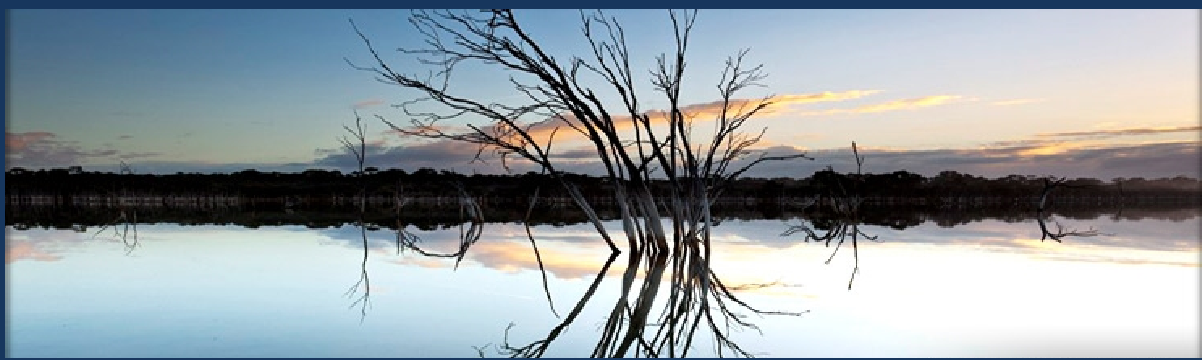
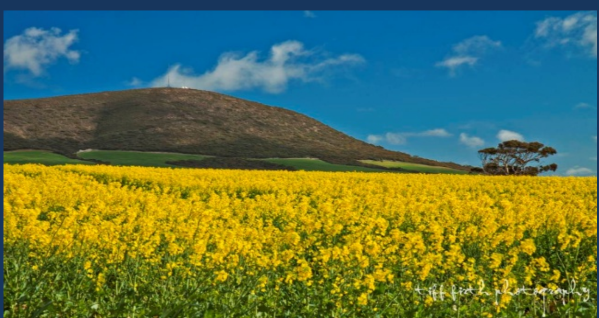
LOWER EYRE COUNCIL

Prudential Management Policy





"Working with our Rural & Coastal Communities"

Responsibility:	Finance
Policy Adopted	21/06/2023
Minutes reference:	OCM/23/060
Applicable Legislation:	*Local Government Act 1999* – s6 (b) *Local Government Act 1999* – s48
Related Policies/Procedures/Codes:	FIN-POL-03 - Treasury Management FIN-POL-09 - Procurement FIN-POL-08 - Internal Controls
Review Frequency	Within 12 months of the periodic Council election

1. INTRODUCTION

This document sets out the obligations of the Lower Eyre Council in its decision making and assessment of new and discrete projects.

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. A project is a temporary endeavour with a defined beginning and end"

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 (or operations) which are repetitive, ongoing functional activities to produce products or services.

Purchasing an item of plant or equipment, (e.g. a single vehicle) or a parcel of land will not constitute a "project" if the purchase is not part of a wider project or part of ongoing operations.

2. PURPOSE

This policy has two Objectives.

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

(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.

3. SCOPE

This policy applies where projects meeting the criteria outlined in the section 1 of this policy in the following circumstances:

- where the expected operating expenses calculated on an accrual basis 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); or
- where the council considers that it is necessary or appropriate.

4. POLICY

4.1 Determining an appropriate level of due diligence

Any proposed project must first be assessed as to the level of due diligence that is required.

The Chief Executive Officer has delegated authority to exercise some (depending upon budgetary allocations and other Council policies) of the Council's powers to approve projects and may also sub-delegate some of those authorisations. Therefore, for a particular project, the decision-maker may be the Chief Executive Officer, a manager, or the Council.

When approval is being sought or considered for a specific project, information must be provided to the decision-maker to indicate approximately, at first instance:

- 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.

4.2 Two threshold questions

The decision-maker should make an evaluation as to the extent of due diligence that must be embarked upon before any 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 the Council.

If the decision-maker is sure that whole-of-life costs and financial risks are already accounted for, the reasoning for *not* obtaining a 'due diligence report' will be recorded and no further action is necessary. However, in many cases, the decision-maker may not be certain of these answers, and will require a second step.

4. POLICY cont'd:

4.3 Due diligence report

To resolve any doubt, the decision-maker must request preparation of a ***due diligence report*** (DDR).

For large commercial or non-commercial projects (meeting the criteria in Section 1 of this policy), section 48(1) of the Act requires that a full prudential report be prepared for the 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 4.2 of this policy, or under a DDR as being of low or negligible financial risk.

5. DUE DILIGENCE BEFORE A DECISION ON WHETHER TO PROCEED

Depending upon the extent of due diligence required, 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 project) and consideration of ways they can be managed and/or mitigated;
- an evaluation that weighs up all of the factors above.

For applicable projects this DDR may comprise only a single page and may be prepared by a single staff member. It may be determined by the CEO or the Council that more complicated and/or financially riskier projects will require a DDR containing more information and assessment.

In requesting and preparing a DDR, Council officers must consider the project risk, by reference to Council's Risk Management Policies.

For projects where the risk is determined to be high or extreme, 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.

6. 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 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.

7. 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.

DOCUMENT HISTORY		
Version:	**Issue Date:**	**Description of Change:**
1.0	21/02/2020	Adopted
1.1	17/05/2023	Reviewed without amendment