



## Prudential Management Policy

<b>Classification:</b>	Council Policy
<b>Version Number:</b>	2
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<b>Last Reviewed:</b>	January 2023
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<b>Responsible Officer:</b>	Chief Executive Officer
<b>Applicable Legislation:</b>	Local Government Act 1999
<b>Related Policies/Procedures/Documents:</b>	<ul style="list-style-type: none"> <li>• Procurement Policy</li> <li>• Risk Management Policy</li> <li>• Internal Control Policy &amp; Procedure</li> <li>• Community Plan</li> <li>• Long Term Financial Plan</li> <li>• Annual Business Plan</li> <li>• Infrastructure &amp; Asset Management Plan</li> </ul>

### 1. PURPOSE:

This document sets out the policy of the Kingston District Council for prudential management of all projects, regardless of size and to ensure prudential management practices and procedures are complied with for certain activities.

### 2. LEGISLATIVE CONTEXT:

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 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, throughout its prudential management practices and procedures for certain activities.

**3. SCOPE**

- 3.1 This policy applies to activities where 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):
  - 3.1.1 where the expected operating expenses calculated on an accrual basis of Council over the ensuing five (5) years is likely to exceed 20% of Council's average annual operating expenses over the previous five (5) financial years (as shown on Council's financial statements); or
  - 3.1.2 where the expected capital cost of the project over the ensuing five (5) years is likely to exceed \$4,000,000 (indexed annually); or
  - 3.1.3 where Council considers that it is necessary or appropriate.
- 3.2 This policy is not intended to apply to activities in relation to:
  - 3.2.1 road construction or maintenance programs;
  - 3.2.2 drainage works; or
  - 3.2.3 business as usual (or operations) which are repetitive, ongoing functional activities to provide services.

**4. DEFINITIONS:**

Due Diligence	Is an expression used to describe the conduct of a systematic review of a transaction, prior to entering the transaction and an obligation to exercise reasonable care.
Project	<p>A project may be defined as</p> <p style="text-align: center;"><i>“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”</i></p> <p>This should not be interpreted to mean that all Council activities are “projects”.</p> <p>Regular, ongoing deliveries of Council services are not “new and discrete” activities so therefore are not included within this definition.</p> <p>A project is a temporary endeavour with a defined beginning and end.</p> <p>The temporary nature of projects stands in contrast to business as usual (or operations) which are repetitive, ongoing functional activities to provide services.</p>

## **5. POLICY PRINCIPLES:**

- 5.1 Prudential management may be described as taking a precautionary approach to proposed projects.
- 5.2 Prudential management attempts to foresee what adverse financial consequences might arise from any project that a council is contemplating and requires managing the project in such a manner as to capture the proposed benefits, while minimising, offsetting or otherwise taking account of the foreseeable risks.
- 5.3 Where Council is undertaking an activity for which this policy is intended to apply, Council must obtain and consider a report, prepared by a suitably qualified independent person in accordance with section 48(4) of the Local Government Act 1999 (the Act), that addresses the prudential issues of the activity as defined in Section 48(2) of the Act.
- 5.4 Effective due diligence will be considered to have occurred where Council has satisfied itself to how compliance, public interest benefits or needs and financial risks associated with the project have been considered in the prudential report (before, during and after completion of the project).
- 5.5 A prudential report must be made available for public inspection once Council has decided on the relevant project. However, Council may take steps to prevent the disclosure of specific information to protect its commercial value or to avoid disclosing the financial affairs of a person.
- 5.6 The prudential report must not be produced by a person who has an interest in the project as defined in section 48(6)(a-c) of the Local Government Act, 1999.
- 5.7 Council must consider a report prepared under this policy and must not delegate the requirement to do so.

## **6. CONTENT OF THE PRUDENTIAL REPORT:**

In accordance with section 48 of the Act, the report obtained by Council will address:

- 6.1 the relationship between the project and relevant strategic management plans;
- 6.2 the objectives of the Development Plan in the area where the project is to occur;
- 6.3 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;
- 6.4 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;
- 6.5 if the project is intended to produce revenue, revenue projections and potential financial risks;
- 6.6 the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;

- 6.7 the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of Council;
- 6.8 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);
- 6.9 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 Council's long term financial position.

## **7. AVAILABILITY OF THE POLICY:**

This policy will be available for inspection at Council's principal office, 29 Holland Street Kingston SE, during ordinary business hours and on Council's website: [www.kingstondc.sa.gov.au](http://www.kingstondc.sa.gov.au). Copies will also be provided to interested members of the community upon request, and upon such payment of the fee set by Council.