

MAJOR PROJECTS PRUDENTIAL MANAGEMENT POLICY

Type	Governance
Category	Corporate & Community
Responsible Officer	Director Corporate & Community
First Issued / Adopted	16 December 2015
Review Period	2 Years
Last Reviewed	25 November 2020, February 2018
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Applicable Legislation	Local Government Act 1999
Related Documents	Risk Management Framework Procurement Policy
Public Consultation Required	No
File Reference	9.63.1.4

1. PURPOSE

This policy aims to ensure that decision making for all projects is made with reliable, accurate and timely information and that a Council project is undertaken only after:

- A thorough analysis of the needs of the project;
- The benefits of the project have been identified and determined; and;
- The risks of proceeding with the project have been fully identified, managed and mitigated including the risks of not proceeding or delaying the project.

The objectives of this policy should be considered for any proposed project, regardless of the financial impact or size of the project.

2. SCOPE

Any proposed large scale project that falls within section 48 (1) of the Local Government Act, 1999.

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3. DEFINITIONS

Due Diligence The obligation to exercise reasonable care prior to committing to a project.

Base Amount The base amount of \$4,000,000 is to be adjusted on 1 January each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009 as per the Act, section 48 (6d).

(ABS: Base Sep 2011 100%, Index Sep 2020 115.7%)

Project A new or discreet activity that would involve the expenditure of money, deployment of resources, accepting an asset or incurring or assuming a liability. This does not include procurement acquisitions such as the purchase of equipment or plant, however it may include a part or a stage of a larger project.

Prudential Project A project or commercial activity (being undertaken by Council) that falls within the scope of prudential review requirements.

4. POLICY STATEMENT

4.1 Projects Requiring a Prudential Report

Prudential management is an important element of good governance. The Council is a large manager of community assets and community projects and it is expected that Council will give proper consideration of the impact of its decisions in assessing a potential project. The preparation of a prudential report is recommended.

When a proposed large scale project that falls within the requirements of Section 48 (1) of the Local Government Act, is to be considered, a report that addresses prudential issues is required before Council makes any decision on a proposed project.

A Prudential project is one where:

- the expected expenditure of the Council over the ensuing five years is likely to exceed 20% of the Council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or
- the expected capital cost of the project over the ensuing five years is likely to exceed the base amount of \$4,628,000 (indexed).
- Where the Council considers that it is necessary or appropriate.

In accordance with Section 48 (3) this policy does not apply to road construction or maintenance, or drainage works.

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4. POLICY STATEMENT (cont'd)

4.2 Effective Due Diligence

The report for major projects must be prepared by an appropriately qualified individual, which may include an employee and cover the following minimum requirements for effective due diligence:

- Compliance;
- Benefits or needs; and
- Risks.

4.2.1 Compliance

Council will implement compliance procedures to standardise how projects are to be assessed.

The first step is a risk assessment of the organisational risks of the project. This must include a project feasibility to be undertaken which is to provide a high level of consideration of the expected costs and revenues over the life of the project, or for a term of not less than 10 years. An important aspect is the reliability of the costs and revenues used in the assessment. If revenues are dependant on market conditions and any unknown factors, this will require further analysis and investigation. Consideration of a range of revenue targets will need to be considered to provide some level of assurance as to the likely impacts on Council.

Once the financial feasibility is satisfied, consideration will be given to the management of the proposed project.

Procedures will be established to identify:

- Whether the project assessment group will require special skills such as engineering, finance, town planning, etc;
- The skills required for effective management of the project; and
- Whether these skills are available internal to the Council or whether they will need to be sourced externally.

4.2.2 Benefits or Needs

As Council is dealing with public monies, care will be exercised on the use of public funds. The benefits of the project will be identified and measures will be developed to ensure that these benefits are measurable and realisable.

An assessment will be undertaken as to the merits of the project in the context of the Council strategic management plans, asset management, long term financial management and risk management plans.

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4. POLICY STATEMENT (cont'd)

4.2 Effective Due Diligence (cont'd)

4.2.2 Benefits or Needs (cont'd)

The following should all be considered:

- 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 not proceeding or delaying the proposed project) and consideration of the way to manage and/or mitigate
- An evaluation of all the factors including but not limited to those described.

4.2.3 Risk

An assessment of all risks of the project will be undertaken. These risks will be considered in the context of the size of the project and the social, political, community and environmental impacts of the project.

The risk analysis will also consider the reliability of the revenues and expenditure estimates and whether the expected results are within the range of tolerance through sensitivity analyses. A minimum of three scenarios, being best case, worst case and the likely case, will be considered to assess the impact of the Council long term financial plan and the likely impacts over a 10 year period.

4.3 Assets to be Received Free of Charge

Assets can be received by the Council for no consideration. Accepting any asset will affect future asset management costs and may give rise to revenue. Council will consider whether a proposed asset transfer is a 'project' that should be subject to a Prudential report as required under section 48 of the Act.

4.4 Content of a Prudential Report

Section 48 of the Act sets out the requirements for the preparation of prudential reports for activities and projects.

Before Council makes a decision on a proposed Prudential project, the Chief Executive Officer will engage the services of a suitably qualified independent person in accordance with section 48(4).

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4. POLICY STATEMENT (cont'd)

4.4 Content of a Prudential Report

A prudential report must be obtained which includes consideration of the following issues:

- (a) the relationship between the project and relevant strategic management plans;
- (b) the objectives of the Development Plan in the area where the project is to occur;
- (c) the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;
- (d) the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;
- (e) if the project is intended to produce revenue, revenue projections and potential financial risks;
- (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
- (g) the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;
- (h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);
- (i) the most appropriate mechanisms or arrangements for carrying out the project.

The report will contain further information about the risk of the project and how these risks will be managed and a consideration of whether these risks have been adequately addressed.

This report will also contain a sensitivity analysis on a best case, worst case and likely scenario outcome.

4.5 Whole of Life Costs

Council will consider the impact of the whole of life costs of an asset or project, on the Council long term financial plan and asset management plan. The careful integration of these plans should result in a successful managed, implemented and administered project regardless of the size.

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4. POLICY STATEMENT (cont'd)

4.6 Preparation of a Prudential Report

A Prudential Report is to be prepared in accordance with both this policy and the legislation, then submitted for consideration by Council prior to the decision to proceed or not with the project.

Council will ensure that Prudential projects are only undertaken after an appropriate level of due diligence has been applied to the proposed project.

Effective due diligence will be considered to have occurred where Council has satisfied itself as to how compliance, public interest benefits of needs and financial risks associated with the project have been considered in the prudential report (before, during and after the project).

Prudential reports must be prepared by a person whom the Council reasonably believes to be qualified to address the prudential issues as outlined in the Act.

A suitable qualified independent person who will be skilled in the assessment of the proposed project is to be appointed to prepare the report. The person may be an employee of Council.

The person may not have an interest in the project or be closely associated with another person who would or have a reasonable expectation of receiving a direct or indirect benefit or suffer a detriment if the project were to proceed.

The Council external auditor can not be engaged to provide a prudential report under this section of the Act.

Where Council decides not to obtain a prudential report, the decision is to be formally recorded along with the reasons for this decision.

Council will not call for the preparation of a prudential report during a Local Government election period (as defined in the Local Government (elections) Act 1999) nor commit an incoming Council to engaging in a prudential commercial activity or project during an election period.

4.7 Consideration of a Prudential Report

The report must be considered by the Council. This can not be delegated. The Prudential report is not to be read in isolation, rather considered together with the Council Asset Management Plan, Long Term Financial and Risk Management Plan.

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4. POLICY STATEMENT (cont'd)

4.7 Consideration of a Prudential Report

Council will seek and consider comment from its Audit Committee and may consider comment from another committee of Council as part of its decision making. Advice may be sought about:

- The adequacy of the assumptions underpinning the project;
- The manner in which financial risk is to be managed; and
- The recommended milestones to be managed during the project.

Except where information needs to be protected under Section 48(6) of the Act, adopted Prudential reports will become a public document and be available at the Port Pirie Council Administration Centre and on Council's website for inspection by members of the public within seven working days of the Council meeting at which it was adopted. Adopted prudential reports will remain available for inspection by members of the public for at least one year beyond completion of the prudential project or activity.

4.8 Project Monitoring and Evaluation

Council will ensure that appropriate monitoring mechanisms are established for compliance, public interest benefits or needs, and the management of any financial risks.

On completion of a prudential project, Council will evaluate the project to confirm that it has:

- achieved the public benefits or needs identified within the adopted prudential report; and
- avoided or mitigated the financial risks identified within the adopted prudential report.

5. FURTHER INFORMATION

This policy will be available for inspection at the Council offices listed below during ordinary business hours and available to be downloaded, free of charge, from Council's internet site: www.pirie.sa.gov.au

- Port Pirie Council Administration Centre, 115 Ellen Street, Port Pirie
- Crystal Brook Rural Office, Bowman Street, Crystal Brook.

Copies will be provided to interested parties upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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