



Prudential Management Policy

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A - PREAMBLE

1. This document sets out the policy of the City of Salisbury for prudential management of all its projects. This policy applies to all projects as defined below.

B - SCOPE

1. The scope of this policy applies to all Council projects and subject to assessment against the principals and legislation to identify the appropriate due diligence

C – POLICY PURPOSE/OBJECTIVES

1. **This policy has the following Objectives.**
 - 1.1 to ensure that a Council project is undertaken only after an appropriate level of “due diligence” is applied to the proposed project; and
 - 1.2 to ensure that each Council project is:
 - managed during the project and
 - evaluated after the project, to achieve identified public benefits or needs; and to minimise financial risks.

D - DEFINITIONS

1. A project may be defined as

A new and discrete undertaking or activity that would involve the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset.

2. This should not be interpreted to mean that all Council activities are “projects”. Regular, ongoing deliveries of Council services are not “new and discrete” activities so therefore are not included within this definition. A project is a temporary endeavour with a defined beginning and end. The temporary nature of projects stands in contrast to business as usual (or operations) which are repetitive, ongoing functional activities to produce products or services.

3. Simply purchasing an item of plant or equipment, (e.g. a single vehicle) or a parcel of land will constitute a “project” if the purchase is not part of a wider project or not part of ongoing operations. Any purchase must comply with Council’s Procurement Policy. However, a “project” will typically involve more than merely purchasing. It will always involve Council staff time, often in undertaking activities in association with other organisations. On the other hand, a project need not entail any expenditure. It may include, for example, receiving land or other assets for free, or granting permission for a private activity on Council land.
4. All projects should be considered in the context of not only this policy, but also Council’s Risk Management Framework.

E - PRINCIPLES

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).
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 (for example using the Corporate templates - “Project Management – Business Case”).
 - 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 line with Council’s Risk Management framework.
 - 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
 - Consideration should be given as to who within the organisation is accountable for the project and the appropriate approval process as the project may require Council consideration and approval and needs to be incorporated into the approval process
 - Appropriate reporting of the project status needs to be established depending on the scale of the project to the appropriate stakeholders

- Post project implementation review and evaluation
 - Evaluation and review can identify systemic issues and opportunities for improvement.
3. Adequate resources will be allocated to the prudential management of projects and staff will be appropriately trained.

F - PROJECTS WHERE A FULL PRUDENTIAL REPORT IS REQUIRED UNDER THE LG ACT

Under the *Local Government Act 1999*, a report addressing the prudential issues set out in section 48(2) must be prepared for endorsement by Council for any project that meets the criteria set out in s48(1) of the Act:

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).

G - LEGISLATION

1. This Policy is made pursuant to section 48 of the Local Government Act 1999, and as such, applies to all Council projects (subject to the principles set below), no matter how large or small, to ensure compliance with this provision, and that decision-making in respect of any project is made with reliable, accurate and timely information.
2. **Section 48 of the Local Government Act 1999 (“the Act”) provides:**
 - (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 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.*
- (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*
 - (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.*

H - REFERENCES

1. *Local Government Act 1999*
2. *City of Salisbury's Corporate templates -*
 - *Project Management – Business Case and/or*
3. *Guidelines for Assessment of Council Development*

I - ASSOCIATED PROCEDURES

Nil

Document Control

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