

 City of Mount Gambier	P415 PRUDENTIAL MANAGEMENT	Version No:	3
		Issued:	19 September 2023
		Next Review:	September 2027

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. PURPOSE:

This Policy is intended to provide further guidance to Council, the Community and Employees in regard to the management of prudential projects and issues. It is intended to enhance the legislative directions provided in the Act (Local Government Act 1999), rather than repeat or replace the existing requirements.

3. DEFINITIONS:

Key Term – Acronym	Definition
Project	<ul style="list-style-type: none"> • “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” • may include a new or discrete undertaking or activity of a temporary nature that involves the expenditure of money, deployment of resources, incurring or assuming a liability or accepting an asset. • It will typically involve more than merely purchasing an asset or infrastructure; it does not need to entail expenditure as it may be based around the receipt of land or assets for free, or the granting of permission for a private activity on Council land. • A project has a defined beginning and end. Regular, ongoing deliveries of Council services are not “projects”.
Prudential Project	<ul style="list-style-type: none"> • A project or commercial activity being undertaken by Council or a subsidiary of Council that requires prudential legislative requirements to be followed.
Engage in a Prudential Project	<ul style="list-style-type: none"> • When Council has agreed to commit funds to a project.
Due Diligence	<ul style="list-style-type: none"> • The conduct of a systematic review of a transaction, prior to entering the transaction. It has been defined in landmark legal cases as: <i>“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” and “indistinguishable from the obligation to exercise reasonable care.”</i>
DDR	<ul style="list-style-type: none"> • Due Diligence Report.

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Key Term – Acronym	Definition
Prudential Management	<ul style="list-style-type: none"> Requires the financial risks or adverse financial consequences of a project to be considered, minimised or offset to ensure that the proposed benefits of the project are achieved.
Whole of Life Costs	<ul style="list-style-type: none"> The total cost of owning an asset over its entire life such as design and building costs, operating costs, associated financing costs, depreciation, and disposal costs. Whole-life cost also includes environmental impact and social costs.

4. ROLES AND RESPONSIBILITIES:

Responsible Officer	Roles & Responsibilities
Council	Ensure policies in place to assist staff with prudential management.
Audit and Risk Committee	The role of the Audit and Risk Committee is to receive any prudential reports and provide advice to Council.
Chief Executive Officer	Receive regular reports on prudential management.
General Managers	To ensure that relevant projects are assessed as to the level of due diligence that is required.
Project Managers	For each project determine what level of due diligence assessment is required.

5. POLICY STATEMENT:

This document sets out the policy of the City of Mount Gambier Council for prudential management of all its projects. This policy applies to all projects regardless of size.

6. POLICY OBJECTIVES:

This policy has four objectives.

- 6.1 To ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project;
- 6.2 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;
- 6.3 Gives consideration to Council’s strategic plans; and
- 6.4 Inform Council of any risks and opportunities the project may bring.

7. 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*

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- c) *makes informed decisions; and*
- 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.

8. 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.

8.1 Appropriate Level of Due Diligence:

When approval is being sought or considered for a specific proposed project, information must be provided to the authorised decision-maker to indicate approximately, at first instance:

- **Whole of Life Revenue/Benefits** - The specific benefits, revenue, or needs to be addressed by the proposed project;
- **Past Experience** - The extent to which the proposed project may be substantially similar to other past projects;
- **Whole Of Life Costs** - The expected whole-of-life costs of the proposed project; and
- **Financial and Operational Risks** - That, if anything, is known about the levels of financial and operational risk that may be involved.

8.2 Assessment of Due Diligence

The authorised 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.

The authorised decision-maker must ascertain whether:

- **Funding** - 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;
- **Financial Risk** - The proposed project will (or might) generate any additional financial risk for the Council; and
- **Whole of Life Costs** - The whole-of-life costs and the financial risks have been accounted for. If not, a due diligence report must be prepared

8.3 Due Diligence Report

Sections 48(1)(a) and (b) of the Local Government Act 1999 ("the Act") requires a full prudential report be prepared for Council for large projects excluding road works and drainage as specified in the legislation:

- **Five Year Expenditure** - Where the expected expenditure of the Council over the ensuing five years is likely to exceed 20% of the Council's average annual operating

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expenses over the previous five financial years (as shown in the Council's financial statements); or

- **Expected Capital Cost** - Where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed based on Adelaide CPI September 2009 divided by the September Adelaide CPI directly preceding the date of the project).

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.

A prudential report prepared under Section 48 of the Act will be regarded as the highest level due diligence report for the purposes of this Policy.

Depending upon the context of due diligence required by the authorised decision-maker (General Manager or Project Sponsor), a due diligence report of greater or lesser detail will be prepared. This due diligence report will include, in relation to the proposed project:

- **Need/Demand** - An analysis of the need or demand;
- **Benefits** - Identification and quantification of the expected financial and other benefit;
- **Whole Of Life Costs** - Identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- **Financial Risks** - 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; and
- **Evaluation** - An evaluation that weighs up all the factors above.

8.4 Author Independence:

- Section 48 (4) states that the prudential issues report must be prepared by a qualified person who is independent and does not have an interest in the proposed project. In addition to the legislated requirements this person should also be external to Council (i.e. not an employee).
- It should also be noted that Council's external auditor cannot be engaged to provide a Section 48 Prudential Issues report.

9. 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:

- **Benefits/Needs** - 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.

10. 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.

The subsequent report will be provided to Council's Audit and Risk Committee and Council.

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11. TRAINING/EDUCATION:

Training will be provided to key members of staff, the Executive Leadership Team and Elected Members as required.

12. REVIEW -& EVALUATION:

This Policy will be reviewed in four years or earlier in the event of changes to legislation or related Policies and Procedures or if deemed necessary by the General Manager Corporate and Regulatory Services.

13. AVAILABILITY OF POLICY:

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

Civic Centre

10 Watson Terrace
Mount Gambier SA 5290

Monday to Friday 8:30am – 5:00pm
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:	AF18/48
Applicable Legislation:	Local Government Act 1999 (s48)
Reference:	Strategic Plan 2020-2024
Related Policies:	F225 Fraud and Corruption Prevention R305 Risk Management Framework Policy P420 Procurement and Disposal of Land and Assets Policy B300 Budget Framework Policy
Related Procedures:	
Related Documents:	<u>LGA Prudential Management Information Paper 27</u>

14. DOCUMENT DETAILS

Responsibility:	General Manager Corporate and Regulatory Services
Version:	3.0
Last revised date:	19 September 2023
Effective date:	19 September 2023
Minute reference:	19 September 2023 Council Meeting - Item 19.15 - Resolution 2023/211
Next review date:	September 2027
<u>Document History</u>	
First Adopted By Council:	25 November 2014
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