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| Policy Number: | 6. Finance & Corporate Services |
| Policy Name: | Prudential Management |
| Classification: | Mandatory |
| Adopted: | 24 July 2018 |
| Frequency of Review: | Triennial |
| Last Review: | July 2018 |
| Next Review Due: | July 2021 |
| Responsible Officer(s): | Manager Finance and Corporate Services |
| Policy and Code of Practice Manual File Ref: | CC10/2601 |
| Council File Reference: | CR18/23721 |
| Legislation Authority: | Local Government Act 1999 |
| Related Policies and Codes: | Policy 2.4 – Procurement Policy 2.9 – Disposal of Land and Assets |
| Related Procedures: | N/A |

1. INTRODUCTION

- 1.1 This document sets out the policy of the Town of Gawler Council for prudential management of all its projects. This policy applies to all projects (as defined below) regardless of size.
- 1.2 This Policy should be applied in conjunction with Gawler Risk Management Framework and associated Risk Matrix.

2. PROJECT DEFINITION

- 2.1 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”

- 2.2** 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.
- 2.3** 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 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.
- 2.4** All projects should be considered in the context of not only this policy, but also Council’s Risk Management - Policy 4.3.

3. POLICY OBJECTIVES

- 3.1** This policy has two Objectives.
- 3.1.1 to ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project; and
- 3.1.2 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.
- 3.2** 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

- 4.1** 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.*
- 4.2** 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

- 5.1 Any proposed project must first be assessed as to the level of due diligence that is required.
- 5.2 The Council's record of delegations 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.
- 5.3 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.
- 5.4 When approval is being sought or considered for a specific proposed project, the following information must be provided to the decision-maker in the 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.

5.5 Two threshold questions

- 5.5.1 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.
- 5.5.1.1 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.
- 5.5.1.2 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.

5.6 Due diligence report

- 5.6.1 To resolve any doubt, the decision-maker must request preparation of a **due diligence report** (DDR). See section 6 below.
- 5.6.2 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 of the Local Government Act will be regarded as the highest-level, most thorough type of DDR for the purposes of this Policy.
- 5.6.3 A full prudential report may also be commissioned under Section 48 of the Local Government Act, for “any other project for which the Council considers that it is necessary or appropriate”.
- 5.6.4 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

- 6.1 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 proposed project) and consideration of ways they can be managed and/or mitigated;
 - an evaluation that weighs up all of the factors above.
- 6.2 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.
- 6.3 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.
- 6.4 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.

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| Financial risk (FR) over the whole of life Likelihood of FR occurring | Insignificant (i.e. FR less than \$5,000) | Minor i.e. FR between \$5,001 and \$25,000 | Moderate i.e. FR between \$25,001 and \$100,000 | Major i.e. FR between \$100,001 and \$1,000,000 | Serious i.e. FR greater than \$1,000,000 |
| Almost certain | | | | | |
| Likely | | | | | |
| Possible | | | | | |
| Unlikely | | | | | |
| Rare | | | | | |

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|----------------------------------|--|---|--|--|---|
| Whole of life (WoL) costs | Insignificant (i.e. WoL costs less than \$5,000) | Minor i.e. WoL costs between \$5,001 and \$25,000 | Moderate i.e. WoL costs between \$25,001 and \$100,000 | Major i.e. WoL costs between \$100,001 and \$1,000,000 | Serious i.e. WoL costs greater than \$1,000,000 |
|----------------------------------|--|---|--|--|---|

6.5 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

7.1 After a decision has been made to commence a project, it will be managed according to the principles of due diligence.

7.2 The 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.

8. DUE DILIGENCE AFTER A PROJECT

8.1 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.

9. REVIEW AND EVALUATION

The effectiveness of this Policy will be reviewed on a triennial basis.

The Chief Executive Officer will report to Council on the outcome of the evaluation and if relevant make recommendations for amendments, alterations or substitution of a new Policy.

The Policy will not be altered or substituted so as to affect a process already commenced.

10. FURTHER INFORMATION

Further information about this Policy can be obtained by:-

Telephone: 8522 9211

Fax: 8522 9212

Email: council@gawler.sa.gov.au

Appointment: Gawler Administration Centre, 43 High Street, Gawler East
5118

Letter: PO Box 130, Gawler SA 5118

11. AVAILABILITY OF POLICY

The Policy is available for inspection during ordinary business hours at the Council principal office, Gawler Administration Centre, 43 High Street, Gawler East or is available on the Council website at www.gawler.sa.gov.au.

A copy of this Policy will be provided to interested parties upon request, for a fee as contained in the Register of Fees and Charges.