

 <p>City of Mount Gambier</p>	<p><b>P415 PRUDENTIAL MANAGEMENT</b></p>	Version No:	2
		Issued:	January, 2019
		Next Review:	November, 2022

## 1. INTRODUCTION

This document sets out the policy of the City of Mount Gambier for prudential management of 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 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, (e.g. a single vehicle) or a parcel of land may 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’ may typically involve more than merely purchasing. It may involve Council Officers 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 as a minimum in the context of this Policy and Council’s Risk Management Framework Policy, its Procurement, and Disposal of Land and Assets Policy, and Comprehensive Holistic Assessment Tool (CHAT).

## 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 (i.e. a post implementation review) to assess achievements against 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*

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d) *is accountable for the use of Council and other public resources.*

As such, this Policy may apply to all Council projects, no matter how large or small, to ensure compliance with this provision and that decision-making in respect of projects 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 Council's record of delegations lists the powers that the Council has delegated to the Chief Executive Officer and/or other Council Officers, including the power (depending upon budgetary allocations and other Council policies) to approve some projects.

Therefore, for a particular proposed project the decision-maker may be the Council, the Chief Executive Officer, or another Council Officer.

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.

### 5.1 Two threshold questions

The decision-maker must 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.

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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 reason(s) for not obtaining such a report. This might be satisfied 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 may 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 Council Officer. 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 focussed upon the expected outcomes and 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 expected outcomes and public benefits or needs identified in the DDR that it was intended to achieve or satisfy; and
- Avoided or mitigated the financial risks identified in the DDR.

## 9. REVIEW OF POLICY

This Policy will be reviewed at least once during each term of Council and may be revised or reviewed at any time (but not so as to affect any project that has already commenced).

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## 10. FURTHER INFORMATION

This Policy will be available for inspection at the Council office listed below and is available for download from Council's website [www.mountgambier.sa.gov.au](http://www.mountgambier.sa.gov.au)

### **Civic Centre**

10 Watson Terrace  
Mount Gambier SA 5290

Monday to Friday 8:30am – 5:15pm  
Telephone (General Enquiries) (+61) 08 8721 2555

### **Postal Address**

PO Box 56  
Mount Gambier SA 5290

A copy of this Policy will be provided to any person upon request following payment of a fee as prescribed in Council's Schedule of Fees and Charges.

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File Reference:	AF11/1740
Applicable Legislation:	Local Government Act 1999 (s48)
Reference:	Community Plan 2016-2020
Related Policies:	F225 Fraud and Corruption Prevention R305 Risk Management Framework Policy P420 Procurement and Disposal of Land and Assets Policy
Related Procedures:	
Related Documents:	<a href="#">LGA Prudential Management Information Paper 27</a>

## 11. DOCUMENT DETAILS

Responsibility:	Manager Executive Administration
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