


# REGIONAL COUNCIL OF GOYDER

 <b>GOYDER</b> South Australia's Heartland	<b>PRUDENTIAL MANAGEMENT POLICY &amp; PROCEDURE</b>	<b>Department</b>	F&A
		<b>Version No:</b>	1.3
		<b>Adopted:</b>	Nov 2013
		<b>Reviewed:</b>	Sept 2021
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		<b>Responsibility:</b>	DOF

## 1. INTRODUCTION

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

## 2. PROJECT DEFINITION

A project may be defined as “an undertaking or activity that would involve the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset”.

- 2.1 This should not be interpreted to mean that all Council activity is part of a “project”. Acquisition of items of plant or equipment may be undertaken in accordance with the Council’s Procurement Policy without necessarily needing to be assessed as a “project” for purposes of this Policy. However, a “project” is a broader concept than simply purchasing.
- 2.2 Some projects are an extension of the procurement process. Other projects may involve no purchase at all, but may involve Council staff to work with a third party.
- 2.3 All projects should be considered in the context of not only this policy, but also Council’s Procurement Policy, and the Council’s Risk Management Plan.

## 3. POLICY OBJECTIVE

- 3.1 Every project requires some analysis before a decision is made whether or not to proceed. The Objective of this Policy is to ensure that Council projects are undertaken only after:
- 3.1.1 a thorough analysis of the needs for the project;
- 3.1.1.1 the benefits of the project have been identified and determined;  
and
- 3.1.1.2 the risks of proceeding with the project have been fully identified, managed and mitigated, including the risks of not proceeding or delaying the project.
- 3.1.2 These steps may be characterised as a process of “due diligence”. See the discussion of “Due Diligence” below.

## 4. RESPONSIBILITY

- 4.1 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

## 5. LEGISLATION

- 5.1 This Policy is made pursuant to section 48(aa1) of the Local Government Act 1999 (“the Act”). As such, it applies to all Council projects, no matter how large or small, to ensure that decision making in respects of projects of all sizes is made with reliable, accurate and timely information
- 5.2 For large commercial or non-commercial projects, section 48(1) of the Act requires that a full prudential report be prepared for Council. (See below under ‘Evaluation of Certain Projects’)
- 5.3 A full prudential report may also be commissioned under section 48, for “any other

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- project for which the Council considers that it is necessary or appropriate”.
- 5.4 In considering whether a full prudential report might be warranted, the question that will be asked is: “If not, why not?” If a full prudential report is not sought, the reasons for not obtaining such a report will be recorded.
- 5.5 When a full prudential report is not sought (i.e. for all other projects) the minimum requirement is effective due diligence, in the context of the Objectives of this Policy. This process of effective due diligence must be undertaken for the purposes pursuant to Section 48 (aa1) of the Act and as outlined in Clause 5.6.
- 5.6 A council must develop and maintain prudential management policies practices and procedures for the assessment of projects to ensure that the council:
- 5.6.1 acts with due care diligence and foresight; and
  - 5.6.2 identifies and manages risks associated with a project; and
  - 5.6.3 makes informed decisions; and
  - 5.6.4 is accountable for the use of council and other public resources.

**6. EFFECTIVE DUE DILIGENCE**

- 6.1 The Objectives of this Policy require a process of due diligence. The minimum requirements for effective due diligences are:
- 6.1.1 Compliance;
  - 6.1.2 Benefits or needs; and
  - 6.1.3 Risks.
- 6.2 Compliance
- 6.2.1 Council will implement compliance procedures to standardise how projects are to be assessed. The first component is a risk assessment of the organisational risks of the project.
  - 6.2.2 A project feasibility will initially be undertaken, and provide a high level consideration of the expected costs and revenues over either the life of the project, or for a term of not less than 10 years. One important aspect that will be considered is the reliability of these costs and revenues within these calculations. If the revenues are dependent on market conditions and unknown other factors this will require further analysis and investigation. Consideration of a range of revenue targets will need to be considered to provide some comfort as to the likely impacts on Council.
  - 6.2.3 Once the financial feasibility is satisfied, consideration will be given to the management of the proposed project.
  - 6.2.4 Procedures will be established to identify:
    - 6.2.4.1 whether the group assessing the merits of the project require special skills such as engineering, finance, banking, town planning etc., and
    - 6.2.4.2 the skills required for the effective management of the project, and
    - 6.2.4.3 whether these skills are available in-house.
- 6.3 Benefits
- 6.3.1 As the council is dealing with public money, care will be exercised on the use of public funds. The benefits of the project will be identified and measures will be developed to ensure that these benefits are realisable.
  - 6.3.2 An assessment will be undertaken as to the merits of the project in the context of the council’s strategic management plans, asset management plan, long term financial plan, and risk management plan.

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- 6.4 Risks
  - 6.4.1 Council manages risk in accordance with Councils Risk Management Policy
  - 6.4.2 Risks are not just financial considerations. An assessment of all the risks of the project will be undertaken. These risks will be considered in the context of the size of the project, and the social, political, community and environmental impacts of the project.
  - 6.4.3 The risk analysis will also consider the reliability of the revenue and expenditure estimates and whether the expected results are within the range of tolerance through sensitivity analyses. From these analyses a best case, worst case, and likely scenario will be identified. The impact of these three scenarios will be considered on the Council's long term financial plan and the likely impacts over a period of 10 years.

**7. EVALUATION OF CERTAIN PROJECTS**

- 7.1 Section 48 of the Act provides that a report is required before a Council makes any decision on a large commercial or non-commercial project.
- 7.2 In accordance with section 48, Council will obtain a report that addresses prudential issues, in relation to a proposed project:
  - 7.2.1 where the expected expenditure of the council over the ensuing five years is likely to exceed 20% of the councils average operating expenses over the previous five financial years (as shown in the Council's financial statements) ; or
  - 7.2.2 where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 million (indexed); or
  - 7.2.3 where the council considers that it is necessary or appropriate.

**8. THE CONTENT OF THE PRUDENTIAL REPORT**

- 8.1 In accordance with section 48 of the Act, the report obtained by the Council will address:
  - 8.1.1 the relationship between the project and relevant strategic management plans;
  - 8.1.2 the objectives of the Development Plan in the area where the project is to occur;
  - 8.1.3 the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in away that ensures fair competition in the market place;
  - 8.1.4 the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;
  - 8.1.5 if the project is intended to produce revenue, revenue projections and potential financial risks;
  - 8.1.6 the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
  - 8.1.7 the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;
  - 8.1.8 any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);

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- 8.1.9 the most appropriate mechanisms or arrangements for carrying out the project.
- 8.2 The report will contain further information about the risks of the project and how these risks will be managed and a consideration as to whether these risks have been adequately addressed.
- 8.3 The report will also contain sensitivity analyses on a best case, worst case and most likely outcome assuming the parameters used. Consideration will also be given to the impact on the Council's long term financial position.

**9. WHO CAN & SHOULD PREPARE THE SECTION 48 REPORT?**

- 9.1 Section 48(4) of the Act provides that
  - 9.1.1 (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).
- 9.2 To obtain a section 48 prudential report, the Council therefore will appoint a suitable qualified independent person who will be skilled in the assessment of the proposed project. This may include engineering, finance, infrastructure, and project management skills. The person appointed may be a member of staff.
- 9.3 The Council's external auditor cannot be engaged to provide a section 48 report. Legislation provides that a Council's statutory auditor cannot undertake activities outside the scope of the auditor's functions under the Local Government Act 1999 to avoid compromising the auditor's independence of the auditor's statutory responsibilities. However, the Council may engage a different auditor, or other suitably qualified person to prepare such a report, if that person is considered to be skilled in the assessment of the proposed project.

**10. CONSIDERATION OF THE REPORT**

- 10.1 Council cannot delegate the consideration of the report. The report will not be read in isolation and will be considered together with the Council's asset management plan, long term financial plan, and risk management plan.
- 10.2 Subject to restrictions to protect commercial confidentiality, or other people's financial affairs, the report will become a public document after the Council has made a decision on the project (or earlier at the Council's discretion).

**11. ASSETS TO BE RECEIVED FREE OF CHARGE**

- 11.1 Assets, including roads, land, and buildings can be received by Council for no consideration. This would have the effect of increasing the asset stock of the council and the consequent asset management costs.
- 11.2 Accepting any asset will affect asset management costs in the future. On the other side of the balance sheet, there may be additional rate revenue generated from a new asset.
- 11.3 Council will, therefore, consider whether a proposed asset transfer is a project that needs to be subject to a full prudential report under section 48 of the Act or whether it may be covered by a standard process of effective due diligence under this policy.
- 11.4 This is a case-by-case decision, and will involve consideration of all future long-term costs and risks to the Council.

**12. WHOLE OF LIFE COSTS**

- 12.1 Council management will consider the impact that the whole of life costs of an asset or project will have on the Council's long term financial plan and, if relevant, on the

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Council's asset management plan. The careful integration of these two plans should result in a successfully managed implemented and administered project, regardless of the size of the project.

### 13. SUMMARY

- 13.1 Prudential management, like risk management, is an important element of good governance in local government. Local Government is a large manager of community assets and community projects. The manner in which these are proposed, considered, executed and managed is a reflection of the Council's good governance.
- 13.2 This policy imposes a standard of governance that encompasses effective prudential management, and proper consideration of the impact of decisions, well before the project is offered to Council for decision.

### 14. RECORDS

All records should be kept confidential and be treated in accordance with Local Government GDS40.

### 15. REVIEW

This document shall be reviewed by Council within two (2) years (or on significant change to legislation or aspects included in this policy that could affect the health and safety of workers).

### 16. REVIEW HISTORY

Document History	Version No:	Issue Date:	Description of Change:
	1.0	27/05/13	Original Issue Draft based on LGA Model Policy
	1.1	21/10/13	Reviewed by AC
	1.1	19/11/13	Council Adopted - 252/13
	1.2	19/07/16	Reviewed by AC
	1.2	16/08/16	Reviewed by Council – 182/16
	1.2	15/08/17	Reviewed by AC - NC
	1.2	19/08/19	Reviewed by AC - NC
	1.2	17/09/19	Reviewed by Council - 202/19
	1.3	21/09/21	Reviewed by AC refer AC08/21
	13.3	19/10/21	Reviewed by Council refer 153/21