

TOWN OF BASSENDEAN
NOTICE OF A MEETING OF THE
AUDIT AND RISK MANAGEMENT COMMITTEE

Dear Committee Member

A meeting of the Audit and Risk Management Committee of the Town of Bassendean is to be held in the Council Chamber, 48 Old Perth Road, Bassendean, on Wednesday, 9 March 2016, commencing at 5.30pm.

MR BOB JARVIS
CHIEF EXECUTIVE OFFICER

4 March 2016

A G E N D A

1.0 **DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

Acknowledgement of Traditional Owners

The Town of Bassendean acknowledges the past and present traditional owners of the land on which we gather to conduct this meeting, and pays its respects to their Elders, both past and present.

2.0 **ATTENDANCES, APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE**

Apologies

Cr Mike Lewis

3.0 **DEPUTATIONS**

4.0 CONFIRMATION OF MINUTES

4.1 Minutes of the Meetings held on 9 December 2015

OFFICER RECOMMENDATION – ITEM 4.1

That the minutes of the meeting held on 9 December 2015 be confirmed as a true record.

5.0 ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

6.0 DECLARATIONS OF INTEREST

7.0 BUSINESS DEFERRED FROM PREVIOUS MEETING

8.0 REPORTS

8.1 Local Government Compliance Audit Return 2015 (Ref: GOVR/LREGLIA/9 – Mike Costarella, Director Corporate Services)

APPLICATION

The report presents the Local Government Compliance Audit Return 2015, 1 January to 31 December 2015 to Council in order that the report be adopted.

ATTACHMENTS

Attachment No. 1: Compliance Audit Return 2015

BACKGROUND

The Department of Local Government initially introduced a voluntary self-assessment return in 1995, which is now mandatory, for local governments to determine the level of compliance with the Local Government Act and associated Regulations.

In 2007, the Department of Local Government developed an online return, enclosed under separate cover is a printout from the return prepared on the Department's website.

STRATEGIC IMPLICATIONS

Leadership and Governance

- We will provide leadership and build a sustainable place through our regional and government partnerships.
- We will be accountable and make decisions for the good of the community
- We will engage with our community, building cohesive community and support community participation

COMMENT

Each Local Government Authority is required to complete a Compliance Audit Return for the period 1 January to 31 December 2015.

The Compliance Audit Return 2015 must be submitted to the Director General, Department of Local Government by 31 March 2016.

The return is one of the tools that allows Council to monitor how the organisation is functioning. It places emphasis on the need to bring to Council's attention, issues of non-compliance, or issues where full compliance was not achieved.

In addition to explaining or qualifying cases of non-compliance, the return also requires Council to endorse any remedial action taken or proposed to be taken in regard to instances of non-compliance.

The document contains a total of 87 questions to test compliance with the Local Government Act and Regulations. The compliance areas includes:

Compliance Areas	Number of Questions
Commercial Enterprises by Local Governments	5
Delegation of Power / Duty	13
Disclosure of Interest	16
Disposal of Property	2
Elections	1
Finance	14
Local Government Employees	5
Official Conduct	6
Tenders for Providing Goods and Services	25
TOTAL QUESTIONS	87

The response types is shown below and includes prior years.

RESPONSE	2015	2014	2013	2012	2011
Areas of Compliance	72	55	58	46	52
Areas of Non Compliance	0	1	0	0	0
Not Applicable	15	22	20	32	26
Total	87	78	78	78	78

STATUTORY REQUIREMENTS

Local Government Act 1995 and associated Regulations

FINANCIAL CONSIDERATIONS

Nil.

OFFICER RECOMMENDATION – ITEM 8.1

That the Audit and Risk Management Committee recommends that Council adopts the Compliance Audit Return 2015 for the period 1 January to 31 December 2015, as attached to the Agenda of 9 March 2016.

Voting Requirement: Simple majority

8.2 Review of Policy 6.18 - Investment Policy (Ref: GOVR/LREGLIA/15- Mike Costarella Director of Corporate Services and Ken Lapham Manager of Corporate Services)

APPLICATION

The purpose of the report is to review the current Investment Policy to incorporate a clause to give deliberative preference for investment with financial institutions that do not invest in or finance the fossil fuel industry.

ATTACHMENT

Attachment No. 2: Draft Policy 6.18 - Investment Policy

BACKGROUND

Council, at its meeting held on 15 December 2015 resolved:

“That in accordance with the Town of Bassendean Financial Sustainability Policy 6.15, that requires the Town to meet the needs of current and future generations through an integration of environmental protection, social advancement and economic prosperity (See Section 1.3 of the Local Government Act),

1. *The Town of Bassendean Investment Policy 6.18 be amended to incorporate deliberative preference for investment with financial institutions that do not invest in or finance the fossil fuel industry where:*
 - a) *The investment is compliant with Council’s investment policy with regards to risk diversification & credit rating;*
 - b) *The investment rate of interest is favourable to Council relative to other similar investments that may be on offer to Council at the time of investment.*
2. *The matter is referred to the next Audit and Risk Management Committee meeting to review the Investment Policy 6.18; and*
3. *Council requests that the monthly financial statement and reports include the state of its divestment from fossil fuels.*

The Department of Local Government issued Local Government Operational Guidelines (#19) in February 2008. This guideline was issued as best practice guide for Local governments involved in Investment activities following the Global Financial Crisis (GFC) that occurred in 2008.

The downturn in financial markets revealed that a number of Local Governments had high exposure to various financial products that were generating high returns for investors. The one issue that had a severe impact on Local Government Investments was the investment of Council funds in high risk CDO's.

The outcome for the Town of Bassendean meant only minor changes, as Council had a fairly restrictive and conservative investment policy, the result being that there was no loss of funds.

The current investment policy was comprehensively reviewed and adopted by Council in May 2012 and a further minor review was conducted in April 2014. The policy has been operating in a satisfactory manner and the criteria of how and where funds can be invested, has not changed.

The policy is conservative and addresses the importance of capital protection, but in the current economic climate allows for acceptable returns on investment holdings.

STRATEGIC IMPLICATIONS

Leadership and Governance

- *Ensure Financial sustainability*
- *Monitor and enhance organisational performance and service delivery*
- *Review and develop the workforce to meet changing needs*
- *Review and implement asset management plans*
- *Review risk management plans*

The authority to invest Council funds has been delegated by the CEO to the Director Corporate Services and Manager Corporate Services.

COMMENT

The current balance of Council's Investment Portfolio mix is the best position to maintain, where there is a balance between investing with Financial Institutions that have a strong (A-1) rating and an affiliation with the fossil fuel industry.

The Town's investment summary (to 31 January 2016) indicates that 51% of funds are invested with financial institutions that are declared fossil free, compared with 49% that are not fossil free.

Council needs to be compliant with the investment policy in where funds are placed. The counterparty credit limit places limits in that no more than 50% of invested funds can be placed with an A-1 Bank and 30% with A-2.

This reflects the S & P rating of the bank. Research indicates that a number of financial institutions that do not invest in the fossil fuel industry are rated by S & P as "BBB". Financial institutions in this category are precluded from Council's Investment Policy and any modification of the Investment Policy to include any S & P rating below A-2, is not recommended. Having a highly rated Investment Policy is not uncommon in Local Government as the BBB rating indicates a weaker balance sheet of the financial institution. Those few Councils that either have the authority to invest in BBB are in the minority, and have severe limitations on the exposure to the BBB rated banks.

In view of the Council's December resolution, the policy has been amended as follows:

- Legislative Requirements (Changes to dates)- *Various Acts have been reviewed by Government*
- Objectives (include Fossil free capacity)- *In accordance with Council's resolution and risk criteria reflects more appropriate wording*
- Authorised Institution Investments(Heading change) – *Wording amendment to Act*
- Overall Portfolio Limits (Deletion of Long Term Ratings) – *Reflects current status of financial ratings system*
- Overall Portfolio Limits (Deletion of AAA Category) – *Reflects current status of financial ratings system*
- Counter Party credit Limit (Deletion of Long Term Ratings) - *Ratings no longer applicable*
- Counter Party credit Limit (Deletion of AAA Category) - *Ratings no longer applicable + slight increase in percentage.*
- Reporting & Review ("For Audit purposes added) - *Wording change only*
- Glossary of Terms (delete Investment portfolio) - *Wording change only*
- Glossary of Terms (modify Prudent Person Rule) - *Wording amendment reflects more appropriate wording*
- Glossary of Terms (delete Yield) - *Wording change only*
- Investment Definitions (added S & P Ratings) - *New definitions included*

- Application (added Manager Corporate Services) - *Reflects current situation.*

Position statements have been obtained from Combiz, NAB, Suncorp and Bank of Queensland stating that:

CommBiz Position

Does not provide any insights surrounding this type of activity and how its investments stand against other organisations.

NAB Position

The world is transitioning from fossil fuels towards a more diversified energy mix and a lower carbon economy.

Renewable energy will play an increasing role, however, fossil fuels, including coal, will continue to be major energy sources for the foreseeable future.

NAB looks at all financing project proposals on a case by case basis and assesses a potential borrowers capacity to repay, management, reputation, industry fundamentals, legal, tax, insurance and environmental, social and governance (ESG) risks. This continues to be the case.

We have a role to play in transitioning to a low carbon economy. We also believe we have the responsibility to fund projects that will secure Australia's energy needs now and into the future and coal has an important role to play in this. We apply over all of our decisions this overlay of corporate social responsibility as part of our environmental, social and governance principles

Suncorp Position

Does not currently lend to projects that seek to expand the coal seam gas industry or to any other fossil fuels. "We no longer have any exposure [to fossil fuel companies] as Suncorp Bank only provides lending to personal, SME and agribusiness clients so does not have exposure to large corporations including fossil fuel projects."

Bank of Queensland position

Does not lend to projects that seek to expand the coal seam gas industry or any other fossil fuels. "We do not lend to companies for whom the core activity is the exploration, mining, manufacture or export of thermal coal or coal seam gas. However, the Bank of Queensland points out in its statement that it does lend money to some small and medium sized businesses who could have either direct or indirect exposure to the mining sector."

STATUTORY REQUIREMENTS

Local Government Act 1995 Section 6.14

- (1) Money held in the municipal fund or the trust fund of a local government that is not, for the time being, required by the local government for any other purpose may be invested as trust funds may be invested under the *Trustees Act 1962* Part III.
- (2A) A local government is to comply with the regulations when investing money referred to in subsection (1).
- (2) Regulations in relation to investments by local governments may —
 - (a) Make provision in respect of the investment of money referred to in subsection (1); and
 - [(b) Deleted]*
 - (c) Prescribe circumstances in which a local government is required to invest money held by it; and
 - (d) Provide for the application of investment earnings; and
 - (e) Generally provide for the management of those investments.

Local Government (Financial Management) Regulations 1996

19C. Investment of money, restrictions on (Act s. 6.14(2)(a))

(1) In this regulation —

authorised institution means —

- (a) An authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or
- (b) The Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986*;

Foreign currency means a currency except the currency of Australia.

- (2) When investing money under section 6.14(1), a local government may not do any of the following —
 - (a) Deposit with an institution except an authorised institution;
 - (b) Deposit for a fixed term of more than 12 months;
 - (c) Invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;

- (d) Invest in bonds with a term to maturity of more than 3 years;
- (e) Invest in a foreign currency.

[Regulation 19C inserted in Gazette 20 Apr 2012 p. 1701.]

Trustees Act 1962

Part III and as amended by The Trustees Amendment Act 1997

FINANCIAL CONSIDERATIONS

The investment of funds provides an additional income source for cash flow purposes when funds are not required at a particular time of the year. This is of particular relevance to the rates income that is received in the early part of the financial year.

Staff invest funds in term deposits only in a number of institutions and the main criteria is to maximise interest rates for the investment. The best interest rate could be provided by an institution that does not deal in fossil fuels.

Current trends in investment rates by the financial Institutions that the Town currently invests with indicate that rates offered for periods of 1 to 4 months will vary between .25 basis points for a 30 day period, and up to .20 basis points for a 3 month period of investment.

OFFICER RECOMMENDATION – ITEM 8.2

That the Audit and Risk Management Committee recommends that Council adopts the revised Investment Policy, as attached to the Audit and Risk Management Committee Agenda of 9 March 2016.

Voting requirements: Simple majority

9.0 **MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil.

10.0 **ANNOUNCEMENTS OF NOTICES OF MOTION FOR THE NEXT MEETING**

11.0 **CONFIDENTIAL BUSINESS**

11.1 **Underground Power Charge - 49 Ashfield Parade, Ashfield (Ref: EAST/CONCTN/2 - Mike Costarella, Director Corporate Services)**

This matter is to be considered with members of the public excluded from the Chamber under Clause 5.23 (2) (b) of the Local Government Act 1995, as the officer report discusses the personal affairs of a person.

12.0 **CLOSURE**

The next meeting will be held on Wednesday, 8 June 2016 commencing at 5.30pm.