



CITY OF  
MITCHAM

# PRUDENTIAL MANAGEMENT

*Adopted by Council 8 October 2019*

# MITCHAM

# public

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## 1. PURPOSE

Section 48 (aa1) of the *Local Government Act 1999* (the Act) requires each council to have prudential management policies, practices and procedures which ensure that Council:

- (a) acts with due care diligence and foresight;
- (b) identifies and manages risks associated with a project;
- (c) makes informed decisions; and
- (d) is accountable for the use of council and other public resources.

The Prudential Management Policy seeks to outline Council's approach towards prudential management and to meet the requirements of the Act. It imposes a standard of governance that encompasses effective prudential management and proper consideration of the impact of decisions for major projects.

The Policy ensures that Council acts with due care, diligence and foresight, identifies and manages risks associated with major projects, makes informed decisions and is accountable for the use of public resources.

Prudential management commences prior to making a decision to proceed with a major project and continues throughout the life of the project.

## 2. SCOPE

This Policy covers the prudential review requirements when consideration is being given to a project that falls within the requirements of Section 48 (1) of the *Local Government Act 1999* (as amended).

Council recognises that due diligence and effective project management is necessary for all projects regardless of size; however it is neither practical nor efficient for all projects to be subject to full prudential management reporting requirements.

This Prudential Management Policy applies to all projects subject to the criteria listed under 4.1.

## 3. DEFINITIONS

### Project

A project is a one-off endeavour with a defined beginning and end. The one-off nature of projects stands in contrast to business as usual (or operations) which are repetitive, ongoing functional activities to provide services. A project is a new and discrete temporary undertaking or activity involving the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset".

*Note: 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.*

### Due Diligence

The conduct of a systematic review of a transaction, prior to entering the transaction

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## 4. POLICY STATEMENT

### 4.1. Requirement for a Prudential Report

For large commercial or non-commercial projects (including through a subsidiary or participation in a joint venture, trust, partnership or other similar body), Section 48(1) of the Act requires that a full Prudential Report be prepared for Council.

Council will therefore obtain a report that addresses prudential issues, in relation to a proposed project:

1. Where the expected expenditure of Council over the ensuing five years is likely to exceed 20% of Council's average operating expenses over the previous five financial years (as shown in the Council's financial statements); and
2. Where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 million (indexed).

Council may also obtain a report:

3. In the case of projects that have been assessed as having a business risk profile of 'high', where the expected capital cost of the project over the ensuing five years is likely to exceed \$1 million (indexed); or
4. Where the business risk profile of the project is considered as extreme, as determined by the Project Manager and Senior Management Team and in conjunction with Council's Risk Management Framework.

The Act provides, under Section 48(3) that a Prudential Report is not required in relation to road construction or maintenance or drainage works, even when the cost of such works would exceed the expenditure levels cited above.

If a full Prudential Report is not sought for any project which fits criteria 3 and 4 listed above, the reasons for not obtaining such a report will be recorded by the Project Manager and endorsed by the Executive Leadership Group prior to the project proceeding or being committed to.

The requirement for a Prudential Report is considered as part of the project proposal and the setting of the Annual Business Plan and Budget.

### 4.2. Preparer of the Prudential Report

Section 48(4) of the Act provides that this report must be prepared by a person whom the Council reasonably believes to be qualified to address the prudential issues as required per legislation.

The Chief Executive Officer will ensure that prudential management reporting, as outlined above, is undertaken by a suitably qualified person independent of the project.

Council's internal and external auditors are precluded from preparing reports.

### 4.3. Content of the Prudential Report

In accordance with Section 48(2) of the Act, the report obtained for Council will address:

- (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 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 Council); and
- (i) The most appropriate mechanisms or arrangements for carrying out the project.

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

The report will also contain sensitivity analyses on a best case, worst case and most likely outcome assuming the parameters used. Consideration will also be given to the impact on the Council's long term financial position.

#### 4.4. **Consideration of Prudential Report**

Council cannot delegate the consideration of the report.

Administration will consider the impact that the whole of life costs of an asset or project will have on Council's Long Term Financial Plan and, if relevant, on the Council's Asset Management Plan and Risk Management Plan. The careful integration of these plans should result in a successfully managed, implemented and administered project regardless of the size of the project.

The Prudential Report will form part of the Full Council Meeting Agenda and will be a public document unless it is determined otherwise by the Council in accordance with Section 90 of the *Local Government Act 1999*,

#### 4.5. **Due Diligence During a Report**

- 4.5.1. After a decision has been made to commence a project, it will be managed according to the principles of due diligence.

- 4.5.2. Council will take action to manage the project so that:
  - 4.5.2.1. the project remains focussed upon the expected public benefits or needs that have been identified in the due diligence report; and
  - 4.5.2.2 financial risks identified in the due diligence report are managed appropriately.

#### 4.6. **Due Diligence After a Project**

- 4.6.1. After a project has been completed, it will be evaluated, according to the principles of due diligence, to determine the extent to which the project:
  - 4.6.1.1 has achieved the public benefits or needs identified in the Due Diligence Report that it was intended to achieve or satisfy; and
  - 4.6.1.2 has avoided or mitigated the financial risks identified in the Due Diligence Report.

#### 4.7. **Assets Received Free of Charge**

Assets, including roads, land, and buildings can be received by Council for no consideration. This would have the effect of increasing the asset stock of Council and the consequent asset management costs. On the other hand there may be additional rate revenue generated from a new asset.

Council will need to consider whether a proposed asset transfer is a project that needs to be subject to a full Prudential Report under Section 48 of the Act or whether it may be covered by a standard process of effective due diligence under this Policy.

Where appropriate, depending on the level of risk, Council staff may treat an asset being received free of charge as a *major project* under the Prudential Management Policy, making it subject to full Prudential Reporting.

### 5. **POLICY REVIEW**

This Policy will be subject to review every four (4) years or sooner at the discretion of the relevant General Manager.

The Chief Executive Officer has delegated authority to endorse any amendments to the Policy that do not vary the intent of the Policy.

## 6. VERSION HISTORY

VERSION	AUTHOR(S) POSITION	CHANGES	DATE
1.0	Finance	New	28/01/2014
2.0	Governance	Minor Amendments	8 October 2019
3.0	Governance Officer	Refer to Full Council Resolution 12 November 2019 Item 9.4	12 November 2019

## 7. DOCUMENT CONTROL

<b>Responsible Department</b>	Governance		
<b>Delegations Apply</b>	Yes		
<b>Classification</b>	Financial Management		
<b>Applicable legislation</b>	Local Government Act 1999		
<b>Related Policies &amp; Corporate Documents</b>	Risk Management Framework and Policy Procurement Policy		
<b>Additional references</b>			
<b>Endorsed by Council:</b>	8 October 2019	<b>Item No:</b>	9.6
<b>Effective Date:</b>	8 October 2019	<b>Next Review Date:</b>	8 October 2023
<b>ECM Record Number:</b>	4105308		

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