



CITY OF PLAYFORD

Policy: Prudential Management

APPROVING BODY:	FULL COUNCIL
ADOPTED DATE:	22 MAY 2012
NEXT REVIEW DATE:	MAY 2015
POLICY EDITOR:	CORPORATE SERVICES 1
POLICY SPONSOR:	CORPORATE GOVERNANCE COMMITTEE
RISK CATEGORY:	GOVERNANCE, RISK MANAGEMENT

POLICY STATEMENT

The City of Playford undertakes Prudential Management for major capital projects to ensure that it acts with due care, diligence and foresight, identifies and manages risk associated with projects, makes informed decisions and is accountable for the use of public resources. Prudential Management commences prior to making a decision to proceed with a major project and continues on throughout the life of the project.

.....
 Chief Executive Officer – Tim Jackson

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 Date

and

.....
 Chairperson – –

.....
 Date

or

Minute details if approved by Full Council

INTRODUCTION

All projects have varying levels of risk associated with them depending on their size, complexity, associated capital expenditure, source of funding, interdependencies with other projects, impact on long term financial plan, strategic plan objectives, requirement for organisational change, impact upon the community and so on.

Council recognises that due diligence and effective project management is 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 guidelines apply to *major projects*.

Council will adopt, monitor and review an internal project management framework with associated standards and processes for project management to ensure that all projects (including those that are not major by definition) are managed effectively, undertaken with care, diligence and foresight, identifies and manages risk and is accountable for the use of Council resources.

DEFINITIONS

Project: A temporary endeavour undertaken to create a unique asset, service or result, involving the deployment of human and financial resources for a specified period of time.

Process: A process is an activity which happens continually, that is, they are always happening or being made to happen.

Major Project: A major project is a project (as above) which meets one or more of the following criteria:

- The expected capital cost of the project over the ensuing five years is likely to exceed \$4 million (indexed); or
- The expected expenditure of the project over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five years (as shown in council's financial statements); or
- The risk profile of the project is high or extreme, as determined by Council Staff under the Risk Management Framework; or

POLICY OBJECTIVE

The Objectives of this Policy are to ensure that:

- Council is meeting its obligations under Section 48 (Prudential Management) of the Local Government Act.
- Major projects are undertaken only after a thorough analysis of the need for the project, risks and opportunities.
- Council is adopting best practice prudential management.

RESPONSIBILITY

Project Manager:

- To ensure that the objectives of this Policy are considered during the initial stages of any project.
- To ensure prudential management is undertaken in accordance with this policy for the projects they are responsible for.

Executive:

- Ensure that prudential management, including reporting, is undertaken by an independent and suitably qualified person.
- To ensure that prudential management for all major projects is undertaken in accordance with this policy

LEGISLATION

48—Prudential requirements for certain activities

(aa1) 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.

(a1) The prudential management policies, practices and procedures developed by the council for the purposes of subsection (aa1) must be consistent with any regulations made for the purposes of this section.

(1) Without limiting subsection (aa1), a council must 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 expenditure 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); or
 - (iii) where the council considers that it is necessary or appropriate.

HOW THIS POLICY APPLIES THE LEGISLATION

To satisfy Section 48 (aa1) of the Legislation Council will adopt, monitor and review an internal project management framework including standards and processes for project management to ensure that all projects are managed effectively, undertaken with care, diligence and foresight, identifies and manages risk and is accountable for the use of Council resources.

In relation to section 48 (1) (iii) Council's policy position is that it is appropriate and necessary for a prudential report to also 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.

THE CONTENT OF THE PRUDENTIAL REPORT

In accordance with section 48 of the Act, the report obtained by the Council will address:

- 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 away 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 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.

WHO CAN & SHOULD PREPARE THE SECTION 48 REPORT?

Section 48(4) of the Act provides that

- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).

To obtain a section 48 prudential report, the Chief Executive Officer will therefore will appoint a suitable 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.

The Council's external auditor cannot be engaged to provide a section 48 report. Legislation provides¹ 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.

CONSIDERATION OF THE REPORT

Council cannot delegate the consideration of the report. The report will 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.

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).²

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 affect 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.

SUMMARY

Prudential management, like risk management, is an important element of good governance in local government. Local Government is a large manager of community assets and community projects. The manner in which these are proposed, considered, executed and managed is a reflection of the Council's good governance.

This policy imposes a standard of governance that encompasses effective prudential management, and proper consideration of the impact of decisions, well before the project is offered to Council for decision.

¹ [Local Government \(Financial Management\) Regulations 2011](#) – regulation 22 (1)

² [Local Government Act 1999](#) s48(5) and (6)

GUIDELINES

Prudential Management Guidelines.

REVIEW AND EVALUATION

The Prudential Management Policy will be reviewed May 2015.

PUBLIC ACCESS TO THE POLICY

The Prudential Management Policy is available upon request to Council's Customer Service Centres or on the City of Playford's website www.playford.sa.gov.au

FURTHER INFORMATION

For further information about this Policy please contact:

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Adopted