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| Policy Name | Prudential Management |
| Policy Number | CS17 |
| Responsible Section | Strategy and Performance |
| Responsible Department | Corporate Services |
| Date Last Adopted | 14 November 2023 |
| Date of Next Review | November 2024 |
| Applicable Legislation | Local Government Act 1999 |
| Related Governance Documents | Council Policy CS26 - Procurement Council Policy– Enterprise Risk Management |
| City Plan Theme | Leadership - A City confident in its leaders |

PURPOSE/OBJECTIVE

This document sets out the policy of the City of Port Adelaide Enfield for the prudential management of its projects in accordance with *Section 48 (aa1)* of the *Local Government Act 1999* (“the Act”).

Prudential management refers to the careful and responsible management of financial resources and risks within an organisation. It involves making decisions and taking actions that prioritise the long-term stability, profitability, and sustainability of the organisation.

The Policy aims to ensure that:

- Decisions to proceed with a project are evidence based, transparent and justified
- A Council project is undertaken only after an appropriate level of due diligence and foresight is applied to a project during its inception stage
- Any risks associated with the project are identified, managed and mitigated
- Council is accountable to ensuring rate payers money is spent effectively and transparently

SCOPE

The policy applies to projects of moderate to high complexity undertaken by the City of Port Adelaide Enfield Council. In addition, specific reporting requirements apply to projects as defined within s48(1) of the Local Government Act 1999 (the LG Act). An extract of the section 48 has been provided at the bottom of this policy.

PRINCIPLES

The decision maker for a proposed project may be the Council, the Chief Executive Officer or an officer identified within Council's Schedule of Delegations and Sub-delegations.

The decision maker should have regard to the level of due diligence required based on the size, complexity and prudential limit of the project.

In doing so the decision maker should have regard to the following:

- The benefits and needs of the project.
- How the project will impact the financial sustainability of the Council.
- Whether the project will increase the material risk exposure of the Council
- The financial sustainability of the project including but not limited to, economic projections, whole of cost project estimates (and assumptions)
- Assessment of risk based on the best available data.
- The potential impact of the project on the portfolio of strategic initiatives and long-term financial plan

Under the Act, a report addressing the prudential issues set out in section 48(2) must be prepared for any project that meets the criteria set out in s48(1):

(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 from 30 September 2009); or

(iii) where the council considers that it is necessary or appropriate.

This report must be prepared by a person whom the Council reasonably believes to be qualified to address the prudential issues s48(4) and must not be a person who has an interest in the relevant project as defined in s48(6a) - (6c).

An assessment will be conducted, and results clearly and specifically included within the prudential report regarding the merits of the project in the context of the Council's strategic management plans, asset management plan, long term financial plan, and enterprise risk management plan. This will also include regard of all the legislative elements details in Section 48 of the Act.

Council's Audit and Risk Committee will provide independent advice to the Council on a prudential management report for a potential project.

A full extract of the legislative provisions is provided as attachment 1 to this policy.

ROLES AND RESPONSIBILITY

| Stakeholder | Responsibility |
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| Council | Considers the Audit and Risk Committee's advice regarding the business case and prudential management report. Advises the Council of the prudential viability of the project. Endorses, rejects, or places the project on hold. Requests further quality assurance advice from the Audit and Risk Committee where appropriate. |
| Audit and Risk Committee | Advises the Council on prudential management reports against a project's business case (where applicable). Requests that the Council consider its advice before endorsing, rejecting, or placing a project on hold. |
| ELT | Responsible for ensuring that the Audit and Risk Committee receive a prudential report and business case. Ensures that complex projects are adequately scoped and that relevant resources are available. |
| Strategy and Performance Section | <p>The following assistance and expertise can be provided by the Strategy and performance team:</p> <ol style="list-style-type: none"> 1) Prudential engagement: provide advice on the engagement of a prudential management review 2) Business case development assistance: Provision of advice, templates and quality assurance measures 3) Project management: Provide project management advice and assistance across all stages of the project management lifecycle, governance and quality assurance. 4) Risk management planning advice and assessments. This may range from, a qualitative risk assessment for moderately complex projects, to a comprehensive quantitative sensitivity analysis for more complex projects <p>Early engagement with the Strategy and Performance team is recommended when identifying a project that triggers prudential requirements due to complexity and/or legislative financial projections.</p> |

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| Finance Section | Provides advice on the prudential assessment and consideration of a project as it relates to Council's long term financial plan Provides advice on the financial implications related to undertaking a project on the Council's portfolio of initiatives |
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DEFINITIONS

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| Project | Means a new and discrete undertaking or activity that would involve the: <ul style="list-style-type: none"> • expenditure of money, and/or • deployment of resources, and/or • incurring or assuming a liability, accepting an asset or divestment of an asset. <p>*Regular, ongoing Council service delivery is not considered a "project".</p> |
| Project due diligence | Refers to a review process comparative to the entire project life cycle that aims to protect against incurring liability that may influence the overall success of the project |
| Complex project | A complex project is a project which meets one or more of the following criteria: <ul style="list-style-type: none"> - Projects that are interdisciplinary and affect multiple sections/departments. - The expected capital cost of the project over the ensuing five years is likely to exceed \$4 million (indexed annually); 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 considered complex by Council Staff under the Enterprise Risk Management Policy |
| Simple projects | Simple projects are projects that only affect one section and team and may not need to draw on external resourcing. |
| Business Case | A business case is a formal document that justifies the initiation of a specific business project or investment. It outlines the potential benefits, costs, risks, and expected outcomes of the proposed initiative, providing Council and its prudential reviewer with the information needed to assess whether the project is worth pursuing. |

ATTACHMENT 1

Part 3—Prudential requirements for certain activities

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 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); or
 - (iii) where the council considers that it is necessary or appropriate.
- (2) The following are prudential issues for the purposes of subsection (1):
- (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 a way 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;
 - (j) 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*.
- (2a) The fact that a project is to be undertaken in stages does not limit the operation of subsection (1)(b) in relation to the project as a whole.
- (3) A report is not required under subsection (1) in relation to—
- (a) road construction or maintenance; or
 - (b) drainage works.
- (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).
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection).
- (6) A council may take steps to prevent the disclosure of specific information in a report under subsection (1) in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the council).
- (6a) For the purposes of subsection (4a), a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the *relevant person*)—
- (a) if that person is a body corporate of which the relevant person is a director or a member of the governing body; or
 - (b) if that person is a proprietary company in which the relevant person is a shareholder; or
 - (c) if that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
 - (d) if that person is a partner of the relevant person; or
 - (e) if that person is the employer or an employee of the relevant person; or
 - (f) if that person is a person from whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
 - (g) if that person is a relative of the relevant person.
- (6c) However, a person, or a person closely associated with another person, will not be regarded as having an interest in a matter—
- (a) by virtue only of the fact that the person—
 - (i) is a ratepayer, elector or resident in the area of the council; or
 - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisation; or

- (b) in a prescribed circumstance.
- (6d) In this section, \$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.
- (6e) In this section—
- employee** of a council includes a person working for the council on a temporary basis;
- non-profit association** means a body (whether corporate or unincorporate)—
- (a) that does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
- (b) that is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.