District Council of Elliston
Policy

Finance
E042: Prudential Management

Signature	
Policy Issued & Effective from	October 2026
Date of Last Review	21 June 2022
Version No.	2.1
Next Review Date	2030
Person responsible for maintaining	Chief Executive Officer

Refer to the last page of this document for the Document History Table

1. Purpose

This document sets out the policy of the District Council of Elliston 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.

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 provide services.

Simply purchasing an item of plant or equipment, (eg 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 *an assessment of all costs associated with any project from inception, implementation, maintenance and decommissioning of assets and or services arising from a project and includes all cash, depreciation and financing considerations*.

Due Diligence is defined as *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".

Effective due diligence requires a council to devote at least some attention to compliance; benefits or needs; and financial risks.

3. Policy objectives

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.

The objectives of the Policy shall be considered in a report on any potential project, regardless of the financial impact or the size of the project.

4. 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 (**CEO**) 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 the 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.

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.

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, 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 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 the 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, town planning, etc.

In requesting and preparing a DDR, the decision-maker and Council officers must consider where the proposed project should be placed within the following table and undertake the relevant DDR assessment.

Due Diligence Assessment Matrix

Financial Risk Matrix — Consequence assessed over the whole of life

Likelihood	Financial risk (FR) over the whole of life				
Likelihood of financial risk occurring	**Insignificant** FR less than $50k	**Minor** FR between $51k and $200k	**Moderate** FR between $201k and $500k	**Major** FR 5% between $501k and $1M	**Serious** FR greater than $1M
Almost certain					
Likely					
Possible					
Unlikely					
Rare					

Whole-of-life (WoL) cost thresholds

Insignificant	Minor	Moderate	Major	Serious
WoL costs less than $50k	WoL costs between $50k and $250k	WoL costs between $251k and $1M	WoL costs between $1M and $5M	WoL costs greater than $5M

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 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 decision 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	**Changes since last version**	**Approved by**	**Record No**	**Issue Date**
1.0	New	CEO		15 September 2015
2.0	Update in accordance with LGA model template	Deputy CEO		21 June 2022
2.1	Minor formatting amendments	Council		October 2026