Prudential Management Policy

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Type	Governance
GDS Category	Governance – Public
Responsible Directorate	Corporate
Policy Adopted	August 2023
Review Period	2 yearly
Last Reviewed	February 2021
Next Review Date	August 2025
Policy Version Number	3
Applicable Legislation	Local Government Act 1999; Section 48
Related Documents	• Risk Management Plan and Policy • Procurement & Contract Management Policy • Risk Management Framework
Public Consultation Required	No

1. Introduction

This document sets out the policy of Whyalla Council for prudential management of projects. This policy applies to all projects (as defined below).

2. PROJECT DEFINITION

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."*

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 produce products or services. Projects should be considered under this policy where the total value of the project phase is $100,000 or greater. Any ongoing costs will be considered separately during the project assessment. This policy does not apply to projects exempted under Section 48(3) of the *Local Government Act 1999* ("the Act"), being:

(a) road construction or maintenance; or

(b) drainage works.

However, this policy should be followed for any new, ongoing undertakings being considered by Council, where the operational costs over the next 5 years meet the thresholds outlined in section 48(1) of the Act, as outlined in part 5 below.

All projects should be considered in the context of not only this policy but also Council's Risk Management Framework.

3. POLICY OBJECTIVES

This policy has two objectives:

3.1 to ensure that a Council project is undertaken only after an appropriate level of "due diligence" is applied to the proposed project; and

3.2 to ensure that each Council project is managed during the project and evaluated after the project to achieve identified public benefits or needs and to minimise financial risks.

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

This policy is made pursuant to Section 48(aa1) of the 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."*

As such, this policy applies to all Council projects over the threshold of $100,000, excluding those exempted under Section 48(3), to ensure compliance with this provision, and that decision-making in respect of any project is made with reliable, accurate and timely information.

5. DUE DILIGENCE BEFORE A DECISION ON WHETHER TO PROCEED

Depending upon the extent of due diligence required by the decision-maker, a Business Case of greater or lesser detail will be prepared. At a minimum this Business Case will include:

- analysis of the community need addressed by the project;
- information on how the project fits with Council's strategic direction and any existing or proposed Masterplans;
- quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- consideration of any social, environmental and economic outcomes; and
- assessment of project risks and consideration of ways they can be managed and/or mitigated.

For the smaller projects with a low level of risk, this Business Case may comprise only a single page and may be prepared by a single staff member. Higher value projects with a higher level of risk will require a more detailed Business Case.

For projects with a value of over $1 million, or that are considered to be high risk, the Business Case should include, in addition to the items listed above, the following information:

- a feasibility study, or other relevant independent advice;
- consideration of alternative options;
- what exit strategies exist if circumstances changes;

- consideration of stakeholder management; and
- consideration of governance issues.

Section 48(1) of the Act requires that a full prudential report be prepared for Council for projects that meet one of the following conditions:

- the capital value of the project over the next 5 years is expected to exceed $5,489,000. This figure is as at January 2023, and is indexed annually using the previous September's CPI for Adelaide; or
- the operating costs related to the project over the next 5 years are expected to exceed 20% of the Council's average annual operating costs over the last 5 years. After the 2021/22 financial year, this would require total operating costs of $6.5 million over 5 years, or $1.3 million per annum.

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".

The issues that must be addressed by this report are set out in Section 48(2) of the Act, as follows:

- the relationship between the project and relevant strategic management plans;
- the objectives of the Development Plan in the area where the project is to occur;
- 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;
- 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;
- if the project is intended to produce revenue, revenue projections and potential financial risks;
- the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
- 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;
- 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);
- the most appropriate mechanisms or arrangements for carrying out the project;
- if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.

A report prepared under Section 48(1) must be prepared by a person considered qualified to address the prudential issues required, and who does not have an interest in the project. Council can ensure compliance with this requirement by appointing an external consultant to prepare this report. Reports prepared under Section 48(1) are to be made available to the public after a decision is made on whether to proceed with the project, unless Council orders that it be kept confidential.

6. 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:

- the project remains focussed upon the expected public benefits or needs that have been identified in the Business Case; and
- financial risks identified in the Business Case are managed appropriately.

7. 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 public benefits or needs identified in the Business Case that it was intended to achieve or satisfy; and
- has avoided or mitigated the financial risks identified in the Business Case.

8. AUTHORITY

Adopted by Council – **August 2023**

9. HISTORY

Version 3 – adopted by Council August 2023

Version 2 – adopted by Council February 2021

Version 1 – adopted by Council January 2016