

## Prudential Management Policy

Policy Author	General Manager – Strategy and Corporate
Date of next review	May 2024

### 1. Statement of Intent

The objective of this policy is to ensure that Council complies with obligations under the *Local Government Act 1999*, including section 48 of the Act, which requires council to develop and maintain policies, practices and procedures for the assessment of projects to ensure Council;

- acts with due care diligence and foresight
- identifies and manages risks associated with a project
- makes informed decisions and
- is accountable for the use of Council and other public resources

Council will adopt, an internal project management framework with associated standards and processes to ensure that all projects (including those that are not major by definition) are managed effectively, monitored and reviewed in accordance with the framework and this policy.

In relation to section 48 (1)(iii), Council is committed to a pro-active risk management approach in accordance with its Risk Management Framework when undertaking projects. Prudential Management requirements are incorporated into Council's risk management processes. Council's policy position is that a prudential report will be considered by Council when the risk profile of the project is high or extreme, as determined by Council staff under the Risk Management Framework.

### 2. Scope

Council recognises that due diligence and effective project management are necessary for all projects, regardless of size, however it is neither practical nor efficient for all projects to be subject to prudential management reporting requirements. This Prudential Management Policy and its associated procedures apply to:

- Major Projects as defined in the Playford Global Glossary
- Projects defined within s48(1) of the *Local Government Act 1999*
- other projects that the council considers warrant such a report.

Guidance regarding the determination of financial thresholds as outlined in both s48(1)i & ii and in the Playford Global Glossary, is provided in the attached appendix.

When determining whether a prudential report is required for proposed projects at the City of Playford under s48(1)iii (ie where the council considers that it is necessary or appropriate), the need will be assessed by the project manager with reference to any 'High Risks' identified within the Council's Project Management Framework - Phase 1 – Initiation - Risk Assessment.

In accordance with s48(3) of the *Local Government Act 1999*, a prudential report does not apply to:

- Road construction or maintenance; or
- Drainage works

These works will be undertaken in accordance with Council's Procurement Policy.

### 3. Legislation and References

This Policy is to be read in conjunction with the Prudential Management Procedure

- *Local Government Act 1999*
  - s48 - Prudential requirements for certain activities
- Risk Management Framework
- Project Management Framework
- Treasury Policy
- Procurement Policy
- City of Playford Integrated Risk Management Framework
- City of Playford Project Management Framework
- City of Playford Long Term Financial Plan
- City of Playford Global Glossary

This Policy should not be considered as the only document that may relate to prudential management, other tiers of government, agencies or organisations may have legislation or policies that also apply.

### 4. Application

Council	<ul style="list-style-type: none"><li>• Overseeing and monitoring the prudential management for identified projects across the Council.</li><li>• Adopt a Prudential Management Policy</li></ul>
Chief Executive Officer	<ul style="list-style-type: none"><li>• Ensure that prudential management is implemented and maintained in accordance with this policy.</li></ul>
Executive	<ul style="list-style-type: none"><li>• Ensure that prudential management is effectively implemented and monitored for all Major Projects (including reporting) undertaken in accordance with this Policy and the associated procedure.</li></ul>
Corporate Governance Committee	<ul style="list-style-type: none"><li>• Assist Council in exercising due diligence, accountability.</li><li>• Oversight and monitoring responsibilities in relation to projects.</li></ul>
Project Manager	<ul style="list-style-type: none"><li>• Ensure the principles of this Policy and associated procedure are applied during the initial stages of any project.</li><li>• Ensure prudential management is undertaken in accordance with this Policy and associated procedure for the projects they are responsible for.</li></ul>

### 5. Relevance to Risk Appetite Statement

#### Financial Sustainability

The City of Playford has a **LOW** appetite for financial risk. The Prudential Management Policy ensures that Council understands the impacts and risks associated with major projects, including any unintended financial implications.

#### Reputation

The City of Playford has a **LOW** appetite for negative perceptions that compromise its credibility and reputation. The Prudential Management Policy ensures that Council understands the impacts and risks of proceeding with major projects, including any unintended reputational risks.

### Regulatory Compliance

The City of Playford has a **ZERO TOLERANCE** for non-compliance with applicable legislation. This policy addresses this risk by ensuring compliance with Section 48 of the *Local Government Act 1999*, which requires Council to develop and maintain policies and procedures for the assessment of projects.

## 6. Feedback

Your feedback on this policy is invited and can be directed to the Manager Governance via email to [governance@playford.sa.gov.au](mailto:governance@playford.sa.gov.au) or by calling the Customer Contact Team on 8256 0333.

### Administration use only

ECM document set no.	3986462
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Procedure link	Prudential Management Procedure
Policy author	General Manager – Corporate and Strategy
Endorsed by	Council
Resolution no.	4620
Legal requirement	<i>Local Government Act 1999</i>
Review schedule	3 years
Date of current version	May 2021
Date of next review	May 2024

### Version history

Version no.	Approval date	Approval by	Change
1	22 May 2012	Council	New document.
2	25 May 2021	Council Resolution No. 4620	Moved into new corporate template.  Updated policy to provide clarity of the intent to the policy and ensure a structured document.  Policy updated to ensure aligns to legislative requirements.  New Prudential Management Procedure developed.

## Appendix 1

This Prudential Management Policy and its associated procedures apply to:

- Major Projects as defined in the City of Playford Global Glossary
- Projects defined within s48(1) of the *Local Government Act 1999*
- Other projects that the council considers warrant such a report.

### S48 Financial Thresholds

Section 48(1) of the *Local Government Act (1999)*, requires Council to obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council –

- (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) –
  - (i) where the expected operating expenses calculated on an accrual basis 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); or
  - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 000 000 (indexed)<sup>1</sup>; or
  - (iii) where the council considers that it is necessary or appropriate.

<sup>1</sup> Section 48(6d) outlines the calculation of the capital cost threshold stipulated in s48(1)(b)(ii). It states that \$4 000 000 (indexed) means that that amount is to be adjusted for the purposes of this section on 1 January of 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.

Section 48 also states:

- That a project which is to be undertaken in stages does not limit the operation of subsection (1)(b) in relation to the project as a whole (s48(2a)).
- a report is not required under subsection (1) in relation to –
  - (a) road construction or maintenance; or
  - (b) drainage works (s48(3))

**Guidance – Financial Thresholds at the City of Playford**

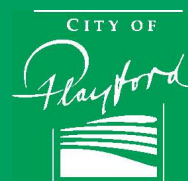
When determining whether a prudential report is required under s48(1), for proposed projects at the City of Playford, consideration must be given to the following two financial thresholds:

**S48(1)(b)(i) Operating Expense Threshold Calculation**

	<b>Operating Expenses</b>
2015/16	\$ 89,628,000
2016/17	\$ 91,611,000
2017/18	\$ 96,432,000
2018/19	\$ 99,345,000
2019/20	\$ 101,856,000
Total	\$ 478,872,000
<b>5 Year Average</b>	<b>\$ 95,774,400</b>
<b>20% of Average</b>	<b>\$ 19,154,880</b>

**S48(1)(b)(ii) Capital Cost Threshold Calculation**

	<b>Capital Threshold</b>
S48(1)(b)(ii)	\$ 4,000,000
1-Jan-11	\$ 4,115,139
1-Jan-12	\$ 4,255,864
1-Jan-13	\$ 4,341,151
1-Jan-14	\$ 4,434,968
1-Jan-15	\$ 4,537,313
1-Jan-16	\$ 4,605,544
1-Jan-17	\$ 4,665,245
1-Jan-18	\$ 4,750,533
1-Jan-19	\$ 4,840,085
1-Jan-20	\$ 4,921,109
1-Jan-21	\$ 4,955,224



## Prudential Management Procedure

Policy Author	General Manager – Strategy and Corporate
Date of next review	May 2024

### 1. Purpose

Council undertakes Prudential Management for major capital projects to ensure:

- Due care, Foresight and Diligence – Council will exercise due care, foresight and diligence in the management of public resources.
- Risk Management – prudential requirements and reporting will be underpinned by Council's approach to risk assessment in accordance with its Risk Management Policy.
- Probity – Council's conduct aims to inspire confidence in Council decisions and the integrity of the decision making process.
- Accountability – Council is accountable for its activities and decisions, which are in the public interest.

Prudential Management commences prior to making a decision to proceed with a Major Project and continues throughout the life of the project.

### 2. References and Supporting Documentation

This Procedure is to be read in conjunction with the Prudential Management Policy.

- *Local Government Act 1999*
  - s48 - Prudential requirements for certain activities
- Risk Management Framework
- Treasury Management Policy
- Procurement Policy
- City of Playford Integrated Risk Management Framework
- City of Playford Project Management Framework
- City of Playford Long Term Financial Plan
- City of Playford Global Glossary

### 2. Application

Chief Executive Officer	<ul style="list-style-type: none"> <li>• Ensure that prudential reports are conducted by an independent and suitably qualified person</li> </ul>
Project Manager	<ul style="list-style-type: none"> <li>• Ensure the principles of this procedure are applied when dealing with projects and appropriately managing projects</li> </ul>

## 4 Procedure

### 4.1 Prudential Report

Projects falling within the scope of the Prudential Management Policy require a Prudential Report to be prepared. In addition to the requirements of the Section 48 of the *Local Government Act 1999*, a prudential report will also contain information on:

- The reliability of calculated revenues or costs;
- Any assumptions made;
- A sensitivity analyses on a best case, worst case and most likely outcome assuming the parameters used;
- The impact on the Council's long term financial position; and
- The proposed frequency of ongoing prudential reporting to Council through the life of the project.

### 4.2 Prudential Report Author

To obtain a section 48 prudential report, the Chief Executive Officer will appoint a suitably qualified, independent person who will be skilled in the assessment of the proposed project. This may include engineering, finance, infrastructure, and project management skills. The person appointed may be a member of staff, however in such instance the person must not have an interest in the proposed project.

The Council's external auditor cannot be engaged to provide a section 48 report. Legislation states that a Council's statutory auditor cannot undertake activities outside the scope of the auditor's functions under the *Local Government Act 1999* to avoid compromising the auditor's independence of the auditor's statutory responsibilities. However, the Council may engage a different auditor, or other suitably qualified person to prepare such a report, if that person is considered to be skilled in the assessment of the proposed project.

### 4.3 Consideration of the Report

Council cannot delegate the consideration of the report. The report must not be read in isolation and will be considered together with the Council's asset management plan, long-term financial plan, and risk management plan. The engaged author will prepare a Prudential Report in accordance with these procedures, associated policy and legislation for consideration by Council prior to the commencement of the project.

### 4.4 Access by the public to the prudential report

Subject to restrictions to protect commercial confidentiality, or other people's financial affairs, the report will become a public document after the Council has made a decision on the project (or earlier at the Council's discretion).

Council will make the document available for public inspection at its principle place of business. The prudential report will also be published on Council's website.

### 4.5 Assets to be received free of charge

Assets, including roads, land, and buildings can be received by Council for no consideration. This would have the effect of increasing the asset stock of the council and the consequent asset management costs.

Accepting any asset will impact asset management costs in the future. On the other side of the balance sheet, there may be additional rate revenue generated from a new asset.

Where appropriate, depending on the level of risk, Council staff may treat an asset being received free of charge as a Major Project under the Prudential Management Policy, making it subject to full Prudential Reporting.

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**Administration use only**

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Version no.	Approval date	Approval by	Change
1	25 May 2021	Council Resolution No. 4620	New Procedure

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