

## PRUDENTIAL MANAGEMENT POLICY

<b>Policy Type:</b>	Council
<b>Responsible Department:</b>	Business Support & Improvement
<b>Responsible Officer:</b>	General Manager Business Support and Improvement.
<b>Related Policies and Procedures</b>	<ul style="list-style-type: none"> <li>• Risk Management Policy</li> <li>• Risk Management Framework</li> <li>• Procurement Policy</li> <li>• Procurement Framework</li> <li>• Project Management Framework</li> </ul>
<b>Community Plan Link</b>	4. Civic Leadership 4.1 We have strong leadership and governance 4.3 Our business systems are effective and transparent
<b>Date Adopted</b>	23 September 2013: C893/13
<b>Last review date</b>	27 November 2023: C1169/23
<b>Next review date</b>	August 2027
<b>Reference/Version Number</b>	S0001: V4
<b>ECM Doc set I.D.</b>	<a href="#">2091781</a>

### 1. PREAMBLE

- 1.1. This Prudential Management Policy seeks to outline City of Unley’s approach towards prudential management and meeting the requirements of the *Local Government Act 1999* (the Act). It imposes a standard of governance that encompasses effective prudential management and proper consideration of the impact of decisions for major projects.
- 1.2. This policy seeks to enhance Council’s existing policies and procedures that govern Council’s prudential management and due diligence of projects. Council’s core Due Diligence principles are as follows:
  - 1.2.1. efficient and cost effective use of public funds;
  - 1.2.2. accountability, integrity and due process;
  - 1.2.3. compliance;
  - 1.2.4. identification of benefits and/or needs; and
  - 1.2.5. identification of financial and organisational risks.

## 2. SCOPE

2.1. This is a mandatory policy as required under section 48(aa1) of the Act, 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.*

2.2. The policy applies to all projects (as defined below) regardless of size undertaken by the City of Unley. In addition, specific reporting requirements apply to projects as defined within s48(1) of the Act.

## 3. POLICY PURPOSE/OBJECTIVES

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

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

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

- 3.3.1. is undertaken only after an appropriate level of due diligence is applied to the proposed project;
- 3.3.2. 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 and/or needs, and to minimise financial risks;
- 3.3.3. meets the Prudential Issues Report requirements when consideration is being given to a project that falls within the requirements of Section 48(1)(b) of the Act.

## 4. DEFINITIONS

<b><i>Due Diligence</i></b>	The conduct of a systematic review of a proposed transaction, prior to entering the transaction.
<b><i>Financial Risk</i></b>	The exposure of Council to financial loss or under or over budgeting.



<b>Organisational Risk</b>	Council's exposure to risks including, but not limited to, work, health and safety, public and product liability, reputational and political impacts. These risks are separate from, but may be linked to, financial risk.
<b>Project</b>	A specific outcome with a defined beginning and end which meets established goals within the parameters of cost, time and quality.  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.
<b>Prudential Project</b>	A project requiring a Prudential Issues Report as specified in Section 48(1)(b) of the Act.  For the purposes of Section 48, the Act defines a project to include: <ul style="list-style-type: none"> <li>• any form of activity or enterprise;</li> <li>• the provision of facilities or services;</li> <li>• any form of scheme, work or undertaking.</li> </ul>
<b>Prudential Issues Report</b>	The formal report with specific due diligence and format requirements in accordance with Section 48(2) of the Act. This report needs to be obtained and considered by Council for Prudential Projects.
<b>Whole-of-life costs/costing</b>	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

## 5. ROLES AND RESPONSIBILITIES

- 5.1. This Policy will be administered on behalf of Council by the General Manager Business Support and Improvement.
- 5.2. Project Managers, in consultation with the Project Sponsor, are responsible for ensuring the requirements of the Policy and Section 48 of the Local Government Act (1999) are met.
- 5.3. Decision making in relation to a Prudential Issues Report will rest with Council.



## 6. POLICY STATEMENT

### Projects

- 6.1. For the 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.
- 6.2. This will require all defined projects to be assessed as to the level of due diligence that is required. The level of due diligence is based on the residual risk rating of the Financial Risks and Organisational Risks of the Project.

### Effective due diligence

- 6.3. Effective due diligence for a project requires the following to be considered:
  - 6.3.1. compliance with the Project Management Framework, procedures and structures to regulate how projects are assessed;
  - 6.3.2. benefits and/or needs in terms of:
    - 6.3.2.1. identification, articulation and (where possible) quantification of measures of public benefits or needs that are intended to be achieved or satisfied by the project;
    - 6.3.2.2. project governance to ensure that the project remains focussed on the expected public benefits or needs; and
    - 6.3.2.3. 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.
  - 6.3.3. project costs including expected whole-of-life costs and revenue impacts; and
  - 6.3.4. risks in terms of:
    - 6.3.4.1. the identification, in a systematic and transparent manner, of the risks and the benefits of the project to both the Council and its community;
    - 6.3.4.2. quantification of the level of risk involved with the project and Council's appetite for that risk;
    - 6.3.4.3. the development of measures to reduce or mitigate risks to an acceptable level or if practical elimination;
    - 6.3.4.4. ensuring that those measures are adhered to during implementation; and
    - 6.3.4.5. project governance to ensure that risks continue to be monitored.

- 6.4. For the City of Unley this will be achieved by complying with the Project Management Framework and completion of the Business Case and Project Management Plan as defined under that framework.

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

- 6.5. 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:

- 6.5.1. an analysis of the need or demand;
- 6.5.2. identification and quantification of the expected financial and other benefits;
- 6.5.3. identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- 6.5.4. assessment of the associated financial and operation risks (including the risks of not proceeding or delaying the proposed project) and consideration of ways they can be managed and/or mitigated; and
- 6.5.5. an evaluation that weighs up all of the factors above.

- 6.6. Under Council's Project Management Framework, larger projects are likely to consist of a number of stages:

- Project Strategic Assessment & Initiation
- Project Planning
- Project Implementation
- Project Completion

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.

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

- 6.7.1. Level 1 Assessment      Basic DDA
- 6.7.2. Level 2 Assessment      Project Feasibility Study
- 6.7.3. Level 3 Assessment      Business Case
- 6.7.4. Level 4 Assessment      Prudential Project.

- 6.8. The due diligence for a Prudential Project will include consideration of prudential issues as prescribed by Section 48(2) of the Act.

### **Due diligence during a project**

- 6.9. After a decision has been made to commence a project, it will be managed in accordance with Council's Project Management Framework to ensure that the principles of due diligence are met.
- 6.10. The Council will take action to manage the project so that:
- 6.10.1. the project remains focussed upon the expected public benefits or needs that have been identified in the due diligence analysis; and
  - 6.10.2. financial and operational risks identified in the due diligence analysis are managed appropriately.

### **Due diligence after a project**

- 6.11. Once a project has been completed, it will be evaluated using the Council's Project Management Framework to determine the extent to which the project:
- 6.11.1. achieved the public benefits or needs identified in the due diligence that it was intended to achieve or satisfy; and
  - 6.11.2. avoided or mitigated the financial and operational risks identified in the due diligence analysis.

### **Prudential Issues Report**

- 6.12. A Prudential Issues Report is required in accordance with Section 48(1)(b) of the Act where:
- 6.12.1. 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
  - 6.12.2. the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
  - 6.12.3. the Council considers that it is necessary or appropriate.
- 6.13. For the purposes of Section 48, the Act defines a project to include:
- 6.13.1. any form of activity or enterprise;
  - 6.13.2. the provision of facilities or services;
  - 6.13.3. any form of scheme, work or undertaking;
- 6.14. In accordance with Section 48(3) of the Act, the definition of a prudential project does not apply to road construction or maintenance; or drainage works.
- 6.15. The basis of indexation is explained in Section 48(6d) of the Act.

## **Prudential Issues Report Author**

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

## **Consideration of the Prudential Issues Report**

- 6.18. The engaged author will prepare a Prudential Issues Report in accordance with this policy and the legislation for consideration of Council prior to the project commencement.
- 6.19. Under Section 48(4b) a council must give reasonable consideration to a Prudential Issues 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.
- 6.20. However, Council could seek and consider comment from its Audit Committee (or another Committee of Council) as part of its deliberations.

## **Public access to the Prudential Issues Report**

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

## **7. POLICY DELEGATIONS**

- 7.1. Nil

## **8. LEGISLATION**

- *Local Government Act 1999*

## **9. AVAILABILITY OF POLICY**

- 9.1. The Policy can be downloaded, free of charge, from Council's website: [www.unley.sa.gov.au](http://www.unley.sa.gov.au).

- 9.2. A printed copy may be purchased on request at:

The Civic Centre,  
181 Unley Road, Unley SA 5061.



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## 10. DOCUMENT HISTORY

Date	Ref/Version No.	Comment
23 September 2013	C893/13: V1	
26 September 2016	C600/16: V2	
26 August 2019	C0079/19: V3	
27 November 2023	C1169/23: V4	

