



Prudential Management Policy

Responsible Officer	Chief Executive Officer
Relevant Delegations	Manager Works & Infrastructure, Manager Development & Community, Manager Corporate 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 Purpose

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 Legislation

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).

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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 2015 the figure was adjusted from \$4,000,000 to \$4,520,000

4 Project

A project:

- Is a new endeavour, activity or service;
- 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 involves 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 Project Proposal – Due Diligence

Prudential management is an important element of good governance. The Council is a large manager of community assets and community projects and it is expected that

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Council will give proper consideration of the impact of its decisions in assessing a potential project. The preparation of a prudential report is recommended.

The report for major projects must be prepared by an appropriately qualified individual, which may include an employee and cover the following minimum requirements for effective due diligence:

- Compliance;
- Benefits or needs; and
- Risk analysis

5. Compliance

Council will implement compliance procedures to standardise how projects are to be assessed.

The first step is a risk assessment of the organisational risks of the project. This must include a project feasibility to be undertaken which is to provide a high level of consideration of the expected costs and revenues over the life of the project, or for a term of not less than 10 years. An important aspect is the reliability of the costs and revenues used in the assessment. If revenues are dependant on market conditions and any unknown factors, this will require further analysis and investigation. Consideration of a range of revenue targets will need to be considered to provide some level of assurance as to the likely impacts on Council.

Once the financial feasibility is satisfied, consideration will be given to the management of the proposed 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.

6. Benefits or Needs

As Council is dealing with public monies, care will be exercised on the use of public funds. The benefits of the project will be identified and measures will be developed to ensure that these benefits are measurable and realisable.

An assessment will be undertaken as to the merits of the project in the context of the Council strategic management plans, asset management, long term financial management and risk management plans.

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The following should all be considered:

- 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 not proceeding or delaying the proposed project) and consideration of the way to manage and/or mitigate; and
- An evaluation of all the factors including but not limited to those described.

7. Risk

An assessment of all risks of the project will be undertaken. These risks will be considered in the context of the size of the project and the social, political, community and environmental impacts of the project.

The risk analysis will also consider the reliability of the revenues and expenditure estimates and whether the expected results are within the range of tolerance through sensitivity analyses. A minimum of three scenarios, being best case, worst case and the likely case, will be considered to assess the impact of the Council long term financial plan and the likely impacts over a 10 year period.

8. Content of a Prudential Report

Section 48 of the Act sets out the requirements for the preparation of prudential reports for activities and projects.

Before Council makes a decision on a proposed project that complies with this Policy the Chief Executive Officer will engage the services of a suitably qualified, independent person in accordance with section 48(4).

A prudential report must be obtained which includes consideration of the following issues:

- (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

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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.

The report will contain further information about the risk of the project and how these risks will be managed and a consideration of whether these risks have been adequately addressed.

9. Preparation and Consideration of a Prudential Report

A Prudential Report is prepared in accordance with both this policy and the legislation, then submitted for consideration to Council prior to the decision to proceed or not with the project.

The Prudential Report must be considered together with the Asset Management Plan, Long Term Financial Plan and Risk Framework.

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 that the report envisages or recommends project milestones (both financial and otherwise) should be managed during the course of the project's progress from concept to delivery.

Except where information needs to be protected (commercial confidentiality or other peoples financial affairs) the adopted Prudential Report will become a public document and be available at Council Administration Offices, and available on Council's website for inspection by a member of the public within five working days of the Council meeting at which it was adopted.

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10. Project Monitoring and Evaluation

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 with the adopted prudential report; and
- Has avoided or mitigated the financial risks identified with the adopted prudential report.

11. Review & Availability

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

The public may inspect a copy of this policy without charge at the Council offices during office hours and may obtain a copy for a fee fixed by Council

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

12. References

Local Government Act 1999

Procurement Policy and Sale and Disposal of Land and Other Assets Policy

Risk Management Policy & Framework

13. Document History

Approved by	Issue Date	Minute Reference – Details of Review
CGVC	20/08/18	Adopted by Council
CGVC		

SIGNED:

CEO

Date: ____/____/____

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