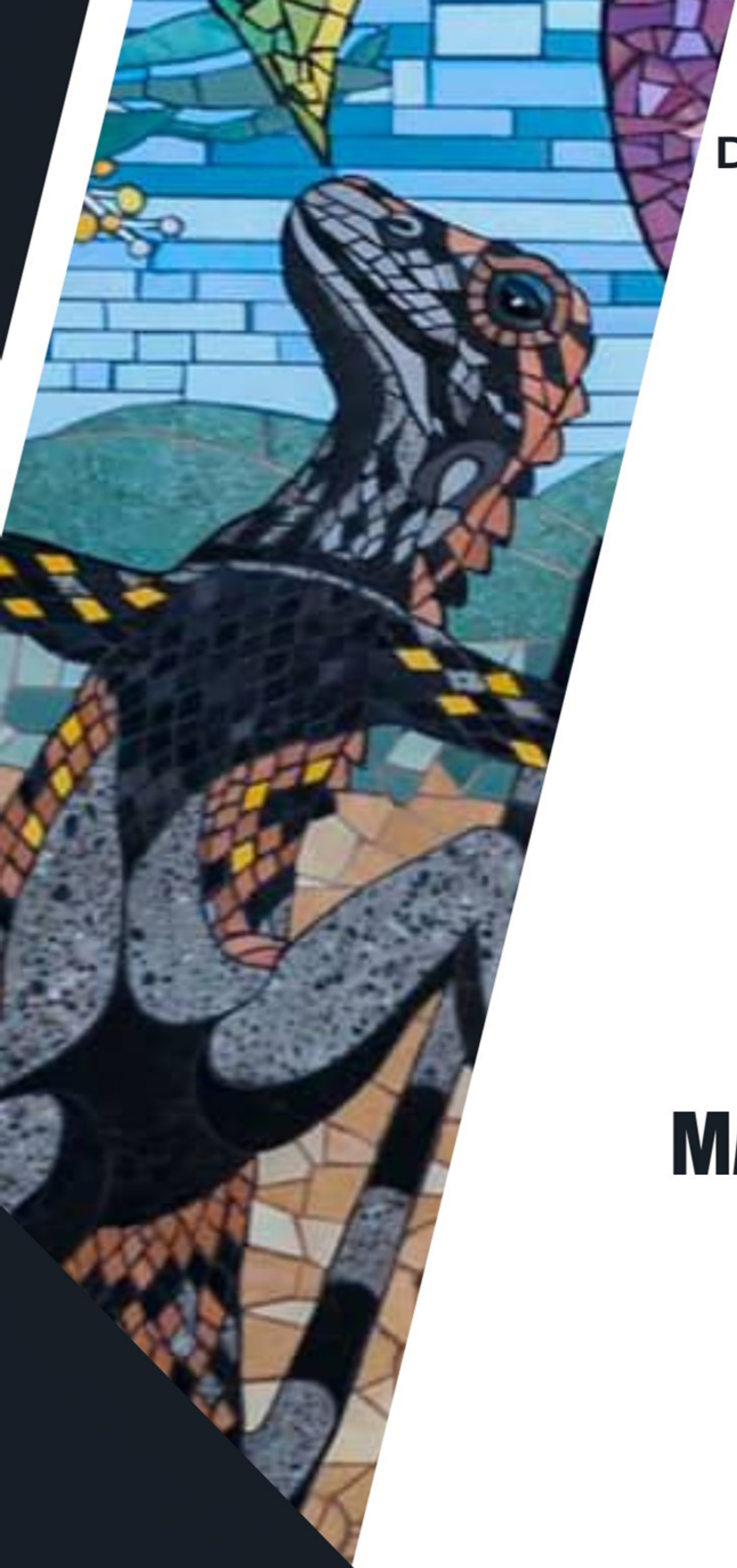

DISTRICT COUNCIL OF KIMBA

1.23 PRUDENTIAL MANAGEMENT POLICY

District Council of KIMBA
EST. 1924

www.kimba.sa.gov.au

council@kimba.sa.gov.au

2023

DOCUMENT APPROVAL

This document has been endorsed and approved for use by:

Deb Larwood
CEO District Council Kimba

13/12/2023
Date

Document Version Control

Document Name:	1.23 Prudential Management Policy
Document Status:	Final
Version Number:	8
Author:	Deb Kemp, Finance Coordinator
Authorised By	Deb Larwood, Chief Executive Officer

Change History

Version	Issue Date	Author	Reasons for Change
1	11/02/2015	D Larwood	
2	11/05/2016	D Cearns	Review
3	10/05/2017	D Larwood	Review
4	09/05/2018	L Keane	Review
5	12/06/2019	L Keane	Review
6	09/06/2021	EM/KF	Review
7	28/11/2022	DL/DK	Review
8	29/11/2023	DL/DK	Review, inclusion of Due Diligence definition

1. PURPOSE

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

2. DEFINITIONS

A **Project** is 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. The temporary nature of projects stands in contrast to business as usual (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.

Whole-of-Life cost is defined as *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 costs also include environmental impact and social costs.*

3. POLICY OBJECTIVE

This policy has two objectives.

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

3.2 to ensure that each Council project is:

- managed during the project and
- evaluated after the project, to achieve identified public benefits or needs; and to minimise financial risks.

4. LEGISLATION

This policy is 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.

5. DEFINITION OF DUE DILIGENCE

Due diligence is an expression used to describe 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*" (10)

and:
"*indistinguishable from the obligation to exercise reasonable care*" (11)

The efficient and cost-effective use of public funds is a 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.

Effective due diligence requires a council to devote at least some attention to: (12)

- compliance;
- benefits or needs; and
- financial risks.

Compliance
Council may impose on itself internal rules, procedures and structures to regulate how projects are assessed. It would do this to ensure that a project's financial risks are identified and managed before, during and after the project has been completed.

Benefits or needs
A project should be focussed on specific identified public purposes; i.e. public benefits or needs. Therefore, to discharge its due diligence responsibilities in relation to a proposed project, council should:

- identify, articulate and (where possible) quantify measures of public benefits or needs that are intended to be achieved or satisfied by the project;
- supervise the project to ensure that it remains focussed on the expected public benefits or needs; and
- at completion, evaluate the project on the extent to which it has achieved the public benefits or needs that it was intended to achieve or satisfy.

Financial Risks
All activities are attended by some level of financial risk. Declining to enter a project also entails risks of missing out on potential benefits, including in some cases, financial benefits. Therefore, to discharge its due diligence responsibilities in relation to a proposed project, council should:

- identify, in a systematic and transparent manner, both the financial risks and the benefits of the project to both the council and its community;
- quantify the level of financial risk involved, benchmark and undertake sensitivity analysis;
- develop measures prior to commitment to reduce the financial risk to an acceptable level or if practical eliminate the financial risk;
- ensure that those measures are adhered to during implementation; and
- supervise the project to ensure that the financial risks continue to be monitored.

Therefore, when a council is considering any proposed project – large or small – it should ensure that these matters - compliance, benefits or needs, and financial risks – are taken into account before, during and after the project. The level of information that should be obtained before a proposed project (along with the monitoring that may be required during the project, and the evaluation required after the project) can be adjusted to require greater or lesser effort, depending upon the quantification of financial risks.

6. 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 Council, the CEO, 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 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.

6.1 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:

- 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 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.

6.2 DUE DILIGENCE REPORT

To resolve any doubt, the decision-maker must request preparation of a *due diligence report* (DDR). See section 7 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 section 6.1 of this policy, or under a DDR as being of low or negligible financial risk.

7. 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 and town planning.

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 life / Likelihood of FR occurring	**Insignificant** (ie FR less than $50k**)**	**Minor** (ie FR between $50k & $100k)	**Moderate** (ie FR between $100k & $250k)	**Major** (ie FR between $250k & $500k)	**Catastrophic** (ie FR greater than $500k)
Almost Certain					
Likely					
Possible					
Unlikely					
Rare					

Whole of life (WOL) costs	**Insignificant** (ie WOL costs less than $50k)	**Minor** (ie WOL costs between $50k & $150k)	**Moderate** (ie WOL costs between $150k & $500k)	**Major** (ie WOL costs between $500k & $1m)	**Catastrophic** (ie WOL costs greater than $1m)

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 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.

8. DUE DILIGENCE DURING 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.

9. 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.

10. FURTHER INFORMATION

This policy will be available for inspection at Councils Administration Office, 9 Cross Street Kimba, during ordinary business hours and available to be downloaded, free of charge, from Councils internet site, www.kimba.sa.gov.au

11. REVIEW OF POLICY

The effectiveness of the policy will be reviewed and evaluated annually. Council has the right to review this policy at any time, if considered desirable.

12. ADOPTION OF POLICY

This policy was adopted by Council at its Ordinary Meeting on 13th December 2023.