

POLICY DOCUMENT

9.63.24

Policy Name	PRUDENTIAL (PROJECT) MANAGEMENT
Policy No.	9.63.24
Version:	1
Strategic Reference:	3.5 Implement Business Excellence and continuous improvement, including service reviews for relevance, efficiency and effectiveness.
Responsible Department:	Corporate and Community
Policy Adopted:	18 October 2021
Last revised date:	16 November 2015
Minute reference:	CO 21/193
Next review date:	Council will endeavour to review this policy 4 years after adopted date or following significant changes to legislation or aspects included within this policy.
Applicable Legislation:	Local Government Act 1999, S48
Related Policies:	Procurement Policy 7.63.15 Risk Management Policy 18.63.5
Related Documents:	Risk Management Procedure OSPRO27 Project Risk Calculator 18-75-T5 ABP & Budget Evaluation (DDR) 7-1-T14 LGA'S Financial Sustainability Information Paper No 27 – Prudential Management Local Government Financial Sustainability Information Paper No 22 – Establishing a Risk Management Plan

1. **PURPOSE**

This document sets out the policy of the City of Port Lincoln 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:

“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 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.

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"¹ 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 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;
- (b) identifies and manages risks associated with a project;
- (c) makes informed decisions; and
- (d) is accountable for the use of Council and other public resources.

As such, this Policy applies to all Council projects, no matter how large or small, to ensure compliance with this provision, 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.

¹ As defined in the LGA'S Financial Sustainability Information Paper No. 27: Prudential Management at www.lga.sa.gov.au/FSP

The Council's record of delegations² lists the powers that the Council has delegated to the Chief Executive Officer 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 Chief Executive Officer, 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.³

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 in 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.

² Many council powers may be delegated to the Chief Executive or other officers under section 44 of the Local Government Act 1999. Under section 44(6), the Council must keep a record of delegations.

³ For this purpose, see Local Government Financial Sustainability Information Paper No. 22 Establishing a Risk Management plan at www.lga.sa.gov.au/FSP

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.⁴

Section 48 requires a council to obtain an independent prudential report before a council enters a project which entails a relatively large financial commitment (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body). The necessity to obtain a prudential report under section 48 is triggered:

- 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)”;
- where the expected capital costs over the ensuing five years is likely to exceed \$4.894 million (indexed as at September 2019).

The Act provides, at section 48(3), that a prudential report is not required in relation to road construction or maintenance, or drainage works, even when the cost of such works would exceed the expenditure levels cited above. However, there is nothing to prevent a council from requesting such a report in relation to roads and drainage works. In any case, such projects (like all council’s projects) must be subject to a council’s own prudential management “policies, practices and procedures”.

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”.⁵

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 5.1 of this policy, or under a DDR as being of low or negligible financial risk.

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 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.

⁴ 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 www.lga.sa.gov.au/FSP

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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.

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 focused 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.

9. FURTHER INFORMATION

This policy will be available for inspection at the Council office located at:

- Level One, Civic Centre, 60 Tasman Terrace, Port Lincoln

during ordinary business hours and available to be downloaded, free of charge, from Council's website: www.portlincoln.sa.gov.au

Copies will be provided to interested parties upon request.

- Email: plcc@plcc.sa.gov.au

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer.

10. RELEVANT DELEGATED POWERS AND DUTIES

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