



Prudential Management Policy

Responsible Officer	Chief Executive Officer
Relevant Delegations	Director Works & Infrastructure, Director Corporate Services Manager Development Manager Community Services
Legislation and References	Local Government Act 1999

1. Introduction

To set out Council's Policy for the prudential management of projects (as defined)

- To ensure compliance with the Local Government Act, 1999 Section 48 – “Prudential Requirements for Certain Activities”
- To ensure a consistent, robust assessment of projects prior to approval and implementation
- To ensure that 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. Policy Objectives

This policy aims to ensure that decision making for all projects is made with reliable, accurate and timely information and that a Council project is undertaken only after:

- A thorough analysis of the needs of the project
- The benefits of the project have been identified and determined; and
- The risks of proceeding with the project have been fully identified, managed and mitigated including the risks of not proceeding or delaying the project.

The objectives of this policy should be considered for any proposed project, regardless of the financial impact or size of the project.

3. Whole of Life Cost

The total cost of owning an asset over its entire life such as design and building costs, associated financing costs, depreciation and disposal costs. Whole of life cost also includes environmental impact and social costs.

4. Project

A project:

- Is a new endeavour, activity or service;

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- Is an undertaking or activity with a defined beginning and end;
- Is often constrained by time, funding deliverables and is often undertaken to meet unique goals and objectives;
- Is generally more complex than simply expenditure of money and usually includes a management component to ensure successful completion; and
- May involve acceptance and signing of formal documentation (e.g. contract management)

Ongoing repetitive and functional activities to provide services to the community are generally not projects.

5. Due Diligence before a Decision on Whether to Proceed

To document and demonstrate appropriate due diligence a Business Case (including a risk statement) is to be prepared prior to a decision being made to commence the project. The content and extent of the Business Case will depend on the level of due diligence required. When assessing the risk of a project reference should be made to Council's Risk Management Policy & Framework.

As a guide the following content should be included in a Business Case-

For Projects with a medium risk rating and / or a whole of life cost from \$200,000 to \$499,000

- What is the need for the service / project
- Value for money affordability (including recurrent costing)
- Social, economic and environmental sustainability
- Governance and Risk Management
- Stakeholder management & timelines
- Asset Owners and change management

For the smallest projects with the least financial risk, this Business Case may comprise a single page.

For Projects with a high or extreme risk rating and/or a whole of life cost over \$500,000

- All of the elements of the basic Business Case listed above plus
- Feasibility Study
- Consideration of expected costs and revenues over the life of the project
- Consideration of the reliability of cash flow
- The relationship between the project and the relevant Strategic Management Plans (including Asset Management Plans, Long Term Financial Plan)

A business case is not required for road construction or maintenance or drainage works

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For Projects that meet the Requirements of Section 48 of the Local Government Act

Section 48 of the Local Government Act, 1999 states that a Council must develop and maintain prudential management policies, practices and procedures for the assessment of projects.

Section 48 further states that a Council must obtain and consider a report that addresses the prudential issues set out in Section 48, subsection (2) before the Council 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).

In accordance with Section 48 (3) a report is not required for road construction or maintenance or drainage works

- (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.

* Indexed means that the 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.

Note: Section 48 (6d) provides for the indexation of this threshold amount, in line with Consumer Price Index for Adelaide. Between 2009 and 2018 the figure was adjusted from \$4,000,000 to \$4,894,000

In the above circumstances, a Prudential Report must be prepared and must consider:

- All of the elements of the Business Case listed above
- The expected contribution of the project to the economic development of the 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 ensure fair competition in the market place
- The level of consultation with the local community, including contact persons who may be affected by the project and the representatives 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 for a term of not less than 10 years

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- The recurrent and **whole of life costs** associated with the project including any costs arising out of proposed financial arrangements
- Any risks associated with the project and the steps take to manage, reduce or eliminate those risks (including by the provision of periodic reports to the Council and or Chief Executive Officer
- 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
- The most appropriate mechanisms or arrangements for carrying out the project, procedures will be established to identify:
 - Whether the project assessment group will require special skills such as engineering, finance, town planning etc
 - The skills required for effective management of the project and
 - Whether these skills are available internally to the Council or whether they will need to be sourced externally
- 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.

If the project meets the requirements of Section 48 and a full Prudential Report is not sought the Council will record its reasons for not obtaining such a report. This might be satisfied simply by noting (if appropriate) that the proposed project has been assessed as being low or negligible financial risk.

A full Prudential Report may also be commissioned under Section 48 for any other project for which the Council considers that is necessary or appropriate.

A report prepared under Section 48 must be prepared by a person qualified to address the prudential issues required, it is recommended that Council use an external consultant.

Council will seek and consider comment from the Audit Committee as part of its deliberations. Advice may be sought, for example, about:

- The adequacy of the assumptions underpinning the [project
- The manner in which the financial risk is to be managed for the project and
- The way the Business Case / Prudential Report envisaged or recommended project milestones (both financial and other wise) should be managed during the course of the projects progress from concept to delivery

Reports prepared under Section 48 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.

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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 expended public benefits or needs that have been identified in the Business Case and or Prudential Report
- Financial risk identified in the Business Case and or Prudential Report are managed appropriately

7. Due Diligence After a Project

Council will ensure that appropriate monitoring, mechanisms are established for compliance, public interest benefits or needs, and the management of any financial risks.

Within 12 months of completion of a project that required a prudential report, Council will evaluate the project to confirm that it:

- Is expected to achieve the public benefits or needs identified within the Business Case and or the adopted Prudential Report; and
- Has avoided or mitigated the financial risks identified within the Business Case and or the adopted Prudential Report.

8. Due Diligence – Lease and Or Contract Negotiation and Approval

Council will ensure that a report is prepared to address how a significant lease and or contract contributes to the development of the Council area, how public consultation will be planned and what, if any, financial or other risks to the Council are identified and that Council engages suitably qualified professional / experts for the negotiation. (with a value of \$500,000 or more)

Council will be provided with regular reports during negotiation, delivery of the project / activity.

9. Review & Availability

This policy will be reviewed every four years, or as required.

The policy is available on Council's website www.claregilbertvalleys.sa.gov.au

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10. References

Budget Policy
Procurement Policy
Risk Management Policy & Framework

11. Document History

Approved by	Issue Date	Minute Reference – Details of Review
CGVC	20/08/2018	Policy Adopted by Council
CGVC	18/01/2021	Extensive Rewrite / Review to cover a wider range of Projects – Business Case.
CGVC	21/02/2024	Added – Lease Negotiation – As Requested by Ombudsman

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