

## PRUDENTIAL MANAGEMENT POLICY

Policy Type	Council Policy
Responsible Department	Finance
Responsible Officer	Manager Finance
Related Policies and Procedures	Risk & Opportunity Management Policy Risk & Opportunity Management Framework Procurement Policy and Framework Project Management Framework
Date adopted	23 September 2013; C893/13
Last Council review	26 September 2016; C600/16
Next review date	September 2019 (or on significant change to legislation pertaining to Section 48 of the Local Government Act).
ECM doc set I.D.	2091781

### 1. POLICY STATEMENT

The Local Government Act 1999 (LGA), Section 48(aa1) prescribes that:

“A Council must develop and maintain prudential 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.”

This policy seeks to enhance Council’s existing policies and procedures that govern Council’s prudential management and due diligence of projects.

### 2. COMMUNITY GOAL

O5.3 Good governance and legislative framework

O5.5 A financially sustainable approach to business and planning activity

### **3. POLICY OBJECTIVES**

Council's objectives of this Policy are to ensure that each Council project:

- is undertaken only after an appropriate level of due diligence is applied to the proposed project;
- is managed appropriately during the project and evaluated after the project in terms of the use of council and other public resources to achieve identified public benefits or needs; and to minimise financial risks;
- meets the prudential report requirements when consideration is being given to a project that falls within the requirements of Section 48(1)(b) of the LGA.

### **4. PRINCIPLES**

Council is committed to a pro-active risk management approach in accordance with its Risk & Opportunity Management Framework, when undertaking all projects.

Council will make open, transparent and informed decisions in regard to projects based on reliable, accurate and timely information.

Council's core Due Diligence principles are as follows:

- efficient and cost effective use of public funds;
- accountability, integrity and due process;
- compliance;
- identification of benefits or needs; and
- identification of financial and organisational risks

### **5. POLICY**

#### **5.1 PROJECTS**

For City of Unley defined projects will be required to follow the Project Management Framework covering a project evaluation including a due diligence assessment, approval, monitoring and reporting.

This will require all defined projects to be assessed as to the level of due diligence that is required. The level of Due Diligence Assessment (DDA) is based on the Financial and Organisational Risk Consequence and the Risk Likelihood of the Project.

#### **5.2. DUE DILIGENCE DURING A PROJECT**

After a decision has been made to commence a project, it will be managed using the applicable project management methodology of Council to ensure that the principles of due diligence are met.

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 DDA; and
- financial risks identified in the DDA are managed appropriately.

### **5.3 DUE DILIGENCE AFTER A PROJECT**

Once a project has been completed, it will be evaluated by using the applicable project management methodology of Council, 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 DDA that it was intended to achieve or satisfy; and
- has avoided or mitigated the financial risks identified in the DDA

### **5.4 FULL PRUDENTIAL REPORT**

For a defined Prudential Project under Section 48(1) of the Act, there is a requirement that a full prudential report be prepared for Council. A report under Section 48 will be regarded as the highest-level, most thorough type of DDA for the purposes of this Policy.

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”.

### **5.5 FULL PRUDENTIAL REPORT AUTHOR**

For a Full Prudential Report, the author will be an independent person who is skilled in the assessment of prudential issues relevant to the proposed project. This may be an employee of Council; however in such instance the person must not have an interest in the proposed project.

Section 48(4) states the qualifications that a person must have in order to prepare a Prudential Report. However, Council’s external auditor cannot be engaged to provide a Section 48 Prudential Report.

### **5.6 CONSIDERATION OF THE FULL PRUDENTIAL REPORT**

The engaged author will prepare a Prudential Report in accordance with this policy and the legislation for consideration of Council prior to the project commencement.

Under Section 48 (4b) a council must give reasonable consideration to a Prudential Report (and must not delegate the requirement to do so under this subsection). This prevents the Council from delegating formal consideration of the report to the Audit Committee or any other group or person.

However, Council could seek and consider comment from its Audit & Governance Committee (or another Committee of Council) as part of its deliberations.

### **5.7 PUBLIC ACCESS OF THE PRUDENTIAL REPORT**

The Prudential Report will form part of the Council Agenda papers and will be a public document unless it been determined otherwise by the Council in accordance with Section 90 of the Local Government Act 1999.

## **6. DEFINITIONS**

**Due Diligence** is defined as the conduct of a systematic review of a transaction, prior to entering the transaction. Effective due diligence for a project requires the following to be considered:

- compliance with procedures and structures to regulate how projects are assessed;

- benefits or needs in terms of:
  - identification, articulation and (where possible) quantification of measures of public benefits or needs that are intended to be achieved or satisfied by the project;
  - supervision of the project to ensure that it remains focussed on the expected public benefits or needs; and
  - at completion, evaluation of the project on the extent to which it has achieved the public benefits or needs that it was intended to achieve or satisfy.
- project costs including expected whole-of-life costs and revenue impacts;
- risks in terms of:
  - the identification, in a systematic and transparent manner, of both the risks and the benefits of the project to both the Council and its community;
  - quantification of the level of risk involved with the project;
  - the development of measures to reduce or mitigate risks to an acceptable level or if practical elimination;
  - ensuring that those measures are adhered to during implementation; and
  - supervision of the project to ensure that risks continue to be monitored.

For the City of Unley this will be achieved by complying with the Project Management Framework and completion of the Project Brief and Project Management Plan (where relevant) as defined under that framework.

#### **Due Diligence Assessment (DDA)**

Depending on a Project's financial and organisation risk consequence and risk likelihood, a DDA of greater or lesser detail will be prepared. This DDA will include, in relation to the proposed project:

- an 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 the financial risks of not proceeding or delaying the proposed project) and consideration of ways they can be managed and/or mitigated;
- an evaluation that weighs up all of the factors above

Under Council's Project Management Framework, larger projects are likely to consist of a number of stages such as Concept, Feasibility/Planning Study, Design and Implementation. In these circumstances, the DDA should be updated at each stage and address both the overall project as well as the next proposed stage of delivery.

The City of Unley DDA categories are as follows, noting that each level requires an increasing level of detail:

Level 1 Assessment	Basic DDA
Level 2 Assessment	Project Feasibility Study
Level 3 Assessment	Business Case
Level 4 Assessment	Prudential Project.

**Financial Risk (FR)**

Exposure of Council to financial loss or under or over budgeting

**Organisational Risk**

Includes, but is not limited to, work, health and safety, public and product liability, reputational and political impacts and is separate but may be linked to financial risk.

A **Project** is 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 may include Operating Projects, Capital Works Program (new & replacement), relevant key actions from the Annual Business Plan and Supporting Initiatives from the 4 Year Plan.

**Project Management Framework** is the approved project management tool to cover project evaluation and due diligence assessment, approval, monitoring and reporting from initial concept through to project close out/ hand over to operations.

A **Prudential Project** is a Project that meets the following:

- (a) 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
- (b) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
- (c) where the Council considers that it is necessary or appropriate.

In accordance with Section 48(3) of the Local Government Act, the definition of a prudential project does not apply to road construction or maintenance; or drainage works.

A **Prudential Report** is the formal report with specific due diligence and format requirements in accordance with Section 48(2) of the LGA. This report needs to be obtained and considered by Council for Prudential Projects.

A Prudential Report will be regarded as the highest level of prudential management and associated due diligence.

**Whole-of-life costs/costing**

An assessment of all costs associated with any Project from inception, implementation, maintenance and decommissioning of assets and or services arising from a Project and includes all cash, depreciation and financing considerations

**7. LEGISLATION/REFERENCES**

This is a mandatory policy as required under the Local Government Act 1999 Section 48(aa1) which prescribes that:

"A Council must develop and maintain prudential 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."

### ***Related Policies***

- Risk & Opportunity Management Policy
- Risk & Opportunity Management Framework
- Procurement Policy
- Project Management Framework

### ***LGA Financial Sustainability Information Papers***

Information Paper 27 Prudential Management - February 2015

## **8. POLICY DELEGATIONS**

### **Refer to Delegations Register for the Section 48 Delegation**

Under Section 48(4b) a council must give reasonable consideration to a Prudential Report (and must not delegate the requirement to do so under this subsection). This prevents the Council from delegating formal consideration of the report to the Audit and Governance Committee or any other group or person.

## **9. ROLES / RESPONSIBILITIES**

- Manager Finance

## **10. AVAILABILITY**

The policy is available for public inspection during normal office hours from;

Civic Centre  
181 Unley Road  
Unley SA 5061

A copy may be purchased for a fee as determined annually by Council.

It is also available for viewing, download and printing free of charge from the Council's website, [www.unley.sa.gov.au](http://www.unley.sa.gov.au)

## **11. DOCUMENT HISTORY**

<b>Date:</b>	<b>Council/Committee/Internal</b>	<b>Comment:</b>
23 September 2013	Council; C893/13	
30 August 2016	Audit & Governance Comm; 37/16	
26 September 2016	Council; C600/16	Word "Projects" dropped from title