Prudential Management
Policy

1. Policy Statement

The City of Marion is committed to excellence in governance and using a best practice approach to transparent and accountable decision making. The City of Marion recognises the importance of prudential management of all projects it undertakes.

The policy aims to ensure:

- a Council project is undertaken only after an appropriate level of "due care, diligence and foresight" is applied to the project;
- any risks associated with the project are identified, managed and mitigated;
- Council makes informed decisions and in the public interest;
- Council is accountable for the use of Council and other public resources.

2. Policy Scope

The policy applies to all projects (as defined below) regardless of size undertaken by the City of Marion. In addition, specific reporting requirements apply to projects as defined within s48(1) of the *Local Government Act 1999* (the LG Act) (Refer 5 below).

3. Definitions

"Project"

Means a new and discrete undertaking or activity that would involve the:

- expenditure of money, and/or
- deployment of resources, and/or
- incurring or assuming a liability, accepting an asset or divestment of an asset.

A project has a defined beginning and end. Regular, ongoing deliveries of Council services are not "projects".

"Whole of Life Cost"

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

4. Principles

4.1 The decision-maker for any proposed project may be the Council, the Chief Executive or an officer of the Council to whom sub-delegation has been made (as reflected in the Council's *Schedule of Delegations and Sub-delegations*).

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4.2 The decision maker should determine with respect to any project (based on the size, complexity and amount of financial or other risk) the level of:

- Due care and diligence that is required

  At a minimum this should require an assessment of:

  - the benefits and needs of the project
  - whether the project will (or might) generate any additional risks for the Council;
  - the financial sustainability of a project (large or small) and whether funding of the whole-of-life costs of the project will (or might) require additional allocations beyond those already accommodated in Council's annual budget and long-term financial plan

- Details required

  This may range from a single page describing the project scope, to a comprehensive business case (using the Corporate "Project Management Template – Business Case" and/or the IIMM Continuous Improvement Matrix - Excellence).

- Risk assessment appropriate

  This may range from, a simple note that the proposed project has been determined as being of low or negligible risk, to a more detailed risk assessment in consultation with the Risk Management Unit.

- Expertise required

  This may range from a single staff member (for the smallest projects with least risk), to a working party of staff and external specialists with expertise in areas such as engineering, finance, project management, town planning (for more complicated and/or riskier projects).

- Accountability and reporting required
- Post project implementation review and evaluation appropriate

  Evaluation and review can identify systemic issues and opportunities for improvement.

4.3 Adequate resources will be allocated to the prudential management of projects and staff will be appropriately trained.

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5. Projects where a full prudential report is required under the LG Act

Under the LG 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) of the Act:

(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.

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).

For a full extract of section 48 of the LG Act refer Appendix 1.

7. Procedures

This Policy will be supported by internal practices and procedures.

8. Complaints

Any complaint about this policy or the way in which it has been applied should be made in writing to the Manager Governance.

9. References

City of Marion Strategic Plan 2012-20

An Organisation of Excellence - Recognised for Excellence in Governance - EG2 Policy Making

Related Policies

Procurement Policy

Risk Management Policy

Acquisition and Disposal of Land Assets

Disposal of Assets

Disposal of Assets other than Land.

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Corporate Framework / Template References

Enterprise Wide Risk Management Framework

Business Case for [Project Name] Template

IIMM Continuous Improvement Matrix- Excellence

Other related references

City of Marion Schedule of Delegations and Sub-delegations

LGA Financial Sustainability Information Paper 27 – Prudential Management, April 2012

Local Government Act 1999 – section 48 (copy attached Appendix 1)

Council Agenda Reference

Adopted by Council 11 December 2012 reference GC111212R07

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Appendix 1

Extract of Section 48 of the *Local Government Act* 1999

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 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.

(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 havebeen made by them, and the means by which the community can influence or contribute to the project or its outcomes;

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(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.

(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).

(5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).

(6) However, a council may take steps to prevent the disclosure of specific information 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

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(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.

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