

Prudential Management Policy

Strategic Alignment - Strong Economies

Public

Tuesday, 21 November 2023
City Finance and Governance
Committee

Program Contact:
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Approving Officer:
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EXECUTIVE SUMMARY

Section 48 of the *Local Government Act 1999* (SA) (the Act) requires that “a council must develop and maintain prudential management policies, practices and procedures for the assessment of projects”.

Following an internal legislative compliance review conducted in 2017, it was identified that Council did not have established policies, practices, or procedures in relation to its prudential management obligations.

A Prudential Management Policy was established and approved by Council in February 2018.

The policy requires a report be prepared for Council where the expected capital cost of a project over five years is likely to exceed \$4,000,000, the prudential report threshold. Under the recent Local Government Reforms, Council’s Audit Committee is now required to review any such report.

As required by Section 48(6d) of the Act, the \$4,000,000 prudential report threshold is to be indexed on 1 January of each year, starting 1 January 2011, and was last updated and adopted by Council in December 2021 (Link 1 view [here](#)).

The Prudential Management Policy (2023) (**Attachment A**) states the indexed prudential threshold as of 1 January 2024 will be **\$5,769,722.81**.

RECOMMENDATION

The following recommendation will be presented to Council on 28 November 2023 for consideration:

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL
THAT COUNCIL

1. Adopts the updated Prudential Management Policy (2023) as per Attachment A to Item 7.3 on the Agenda for the City Finance and Governance held on 21 November 2023.
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IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Strong Economies Compliance with the Prudential Management Policy (2023) may lead to further risk identification and opportunities for risk mitigation; and greater value for money outcomes.
Policy	Not as a result of this report
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Compliance with Section 48 of the <i>Local Government Act 1999</i> (SA).
Opportunities	Compliance with the policy may lead to further risk identification and opportunities for risk mitigation; and greater value for money outcomes.
23/24 Budget Allocation	Not as a result of this report
Proposed 24/25 Budget Allocation	Not as a result of this report
Life of Project, Service, Initiative or (Expectancy of) Asset	Not as a result of this report
23/24 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

DISCUSSION

1. Section 48 of the *Local Government Act 1999* (SA) (the Act) requires that “a council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council:
 - 1.1. acts with due care, diligence, and foresight; and
 - 1.2. identifies and manages risks associated with a project; and
 - 1.3. makes informed decisions; and
 - 1.4. is accountable for the use of council and other public resources.”
2. Council has continued to comply with its prudential reporting requirements pursuant to Section 48 of the Act.
3. The recent Local Government Reforms saw a change to the Act whereby, under Section 126(4)(i), the Audit Committee is required to review any report obtained by the Council under section 48.

4. The purpose of a Prudential Report is to ensure the Council has the necessary information to enable an informed decision to be made on whether or not to proceed with a project.
5. A prudential report is required under the Act where the City of Adelaide (or its subsidiaries):
 - 5.1. 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):
 - 5.1.1. where the expected operating expenses calculated on an accrual basis 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
 - 5.1.2. where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000.00 (indexed, excluding GST); or
 - 5.1.3. where the Council considers that it is necessary or appropriate.
 - 5.2. a report is not required in relation to:
 - 5.2.1. road construction or maintenance; or
 - 5.2.2. drainage works.
 - 5.3. The \$4,000,000 is set for 1 January each year, based on the preceding September CPI from the previous year.
 - 5.4. The indexed threshold as of 1 January 2024, referred to in paragraph 4.1.2 above, is **\$5,769,722.81**.

DATA AND SUPPORTING INFORMATION

Link 1 – Prudential Management Policy, endorsed by Council 14 Dec 2021

1. While the Australian Bureau of Statistics (ABS) is responsible for measuring and reporting inflation, the ABS website directs users to the Reserve Bank of Australia (RBA) Inflation Calculator.
2. The ABS website direction to visit the RBA website is at:
<https://search.abs.gov.au/s/search.html?form=simple&collection=abs-search&query=inflation+calculator>
3. The RBA Inflation Calculator is at: <https://www.rba.gov.au/calculator/quarterDecimal.html>
4. The indexed amount from 1 January 2024 is \$5,769,722.81.

ATTACHMENTS

Attachment A - Prudential Management Policy (2023)

- END OF REPORT -