



## Prudential Management Policy

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<b>Council File Reference:</b>	
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<b>Relevant Policies:</b>	Contracts and Tenders – Acquisition of Goods and Services Contracts and Tenders – Sale of Land and other Assets
<b>Related Procedures:</b>	
<b>Delegations:</b>	

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**KINGSTON DISTRICT COUNCIL**  
**PRUDENTIAL MANAGEMENT POLICY**

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## **1. Introduction**

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

## **2. Definitions**

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”*

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 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 produce products or 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 Contracts and Tenders – Acquisition of Goods and Services 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.

“Due Diligence” is an expression used to describe the conduct of a systematic review of a transaction, prior to entering the transaction and an obligation to exercise reasonable care.

### 3. Policy Objectives

This policy has two Objectives.

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

1.2 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.

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.

### 4. 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.*

*Without limiting subsection 48(aa1), a council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council:*

- (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body):*
  - (i) where the expected expenditure 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*
  - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 000 000 (indexed); or*
  - (iii) where the council considers that it is necessary or appropriate.*

Furthermore the Section 48 of the Act states that:

- (3) A report is not required under in relation to:*
  - (a) road construction or maintenance; or*
  - (b) drainage works.*

As such, this Policy applies to Council projects that are covered under the legislative definitions above, and other projects deemed necessary by the Council or the Chief Executive Officer based on the general risk of the project proposal, and that decision-making in respect of any project is made with reliable, accurate and timely information.

## **5. 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 Chief Executive Officer or Manager has delegated authority to exercise some (depending upon budgetary allocations and other Council policies) of the Council's powers to approve projects and expend funds. Therefore, for a particular project, the decision-maker may be the Chief Executive, 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.

### **5.1 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 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.

### **5.2 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”.

## 6. 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 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.

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.

	<b>Insignificant</b> (i.e. FR less than \$XXX)	<b>Minor</b> i.e. FR between \$XXX and \$X,XXX	<b>Moderate</b> i.e. FR between \$X,XXX and \$XX,XXX	<b>Major</b> i.e. FR between \$XX,XXX and \$XXX,XX X	<b>Serious</b> i.e. FR greater than \$XXX,XX X
Financial risk over the whole of life					
Likelihood of FR occurring					
<b>Almost certain</b>					
<b>Likely</b>					
<b>Possible</b>					
<b>Unlikely</b>					
<b>Rare</b>					

	<b>Insignificant</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>	<b>Serious</b>
<b>Whole of life (WoL) costs</b>	(i.e. WoL costs less than \$X,XXX)	i.e. WoL costs between \$X,XXX and \$XX,XXX	i.e. WoL costs between \$XX,XXX and \$XXX,XX X	i.e. WoL costs between \$XXX,XX X and \$X,XXX,X XX	i.e. WoL costs greater than \$X,XXX,X XX

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.

### 7. 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.

### 8. 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.

### 8. Council Endorsement of the Policy

This policy was endorsed by Council on 23 March 2012, resolution number 7792.

## **9. Availability of the Policy**

This policy will be available for inspection at the Councils principle office, 29 Holland Street Kingston SE, during ordinary business hours. Copies will also be provided to interested members of the community upon request, and upon such payment of the fee fixed by Council.