



## POLICY DOCUMENT

9.63.24

<b>Policy Name</b>	<b>PRUDENTIAL (PROJECT) MANAGEMENT</b>
<b>Policy No</b>	<b>9.63.24</b>
<b>Reviewed By</b>	Rob Donaldson CEO
<b>CEO Authorisation</b>	Rob Donaldson CEO
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### 1. **PURPOSE**

This document sets out the policy of the City of Port Lincoln for prudential management of its projects. This policy applies to all projects (as defined below) within the parameters set out in the policy.

This policy has two objectives, which shall be considered before the commencement of any potential project to which the policy applies.

#### **1.1. *Due Diligence***

To ensure that Council projects are undertaken only after an appropriate level of “due diligence”<sup>1</sup> is applied to each relevant proposed project; and

#### **1.2. *Project Management***

To ensure that each Council project is:

- a) managed during the project and
- b) evaluated after the project,

to achieve identified public benefits or needs and to minimise financial risks.

This policy seeks to ensure that Council achieves the best value from the community resources available for projects, through the use of project evaluation techniques and appropriate due diligence review processes for:

- all projects included in the Annual Business Plan, and

<sup>1</sup> As defined in the LGA’s Financial Sustainability Information Paper No. 27: *Prudential Management* at <http://www.lga.sa.gov.au/goto/fsp>

- any other projects proposed to be resourced by service program funding or other sources, where exceeding \$100,000 in planned expenditure.

## 2. **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.

Notwithstanding the specific application of this Prudential (Project) Management Policy, Council has adopted a number of policy and process provisions intended to provide assurance of sound project assessment and decision-making, and to support Council’s compliance with Section 48 (aa1), including:

- Council’s Contracts, Tenders, Purchasing and Disposal Policy, with its hierarchy of expenditure values, processes and limits;
- Council’s Community Engagement Policy, which ensures that significant decisions are often subject to public information and consultation before outcomes are determined;
- Risk Management Policy and procedure;
- The consideration of projects’ respective merits, Strategic Management Plans alignment and levels of community support through the Annual Business Plan and budget development process (which could be improved with the application of some prioritisation criteria, including risk considerations, as outlined above);
- Integration of significant WHS risk assessment into project delivery planning in accordance with Council’s WHS, Injury Management and Return to Work Policy.

The implementation of these policies, procedures and practices forms an integral part of Council’s commitment to prudential management and due diligence.

## 3. **PROJECT DEFINITION**

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 delivery of Council services is not “new and discrete” activity and is not included within this definition. A project is a temporary endeavour with a defined beginning and end.

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, Tenders, Purchasing & Disposal Policy 7.63.1. 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, preparing or reviewing a plan or strategy or granting permission for a private activity on Council land.

#### 4. **DECIDING UPON AN APPROPRIATE LEVEL OF DUE DILIGENCE**

Any proposed project falling within the parameters of this Policy will be initially assessed as to the level of due diligence that is required.

In order to ensure that the investment of time and resources into prudential/due diligence assessments and decisions is effective, efficient and adds value relative to the pre-project resources consumed:

- a multi-criteria project evaluation will be undertaken for all projects considered in the Annual Business Plan (ABP) preparation, incorporating the considerations outlined below, before projects are included in the Annual Business Plan and budget. This will establish an information base for each proposed ABP ‘project’ (whether recurrent operational, capital renewal, new capital or operational new initiative) to inform a subsequent decision as to any further Due Diligence Report requirements (for projects included in the Annual Business Plan and Budget);
- projects (excluding normal procurement activities within adopted budget scope) exceeding \$100,000 in planned expenditure and not previously evaluated in the Annual Business Plan and budget process will be subject to evaluation and decision regarding any further Due Diligence Report requirements before project commencement.

For the initial consideration of each proposed project, information must be provided to the decision-maker to indicate approximately, at first instance:

- a) the specific benefits or needs to be addressed by the proposed project;
- b) the extent to which the proposed project may be substantially similar to other past projects;
- c) the expected whole-of-life costs of the proposed project; and
- d) what, if anything, is known about the levels of financial risk that may be involved.<sup>2</sup>

For any proposed project, the decision-maker with respect to matters covered in this policy may be the Council, the Chief Executive Officer, or a manager, depending on the delegation of relevant powers.

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<sup>2</sup> For this purpose, see Local Government Financial Sustainability Information Paper No. 22 *Establishing a Risk Management Plan* at <http://www.lga.sa.gov.au/goto/fsp> together with Council’s own Risk Management Policy and supporting framework.

#### **4.1. 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:

- a) 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
- b) 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.

#### **4.2. Due diligence report**

To resolve any doubt, the decision-maker must request preparation of a due diligence report (DDR), see section 5 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.<sup>3</sup>

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".<sup>4</sup>

If a full prudential report is not sought, the decision-maker will record the 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 4.1 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**

If further due diligence reporting is required by the decision-maker after the initial assessment under section 4.1, a DDR of greater or lesser detail will be prepared in accordance with the decision-maker's determination. This DDR will include, in relation to the proposed project:

- a) an analysis of the need or demand;
- b) identification and quantification of the expected financial and other benefits;
- c) identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;

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<sup>3</sup> Information about the legal requirements and restrictions that apply to a full prudential report under section 48 of the Act are outlined in the LGA's Financial Sustainability Information Paper No. 27: *Prudential Management* at <http://www.lga.sa.gov.au/goto/fsp>

<sup>4</sup> Local Government Act 1999 Section 48(1)(b)(iii)

- d) 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;
- e) 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 Officer must consider the level of project risk, by reference to Council's Risk Management Policy 18.63.5 and using Project Risk Calculator 18-75-T5. For projects where the risk is determined to be high or extreme, a DDR must also include a project feasibility study, to provide 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 the costs and revenues within these calculations, particularly if revenues are dependant 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.

Council will take action to manage the project so that:

- a) The project remains focussed upon the expected public benefits or needs that have been identified in the DDR; and
- b) 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:

- a) Has achieved the public benefits or needs identified in the DDR that it was intended to achieve or satisfy; and
- b) Has avoided or mitigated the financial risks identified in the DDR.

## **8. RELEVANT DELEGATED POWERS AND DUTIES**

Any actions or decisions made regarding this policy, will be enacted upon as per Council's current Delegations Register.

**9. REVIEW**

This policy shall be reviewed by the City of Port Lincoln within twelve months after the conclusion of each periodic election or on significant change to legislation or aspects included within this policy.

**10. REFERENCES**

Contracts, Tenders, Purchasing & Disposal Policy 7.63.1

Risk Management Policy 18.63.5

Risk Management Procedure No. 17

Project Risk Calculator 18-75-T5

ABP & Budget Evaluation (DDR) 7-11-T14

Local Government Act 1999

LGA's Financial Sustainability Information Paper No. 27: *Prudential Management* at <http://www.lga.sa.gov.au/goto/fsp>

Local Government Financial Sustainability Information Paper No. 22 Establishing a Risk Management Plan at <http://www.lga.sa.gov.au/goto/fsp>