Executive Committee Meeting

SUMMARY MINUTES

5 October 2016
Terms of Reference for the Executive Committee
(Endorsed July 2016)

On behalf of State Council, and in accordance with any policies, directions or limitations set by State Council, undertake the following functions:

- Determine key directions in relation to the establishment and/or development of new and current business opportunities that result in the delivery of outputs which enhance the financial and operational capacity of Members and the Association.

- Adoption of business plans for the Association’s service delivery units that deliver the key objectives within the Association’s Strategic Plan, with regular monitoring of outcomes against agreed performance indicators.

- Oversee the financial management of the Association, including the recommendation of a draft annual Governance Budget to State Council, long term financial planning, monitoring/assessment of financial reports, approving and/or recommending budgetary reallocations to State Council, committing or reallocating reserve funds for special purposes, and auditing and presentation of the Association’s annual accounts.

- Internal audit including monitoring/assessing compliance against financial and asset management and internal control policies.

- Oversee the delivery of business development, business management, human resource management and information management and corporate services.

- Establish a risk governance structure which ensures that management has implemented sound risk management policies and procedures across the Association, and which is regularly reviewed.

- Establish risk management and internal control performance indicators that are regularly evaluated through internal and external audit processes.

- Regularly report to State Council on the key activities and major decisions of the Committee.

- Review and provide feedback on interim submissions, either in or out of session, to be put forward to government or other agencies.

- Act as the primary policy and advocacy support to the President and the Association.

- Manage the Chief Executive Officer Performance Review process on behalf of State Council.
Summary Minutes
Meeting of the Executive Committee held

Boardroom A, ONE70
170 Railway Parade, West Leederville

Wednesday 5 October 2016

Meeting commenced: 11.04 am

1. Attendance, Apologies & Announcements

Attendance:

Members

President Cr Lynne Craigie          WALGA President
Mayor Tracey Roberts               WALGA Deputy President
Cr Wally Barrett (Deputy)          State Councillor
President Cr Karen Chappel         State Councillor
Mayor Henry Zelones                State Councillor
President Cr Stephen Strange (Deputy) State Councillor (via telephone)

WALGA Staff

Mr Wayne Scheggia                  Acting Chief Executive Officer
Mr Zac Donovan                     EM Finance & Marketing
Mr Tony Brown                      EM Governance & Organisational Services
Mr Mark Batty                      EM Environment & Waste
Mr Ian Duncan                      EM Infrastructure
Mr Warwick Carter                  EM Planning & Community
Mr Dale Chapman                    Acting EM Business Solutions
Mr Rick Murray                     Financial Controller
Mr Tim Lane                        Manager Strategy & Association Governance
Ms Jo Burges                      Regional Cooperation Manager
Ms Fiona Cohen                     EO Governance & Organisational Services

Apologies:

Cr Doug Thompson                   State Councillor
President Cr Wayne Sanford          State Councillor
Ms Ricky Burges                    Chief Executive Officer
Mr John Filippone                   EM Business Solutions

Announcements

Nil.

Declaration of Interests

Nil.
2. Finance Governance

Objectives:

- **Oversee the financial management of the Association, including the recommendation of a draft annual Governance Budget to State Council, long term financial planning, monitoring/assessment of financial reports, approving and/or recommending budgetary reallocations to State Council, committing or reallocating reserve funds for special purposes, and auditing and presentation of the Association’s annual accounts.**

- **Internal audit including monitoring/assessing compliance against financial and asset management and internal control policies.**

2.1 Year to Date Financials as At 31 August 2016

_By Zac Donovan, Executive Manager Finance and Marketing_

**BACKGROUND**

As at 31 August 2016, WALGA is three months into its reporting year.

Non-grant surplus is **$415,950** against the year to date budget surplus of **$119,657**.

Income received to date is **$5,178,966** which is one percentage point (1%) better than budget income of **$5,135,598**.

Expenditure to date is **$4,763,016** which is five percentage points (5%) less than budget expenditure of **$5,015,941**.

The main contributing factors to the result for the year to date included most areas recording better than anticipated net results.

In regard to areas of activity, the most significant contributions to the better than expected result includes:

- Finance and Marketing is $192,877 better than budget due mostly to lower than expected expenditure on the Local Government Convention.
- Business Solutions which was $45,866 better than budget due mostly to lower costs and higher income in Category Portfolio Management.
- Planning and Community which is $35,742 better than anticipated, due mostly to under expenditure of salaries in Community Services.

Leave Accruals was **$26,867** more than budget. Variances from leave accruals reflect timing differences.

Finally in regard to debtor management as of 31 August 2016, debtors are at **$2,100,004** which is **$1,032,702** less than at the same time last year.
COMMENT

The financial statements for the period ending the 31 August 2016 are attached.

RESOLUTION

Moved: Mayor Tracey Roberts
Seconded: Mayor Henry Zelones

That the Year to Date Financial Report as at 31 August 2016 be noted.  

CARRIED
2.2 Financial Condition and Planning Policy

By Ricky Burges, Chief Executive Officer

BACKGROUND

Embedded in the Financial Management Policies and Principles adopted in State Council Resolution 0023.ASM.2/2005, the Financial Condition Policy in the table below requires period compliance reporting as part of the governance reporting process to the Finance and Services Committee and thereby State Council. Accordingly the following table in enclosed for consideration.

COMMENT

Financial Condition Policies

With respect to the actual, on-going financial condition of the Association, the CEO may not cause or allow the development of fiscal jeopardy or loss of allocation integrity. Accordingly, the CEO may not engage in the following:

<table>
<thead>
<tr>
<th>Financial Condition Policy</th>
<th>August 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Expend more funds than have been included in the total Budget for the fiscal year without prior approval</td>
<td>Complying</td>
</tr>
<tr>
<td>2. Indebt the Association to an amount greater than can be repaid by certain other unencumbered revenues within 90 days</td>
<td>Complying</td>
</tr>
<tr>
<td>3. Use any surplus without the approval of the Finance and Services Committee</td>
<td>Complying</td>
</tr>
<tr>
<td>4. Allow the current ratio between current assets and short-term liabilities to drop below 1:1</td>
<td>Complying currently 1.51</td>
</tr>
<tr>
<td>5. Allow tax payments or other government-ordered payments or filings to be overdue or incorrectly filed</td>
<td>Complying</td>
</tr>
<tr>
<td>6. Allow any new program activity without an appropriate business case</td>
<td>Complying</td>
</tr>
<tr>
<td>7. Allow employees not to be paid all leave entitlements in a timely and appropriate manner</td>
<td>Complying</td>
</tr>
<tr>
<td>8. Allow actual year to date disbursements to deviate materially from State Council priorities as defined in the Strategic and Business Plans</td>
<td>Complying</td>
</tr>
<tr>
<td>9. Permit grant funded programs from being fully funded by the responsible funding body. No contributions (in-kind financial or other) are to be provided by the Association to grant funded programs unless such contribution is endorsed by the Finance and Services Committee.</td>
<td>Complying</td>
</tr>
<tr>
<td>10. Allow staff leave entitlements to not be matched to a Leave Entitlements Reserve.</td>
<td>Complying</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>11. Fail to accumulate interest that has accrued in 'cash backed' reserves within the reserve, so as to not keep the fund aligned to inflationary movements (with the exception of the leave entitlement reserve)</td>
<td>Complying</td>
</tr>
</tbody>
</table>
| 12. Permit overhead recovery from operational programs (Non Grant and Grant) to be neither inequitable nor non-transparent. Accordingly, the CEO is to:  
   a. Recover Corporate Services staff costs, (Finance, Administration and IT) from all programs to the level of 200% of total costs after allowing for recovery from the Local Government House Trust and the ROADS Foundation;  
   b. Recover Human Resources staff costs associated with providing global corporate services from all programs on an equitable shared basis; and  
   c. Recover Corporate Overheads from user departments on a user pays basis, based on actual usage patterns where they exist. | Complying |
| 13. Net-off contributions to grant programs and charges to grant programs against each other. All transactions are to be transparent and reported in full. | Complying |
Budgeting for any fiscal period or the remaining part of any fiscal period shall not deviate materially from the priorities set by State Council (in the Strategic Plan), risk financial jeopardy, or fail to show a generally acceptable level of foresight. Accordingly, the CEO may not cause or allow financial planning that:

<table>
<thead>
<tr>
<th><strong>Financial Planning Policy</strong></th>
<th><strong>August 2016</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Contains too little information to enable accurate projection of revenues and expenses</td>
<td>Complying</td>
</tr>
<tr>
<td>2. Does not separate capital and operational items</td>
<td>Complying</td>
</tr>
<tr>
<td>3. Does not have cash flow and subsequent audit trails</td>
<td>Complying</td>
</tr>
<tr>
<td>4. Does not show disclosure of planning assumptions</td>
<td>Complying</td>
</tr>
<tr>
<td>5. Does not cash-back reserve funds</td>
<td>Complying</td>
</tr>
<tr>
<td>6. Plans the expenditure in any fiscal year of operating funds that exceed conservatively projected revenue to be received in that period</td>
<td>Complying</td>
</tr>
<tr>
<td>7. Plans for capitalised or prepaid expenses other than those arising on a recurring basis in the normal course of business</td>
<td>Complying</td>
</tr>
<tr>
<td>8. Does not consider the Association’s longer term financial and strategic planning</td>
<td>Complying</td>
</tr>
<tr>
<td>9. Does not embed sufficient diversification in non-subscription revenue for cross funding of core Association activities. By diversification, we mean:</td>
<td>Complying</td>
</tr>
<tr>
<td>a. Investment in reserves to an appropriate quantum;</td>
<td></td>
</tr>
<tr>
<td>b. Investment in income generating capital; and</td>
<td></td>
</tr>
<tr>
<td>c. Expenditure on current and non-recurrent activities.</td>
<td></td>
</tr>
</tbody>
</table>

**RESOLUTION**

Moved: President Cr Karen Chappel  
Seconded: Cr Wally Barrett

That the Financial Planning and Conditions Policies report for the year ending 31 August 2016 be received.  

CARRIED
2.3 Divestment from Fossil Fuels

By Rick Murray, Financial Controller

BACKGROUND

This report has been prepared in response to a request from the City of Fremantle which at its Ordinary Meeting of Council held on 16 December 2015 resolved that:

“The Western Australian Local Government Association consider amending their investment strategy/policy to provide for divestment away from carbon supporting financial institutions while maintaining financial prudence”.

The City of Fremantle amended its Investment Policy in August 2014 to include a preference to manage its investment portfolio away from financial institutions which support fossil fuel companies either directly or indirectly. The City has been able to ensure that “upward of 75% of its surplus cash” has been invested in non-carbon supporting products and institutions. Up to 27 local governments across Australia have now adopted divestment strategies including the Cities of Melbourne and Newcastle (source: gofossilfree.org.au; September 2016). Western Australia Local Governments which have committed to divest include City of Fremantle, Shire of Goomeralling, City of Armadale, Town of Bassendean, City of Stirling, Town of East Fremantle, City of Vincent and City of Swan. The objective is that collectively Local Government are significant customers for banks and can influence banks to reconsider their financial support for fossil fuels.

Fossil fuel refers to buried combustible deposits of organic materials that have been formed over millions of years. The five main fossil fuels include, coal, natural gas, oil, petroleum and liquefied natural gas (LNG). Local Governments generally not have direct investment in fossil fuel companies due to restrictions on investing in shares. However Local Governments will be indirectly exposed through placement of deposits with the four major Australian Banks which are estimated to have funded $49.9 billion dollars’ worth of coal and gas projects across the country (source: marketforces.org.au/fueling the fire; September 2016).

STRATEGY

Relevant strategies of WALGA include:

- Continue to build capacity to deliver sustainable Local Government
- Represent the diversity of members’ aspirations in the further development of Local Government in Western Australia

Mission:

- WALGA provides value to member Local Governments by providing effective leadership on behalf of the sector.
LEGISLATION

Climate Change Management
The Local Government Act Section 1.3(3) states that “In carrying out its functions a Local Government is to use its best endeavours to meet the needs of current and future generations through the integration of environmental protection, social advancement and economic prosperity”.

Investment
Investment of monies and restrictions on investments for Local Governments is prescribed by Regulation 19C of the Local Government (Financial Management) Regulations 1996. WALGA however because it is not a Local Government is not bound by these regulations. WALGA’s practice of only investing with ADI’s (Approved Deposit taking Institutions) and not fixing terms beyond 12 months would effectively place it in compliance with the regulation.

POLICY

Investment Policy (Attachment 1 – below)

WALGA’s Investment Policy provides for funds to be invested in managed funds with a minimum credit rating of “A” from Standard and Poor’s (S&P), Moody’s or an equivalent ratings agency.

Current investment practice is to invest only within the major Australian banks, reflecting a preservation of capital first strategy borne out by the lessons of the 2008 Global Financial Crisis.

There is currently no policy to divest away from fossil fuel supporting financial institutions.

Climate Change Policy (Attachment 2)

The Association formally established its position with the adoption of WA Local Government Association Policy Statement on Climate Change June 2009. This policy formally states the Association’s acknowledgement of climate change.

A paper by the Project Officer Environment reinforces the case for climate change and outlines the current fossil fuel divestment campaign and methods Australian Local Governments have used to divest. (Refer Attachment 3)

DISCUSSION

The question is whether WALGA wishes to adopt a policy of divesting its cash funds away from fossil fuel supporting financial institutions.

Investment portfolio

WALGA’s Investment portfolio has averaged $12.4 million over the past 12 months with 60% being attributable to restricted funds (unexpended grants and reserves). The current banking services provider is the Commonwealth Bank. Surplus cash is invested within term deposits not exceeding 12 months with placements limited to the four major Australian banks and Bankwest which are all currently “AA” rated.
Summary of Cash funds

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted cash reserves</td>
<td>$ 4.9M</td>
<td>40%</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unexpended grants</td>
<td>$ 5.1M</td>
<td>41%</td>
</tr>
<tr>
<td>Reserves</td>
<td>$ 2.4M</td>
<td>19%</td>
</tr>
<tr>
<td>Total</td>
<td>$12.4M</td>
<td>100%</td>
</tr>
</tbody>
</table>

Average across June 2015 to May 2016

Benefits of divestment

The Association’s *WA Local Government Association Policy Statement on Climate Change December 2008* (Climate Change Policy) states within its Policy Objective that it “… is committed to greenhouse emissions reductions and risk management through appropriate mitigation and adaptations strategies”.

Furthermore, this Policy states that Local Government:

- Acknowledges climate change and “… recognises that the global climate is changing as a consequence of increased concentrations of greenhouse gases in the atmosphere…” (1.1).
- “Considers climate change to be a serious threat to our way of life and the earth’s ecosystems.” (1.1.2).
- “…considers a wide range of policy measures from regulatory intervention and market-based mechanisms through to voluntary scheme, education and behaviour change programs – is required …” (1.4.3).
- Supports collaborative action (1.5).

Adopting a divestment policy could be considered as taking action consistent with WALGA’s position on Climate Change. While it does not have cash reserves on the scale of large metropolitan Local Governments, WALGA’s adoption of a divestment policy may potentially prove to be a strong statement on behalf of the sector.

Profile of Australian Banks

The following table shows how a selection of Australian banks compare in terms of exposure to fossil fuels and credit ratings. Note, all references to credit rating are based upon Standard and Poor’s Long Term Credit Rating.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Banks Funding fossil fuels</th>
<th>Long-Term Credit Rating (S&amp;P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMP</td>
<td>Y</td>
<td>AA+</td>
</tr>
<tr>
<td>ANZ</td>
<td>Y</td>
<td>AA-</td>
</tr>
<tr>
<td>Commonwealth Bank (CBA)</td>
<td>Y</td>
<td>AA-</td>
</tr>
<tr>
<td>NAB</td>
<td>Y</td>
<td>AA-</td>
</tr>
<tr>
<td>Westpac</td>
<td>Y</td>
<td>AA-</td>
</tr>
<tr>
<td>HSBC Australia</td>
<td>Y</td>
<td>A+</td>
</tr>
<tr>
<td>Suncorp</td>
<td>N</td>
<td>A+</td>
</tr>
<tr>
<td>ING</td>
<td>Y</td>
<td>A</td>
</tr>
<tr>
<td>Macquarie</td>
<td>Y</td>
<td>A</td>
</tr>
<tr>
<td>Bendigo &amp; Adelaide</td>
<td>N</td>
<td>A-</td>
</tr>
</tbody>
</table>
### WALGA Executive Committee Meeting

**Summary Minutes 5 October 2016**

<table>
<thead>
<tr>
<th>Rural Bank</th>
<th>N</th>
<th>A-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Queensland</td>
<td>N</td>
<td>BBB+</td>
</tr>
<tr>
<td>Bank of Melbourne</td>
<td></td>
<td>Owned by Westpac</td>
</tr>
<tr>
<td>Bankwest</td>
<td></td>
<td>Owned by CBA</td>
</tr>
<tr>
<td>RAMS</td>
<td></td>
<td>Owned by Westpac</td>
</tr>
<tr>
<td>St George</td>
<td></td>
<td>Owned by Westpac</td>
</tr>
<tr>
<td>Beyond Bank</td>
<td>N</td>
<td>BBB+</td>
</tr>
<tr>
<td>ME Bank</td>
<td>N</td>
<td>BBB+</td>
</tr>
<tr>
<td>Auswide</td>
<td>N</td>
<td>BBB</td>
</tr>
</tbody>
</table>

Long-Term Issue Credit Ratings are explained as below. Positives and negative signs refer to the direction the risk is trending.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>An obligation rated ‘AAA’ has the highest rating assigned by Standard &amp; Poor’s. The obligor’s capacity to meet its financial commitment on the obligation is extremely strong.</td>
</tr>
<tr>
<td>AA</td>
<td>An obligation rated ‘AA’ differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.</td>
</tr>
<tr>
<td>A</td>
<td>An obligation rated ‘A’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.</td>
</tr>
<tr>
<td>BBB</td>
<td>An obligation rated ‘BBB’ exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation</td>
</tr>
</tbody>
</table>

### Financial Prudence

The matter of risk is subjective and dependent upon probability and scale of adverse events. Standard and Poor’s credit ratings above refer to the banks susceptibility to adverse economic conditions. This refers to recession or downturns which may last for a period of time, or to sudden economic shocks such as the Asian Crisis of 1997 or the Global Financial Crisis of 2008, both of which saw the collapse of banks and other financial institutions around the world.

WALGA’s current investment practice is conservative and reflects an expectation that any lost monies would be viewed unfavourably by its Local Government members. Unrestricted funds averaging $4.9 million have been accumulated over many years due to targeting modest surpluses and would take many years to replenish. Additionally any loss of investment monies equal to most or all of unexpended grant funds would see WALGA having to fund its contractual grant program obligation out its own unrestricted funds.

Volatility and ongoing risks within the global economy support a conservative investment policy with capital preservation remaining the primary investment objective and justification for the current minimum ‘A’ credit rating for investments. Additionally there is there is the expectation that the major banks are too big to fail and are more likely to be bailed out in the event of another Global Financial Crisis.

### CONCLUSION

Given the Association’s commitment through its *Policy Statement on Climate Change* and the request from the City of Fremantle, it is recommended that WALGA consider amending its investment policy to provide for divestment away from fossil fuel supporting financial institutions.
The inclusion of the following three clauses within WALGA’s investment policy are proposed:

Objectives
3(d) To encourage financial institutions to reconsider their support for fossil fuel companies by limiting investment in such companies.

Strategy
4d) To identify and invest in institutions which do not support fossil fuel companies to the extent permitted by the parameters under this policy.

Divestment from Fossil Fuels
11. WALGA acknowledges climate change and supports more environmentally responsible investing. It will seek to invest in financial institutions which do not fund fossil fuel, directly or indirectly; subject to minimum credit risk and portfolio exposure limits prescribed elsewhere in this policy.

Such action would be consistent with the Association’s acknowledgement of climate change within WA Local Government Association Policy Statement on Climate Change December 2008. Divestment action which also be consistent with its mission statement, “WALGA provides value by providing effective leadership on behalf of the sector.”

Financial prudence would be maintained as divestment would be only to ADI’s with a minimum credit rating of “A”. This is appropriate as protecting the operating capacity of WALGA within a volatile global economy, requires a higher degree of risk aversion than normal.

RESOLUTION

Moved: Mayor Henry Zelones
Seconded: Cr Wally Barrett

That:

1. WALGA adopt the following Investment Policy

   Divestment from Fossil Fuels:

   WALGA acknowledges climate change and supports more environmentally responsible investing. It will seek to invest in financial institutions which do not fund fossil fuel, directly or indirectly; subject to minimum credit risk and portfolio exposure limits prescribed elsewhere in this policy.

2. That WALGA adopt the updated Investment Policy as attached which includes the addition of Divestment from Fossil Fuels.

   CARRIED
INVESTMENTS – FS080

OBJECTIVE

Provides parameters and guidelines for the investment of the Association’s surplus cash.

POLICY

Risk

1. Preservation of capital is the principal objective of WALGA.
2. A lower rate of return consistent with investments offering capital protection is an accepted outcome.

Objectives

3. The objectives of this policy are to ensure that WALGA:
   a) Conservatively and prudently invests surplus cash funds ensuring the best possible level of capital protection,
   b) Where possible preserves the real value of investments
   c) Earns a level of return commensurate with a low risk investment profile
   d) To encourage financial institutions to reconsider their support for fossil fuel companies by limiting investment in such companies
   e) Ensure that Trust Monies (if any) are invested in accordance with Part III of the Trustees Act 1962, as amended.

Strategy

4. WALGA will apply the following investment strategies in order to achieve its objectives:
   a) A preference that the portfolio is biased towards cash deposits with high grade banking institutions
   b) Maintenance of an adequate level of diversification
   c) Provision of sufficient liquidity to meet allow for all reasonably foreseeable cash flow requirements.
   d) To identify and invest in institutions which do not support fossil fuel companies to the extent permitted by the parameters under this policy

Authorised Investments

5. Authorised investments are limited to:
a) Interest bearing term deposits with authorized deposit taking institutions (ADI’s) e.g. Australian banks, building societies and credit unions

b) Bonds guaranteed by the Commonwealth Government or Western Australian State Government with a maturity of less than three years

c) Managed Cash funds.

**Diversification – credit risk**

6. The Association’s funds may be deposited in ADIs with a minimum credit rating of ‘A’ from S&P, Moody’s or an equivalent ratings agency.

7. Any investments in managed cash funds will be with a minimum credit rating of “AAA” to “A” by S&P, Moody’s or an equivalent ratings agency.

**Diversification - risk**

8. Limits for investments by category are as follows:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Long Term Rating (S&amp;P)</th>
<th>Maximum Total Portfolio</th>
<th>Maximum Funds single institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian ADI</td>
<td>AAA -AA</td>
<td>100%</td>
<td>75%</td>
</tr>
<tr>
<td>Australian ADI (b)</td>
<td>A</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Cash Fund Manager</td>
<td>AAA -AA</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

9. In the event that no Australian ADI’s hold AAA- AA ratings the maximum portfolio shall be permitted to be increased from 50% to 100%.

**Investment time horizon**

10. WALGA will follow the following limits on the investment portfolio by time horizon:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio % &lt;1 Year</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Portfolio % &gt;1 Year and &lt;2 years</td>
<td>0%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Divestment from Fossil Fuels**

11. WALGA acknowledges climate change and supports more environmentally responsible investing. It will seek to invest in financial institutions which do not fund fossil fuel, directly or indirectly, subject to minimum credit risk and portfolio exposure limits prescribed elsewhere in this policy.

**Reporting**

12. The ongoing performance of the Association’s investments is monitored by the Financial Controller and reported provided to the Finance & Services Committee at each scheduled meeting, providing analysis the investment portfolio by institution.
Policy custodian: Financial Controller.

VERSION HISTORY

<table>
<thead>
<tr>
<th>Version</th>
<th>Date</th>
<th>Approval</th>
<th>By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Updated</td>
<td>7/5/2016</td>
<td>SET 13/6/2016</td>
<td>Rick Murray</td>
</tr>
</tbody>
</table>

APPENDIX

Standard & Poor's (S&P) Long-Term Issue Credit Ratings

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
</tbody>
</table>
2.4 Capital Acquisition Reserve

By Rick Murray, Financial Controller

BACKGROUND

The question often raised concerns how WALGA funds its depreciation. The basis for this question is that for its Members, funding of depreciation within the Local Government sector is critical to ensuring sustainability of services and finances while avoiding intergenerational subsidisation of infrastructure replacement.

An overview of the WALGA’s depreciation and assets as taken from the 2015/2016 Finance Report is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Depreciation</td>
<td>$295,613</td>
</tr>
<tr>
<td>% of Total Expenses</td>
<td>1.1%</td>
</tr>
<tr>
<td>Depreciable Assets</td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>$1,286,772</td>
</tr>
<tr>
<td>Less Accumulated Depreciation</td>
<td>$748,281</td>
</tr>
<tr>
<td>Net Book Value</td>
<td>$538,491</td>
</tr>
</tbody>
</table>

This report seeks to address the question of funding of depreciation and to propose a more transparent means of WALGA demonstrating to its Executive Committee and State Council how its capital purchases are being funded.

STRATEGY

Relevant strategy of WALGA include:

- Engagement with Members

Values:

- Integrity: We demonstrate strong principles and process
- Relationships: We build strong connections with our members

LEGISLATION

Local Government Act 1995
None. WALGA because it is not a Local Government is not governed by Financial and Accounting provisions of the Act.

ACCOUNTING STANDARD

AASB117 Property, Plant and equipment

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life (paragraph 6).
AASB138 Intangible Assets

*Amortisation* is the systematic allocation of the depreciable amount of an intangible asset over its useful life (paragraph 8).

**POLICY**

None


8. Does not consider the Association’s longer term financial and strategic planning

**DISCUSSION**

WALGA like any organisation or business acquires assets, which it uses in the supply of services to its members. Assets can be tangible in nature (property, plant and equipment) or intangible (software and Intellectual Property).

The accounting treatment involves recognising purchases of such items exceeding $1,000 in the Balance Sheet. Assets are then systematically transferred to the Income and Expenditure (or Profit and Loss) Statement over their individual useful life, typically until the carrying value of the asset in the balance sheet is reduced to nil. This method of allocation is depreciation, although for intangible assets the correct term is amortisation.

On the matter of depreciation, Accounting Standards are essentially only concerned with the matching of the cost of an asset against revenues over its useful life. However, Local Governments with their significant investment in infrastructure, property and equipment choose to utilise depreciation as a driver for funding the replacement of the service capacity given up in a particular year. The logic is that if income covers expenses (i.e. delivers a breakeven or surplus bottom-line) and expenses in turn includes depreciation (correctly calculated), then depreciation has been funded for that year.

The example below shows how cash can be generated from depreciation despite the surplus being nil.
Table 1:

<table>
<thead>
<tr>
<th>Example of funding of depreciation</th>
<th>Income &amp; Expenditure</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$M</td>
<td>$M</td>
</tr>
<tr>
<td>Income</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Staff Costs</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Contractors</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Depreciation *</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>50</strong></td>
<td><strong>48</strong></td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td><strong>0</strong></td>
<td><strong>2</strong></td>
</tr>
</tbody>
</table>

* Depreciation is a non-cash expense

Funding of depreciation

Following the principle within the example above, WALGA through its surpluses has generated income sufficient to fund depreciation and therefore generating cash to fund asset purchases.

The table below presents the surpluses for the past five years. Given that Expenses includes depreciation, it is clear that WALGA’s annual depreciation is being fully funded by current income streams.

Table 2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>31.5</td>
<td>30.0</td>
<td>31.1</td>
<td>29.0</td>
<td>26.9</td>
<td>26.3</td>
</tr>
<tr>
<td>Expenses</td>
<td>30.9</td>
<td>29.8</td>
<td>31.1</td>
<td>28.9</td>
<td>26.5</td>
<td>26.3</td>
</tr>
<tr>
<td>Surplus</td>
<td>0.674</td>
<td>0.186</td>
<td>0.029</td>
<td>0.056</td>
<td>0.378</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation within Expenses (above)</td>
<td>0.345</td>
<td>0.328</td>
<td>0.391</td>
<td>0.365</td>
<td>0.296</td>
<td>0.309</td>
</tr>
<tr>
<td>Depreciation / Total Expenses</td>
<td>1.1%</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>
Funding of Capital Purchases

Another indicator of the funding of assets is the comparison of depreciation plus asset write-offs (depreciation equivalent) against capital expenditure over a period of time.

WALGA's depreciation and asset write-downs exceed capital expenditure by $136,892 for the 2011-2016 period. Depreciation is systematic whereas write-downs consist of realignment / corrections.

Cash Reserves

Further proof that assets replacement is being funded lies with the general stability of WALGA's own cash reserves, calculated after excluding committed cash, which has ranged from $4.3 million at 31 May 2011 to $3.8 million at 31 May 2016.

Scale of WALGA’s Assets and Depreciation

Unlike Local Governments, WALGA does not have the requirement to maintain and replace significant investments in infrastructure. Net of depreciation, WALGA's assets are $538,491 which is small in comparison with an annual income of over $26 million. In comparison Local Governments have assets exceeding income by as much as ten times.

WALGA's depreciation expense has averaged 1.2% of total expenses for the past 5 years (2011-2016). Local Governments however can have depreciation representing more than 25% of total expenses.

While WALGA’s assets and depreciation burden is relatively insignificant these still need to be funded to ensure WALGA remains financially sustainable. Therefore there is merit in introducing a mechanism which will provide greater transparency over the funding of capital expenditure for replacement and new assets.

Proposed Mechanism

A Capital Acquisition Reserve can be used to fund purchases of new and replacement assets.

The reserve would operate as follows:

1. Establishment

The Capital Acquisition Reserve would be set up with a transfer from Accumulated Surplus of an amount of $677,831 being the total of depreciation and asset write-offs from 2015/16.

2. Application

Each month the Capital Acquisition Reserve will be reduced by total asset purchases for the month. This transaction will be in addition to the usual transactions required to recognise the asset and purchase from the supplier.

The Reserve would be used for replacement and new assets.
3. **Replenishment**

At the end of each year the Capital Acquisition Reserve will be increased by the total of depreciation and any asset write-downs for the year to the extent covered by income. For instance if the net result is a surplus or breakeven then this will be 100%.

**CONCLUSION**

This report has shown that WALGA is funding is depreciation from income streams. WALGA is also covering its capital expenditure with cash generated from depreciation and asset write-down expenses. Both are non-cash expenses resulting from the release of asset costs to the Income and Expenditure Statement and because they are covered by income, generate cash for capital replacement.

What is proposed in this report, is a more transparent means of WALGA demonstrating to its Executive Committee and State Council, that its depreciation while not significant, is sufficient to fund capital expenditure. A Capital Acquisition Reserve will provide a running balance of cash-backed funds available for expenditure on capital replacements and new capital less than $25,000.

Scope is also provided for new capital which might be strategic in nature or supports improved service delivery. The Executive Committee will be able to approve funding of New Capital over $25,000 from either Accumulated Surplus or Strategic Reserve.

The recommendation is that this Reserve be created in this year with the starting balance of $677,831 being the total amount of depreciation and asset write-downs from the previous year. This provides adequate cover for budgeted capital expenditure in 2016/17 of $445,400.

**RESOLUTION**

Moved: Mayor Tracey Roberts  
Seconded: Mayor Henry Zelones

That:
1. WALGA establish a Capital Acquisition Reserve.  
2. That the Capital Acquisition Reserve be established with a balance of $677,831 through a transfer from Accumulated Surplus.  
3. That the Capital Reserve operate as follows:  
   a. Each month, the Capital Acquisition Reserve will be reduced by asset purchases.  
   b. At the end of each year the Capital Acquisition Reserve will be increased by the total of depreciation and any asset write-downs for the year to the extent covered by income.  
4. The balance and movement of the Capital Acquisition Reserve be reported in WALGA's Financial Statements.  
5. The Capital Acquisition Reserve be cash backed.  

**CARRIED**
3. Business Development and Management

Objectives:

- **Determine key directions in relation to the establishment and/or development of new and current business opportunities that result in the delivery of outputs which enhance the financial and operational capacity of Members and the Association.**

- **Adoption of business plans for the Association’s service delivery units that deliver the key objectives within the Association’s Strategic Plan, with regular monitoring of outcomes against agreed performance indicators.**

- **Oversee the delivery of business development, business management, human resource management and information management and corporate services.**

3.1 Procurement Compliance Report

By John Filippone, Executive Manager Business Solutions

BACKGROUND

At the meeting of the Finance and Services Committee on 26 May 2010, the following resolution was carried:

*That:*

1. the Procurement Process Map and Compliance Report be endorsed;
2. the CEO provide a Procurement Compliance Report to each meeting of the Finance and Services Committee; and
3. delegated authority be extended to the CEO for the award of Preferred Supply Contracts in the category areas listed in the WALGA Procurement Plan and others as deemed necessary, following the completion of satisfactory and compliant procurement processes, including all risk assessment and due diligence work.

COMMENT

In the interests of providing the Executive Committee with assurance over the extent of compliance and probity within the Association’s procurement processes, the Chief Executive Officer is required to provide a regular Procurement Compliance Report to the Committee as follows:

*With respect to the procurement processes and procedures utilised by WALGA in the establishment, management and renewal of Preferred Supplier Arrangements, the CEO may not engage in the following:*
## Procurement Compliance Report

1. **Permit any breach of the governing principles relating to the establishment and maintenance of Preferred Supply Contracts. These principles are as follows:**
   - Demonstrated Member demand (as supported through a research consultation and procurement plan);
   - Ethical behaviour at all stages of the procurement and contract management process;
   - Ensuring a sufficient commercial return to WALGA, but not at the expense of Member benefits;
   - Ensuring competitive neutrality;
   - Procurement process is procedurally fair; and
   - Partiality & objectivity by all staff involved in the procurement process.

2. **Depart from the procurement processes and procedures as specified in the Association’s Procurement Process Map and the current WALGA Procurement Toolkit.**

3. **Fail to undertake due diligence and risk assessment on successful respondents that are to be recommended for inclusion on a Preferred Supplier Arrangement.**

4. **Permit the establishment of a Preferred Supplier Arrangement that does not clearly add value to the operations of Local Government.**

5. **Permit the reputation of WALGA and/or the sector to be damaged through WALGA’s procurement or contract management processes.**

6. **Fail to regularly report to the Executive Committee on compliance with the WALGA Procurement Policy and on any other relevant issues relating to a Preferred Supplier Arrangement.**

### RESOLUTION

**Moved:**  
Cr Wally Barrett  
Seconded:  
Mayor Henry Zelones

That the Procurement Compliance Report for September be received.  

CARRIED
3.2 Procurement Plan – Update

By John Filippone, Executive Manager Business Solutions

BACKGROUND

The following information is required for the Executive Committee’s consideration:
1. The Procurement Plan be received;
2. the annual Procurement Plan be a standing item on the agenda for the Executive Committee;
3. Delegated authority be extended to the WALGA CEO to call for tenders when deemed necessary; and
4. A process/policy be developed for presentation at the next meeting which provides for acceptance of tenders by the Chief Executive Officer acting under the delegated authority of the Executive Committee.

COMMENT

In response to the Committee’s resolution, the Secretariat has included the 2016/17 Procurement Plan as a standing item. The updated Procurement Plan is below

The Plan identifies the Preferred Supply Contracts that are due for renewal during the calendar year (earmarked as “existing contracts”) as well as the new business development opportunities that will be pursued (earmarked as “new contracts”). Within the Procurement Plan, each project includes a brief summary and an estimate (where determined) of market size in terms of turnover. Also included are some project ideas which are yet to be prioritised and included in the Procurement Plan. This Plan is subject to regular updating and variation as required.

RESOLUTION

Moved: President Cr Karen Chappel
Seconded: Mayor Henry Zelones

That the 2016/17 Procurement Plan as at September 2016 be noted.

CARRIED
4. Governance & Organisational Services

**Objective:** To provide a broad focused Governance Training and Human Resource Management Service for external and internal clients which provide contemporary solutions to their governance, recruitment, performance management, training and development, industrial relations and other human resource management needs.

4.1 Training, Employee Relations & Recruitment Status Report

*By Tony Brown, Executive Manager Governance & Organisational Services*

**BACKGROUND**

The following report on activities within the Governance & Organisational Services team pertaining to Training, Employee Relations and Recruitment is provided for the information of committee members.

**TRAINING**

**WALGA Training: Attendances (2016/17)**

The first 3 months of the 2016/17 financial year (June-August) recorded a total of 597 registrations; an increase of 35% *for the same period in 2015/16.*

- 45 courses were undertaken; 21 being Elected Member and 24 Officer.
- 48% of participants attended training at a Local Government’s premises (regional and metro).
- 31% of participants attended training at WALGA, West Leederville.
- 21% undertook training via eLearning.

**Training for Country Councillors**

- **Country Local Government Fund** (Grant Agreement 3 years to 30 June 2017)

Phase 4 of the CLGF training program for Regional Councillors (2016/17), delivered in partnership with DLGC, is currently underway. This final phase is targeting all 12 Zones (Great Southern and Kimberley twice) with a total of 58 days training proposed.

Training has now been completed for:

- Avon Midland Zone  
  4 days of training hosted at Toodyay and Gingin in August.
- Great Eastern Zone  
  1 day of training hosted at Dowerin in July.
- Murchison Zone  
  2 days of training hosted at Mt Magnet in July and August.

**Recognition as an ‘Industry Training Advisory Board - Memorandum of Understanding**

A tripartite MOU between WALGA, the Department of Training and Workforce Development and the State Training Board has now been formalised to enable WALGA to provide strategic information and advice to the State Training Board for the Local Government Sector in WA.
The Board accepted that WALGA is uniquely positioned to provide the advice to the State Training Board as required by the VET Act on workforce development and vocational education and training priorities for the Local Government sector.

The provision of advice to the State Training Board will be managed via an arrangement with the Department of Training and Workforce Development.

EMPLOYEE RELATIONS

Industrial Cases

The following figures reflect the number of cases dealt with on behalf of member Councils in the State and Federal Industrial Commissions since 2006.

![WALGA Industrial Commission Cases 2006-2014](image)

During the 2016-17 financial year to date, the Employee Relations unit has had an involvement in 18 formal industrial matters. 11 of those matters have been finalised and 7 matters currently remain 'on foot'.

The formal industrial claims were predominantly unfair dismissal claims in the Fair Work Commission but there was a wide variety of different types of claims. There appears to be a slight emerging trend of an increasing number of general protections claims.

No matters has been taken to an arbitrated decision during the 2016-17 financial year to this point.
Employee Relations Support

The volume of employee relations advice that is provided to subscribers by WALGA by email, telephone and face to face continues to increase.

WALGA has actively assisted a number of Local Governments to handle ongoing matters that involve considerable complexity and lengthy historical backgrounds that can often involve more time and preparation than formal industrial claims.

Enterprise Agreements

The Association has been engaged as expert negotiators for 4 Local Governments in their enterprise agreement bargaining processes thus far during the 2016-17 financial year. A number of other Local Governments have also expressed an interest in engaging WALGA to assist them with upcoming enterprise agreement bargaining processes. The Employee Relations unit is also lending support to a number of other Local Governments to help assess their current agreements for compliance, ambiguities and opportunities and to help tailor enterprise agreement document drafts to their specific strategic needs.

Local Government Industry Award

At the May 2015 State Council meeting, State Council resolved to note the four year review of the Local Government Industry Award 2010 (LGIA). WALGA is currently continuing to advocate before the Fair Work Commission (FWC) on behalf of the Local Government sector in Western Australia in relation to the 4 year review modern award process.

The FWC has handed down a number of determinations that have had a direct impact on the LGIA throughout the 4 year review modern award process. A number of these changes have been brought about by determinations on ‘common issues’ that relate to all modern awards not just the LGIA.

These determinations have brought about the following changes to the LGIA:

- Insertion of a clause providing dispute resolution training and overtime from midday Saturday;
- Insertion of a clause clarifying that the definition of ‘Recreations Centres’ in the LGIA is to include golf courses;
- Insertion and amendment of a number of clauses relating to annual leave including dealing with excessive leave accruals (from both an employer and employee perspective), taking annual leave in advance and cashing out of annual leave; and
- Insertion of a new clause relating to time off instead of payment for overtime and a schedule facilitating an agreement between an employer and employee.

It is foreshadowed that further changes to the LGIA will likely be brought about through further determinations made by the FWC primarily on ‘common issues’ in the 4 year review modern award process. Consultation with the Local Government Sector regarding the approach WALGA should take throughout the continuing review process will be ongoing.
RECRUITMENT

The Recruitment Service provides a number of professional placements in a variety of roles within the sector coupled with a significant number of Chief Executive Officer and Senior Executive positions.

The recent assignments are:
- **Chief Executive Officer Recruitment** – from the commencement of the financial year we have recruited/currently recruiting
  - Shire of Mt Marshall
  - Shire of Mt Magnet
  - Shire of Trayning,
  - Shire of Dalwallinu
  - Shire of Serpentine Jarrahdale
  - Shire of Brookton.
- **Executive Manager Finance and Administration** – Shire of Shark Bay
- **Executive Manager Corporate and Community** – Shire of Morawa
- **Manager Engineering Services** – Town of Cottesloe

Further the service is currently processing a number of 457 temporary work skilled and permanent resident visas for Local Governments.

RESOLUTION

Moved: Mayor Tracey Roberts  
Seconded: President Cr Karen Chappel

That the Training, Employee Relations & Recruitment Status Report for September 2016 be received.  

CARRIED
5. Policy Items

Objectives:

- **To review and provide feedback on interim submissions relating to policy issues for feedback to Government**
- **To act as primary policy and advocacy support to the President and the Association.**

5.1 Regional Subsidiaries Submission on Regulatory requirement

By Tony Brown, Executive Manager Governance & Organisational Services

BACKGROUND

The Association has held a long term advocacy position of supporting the ability for Local Governments to establish a regional subsidiary to provide services and carry out projects to and on behalf of their communities.

WALGA’s formal policy position is as follows;

**2.3.2 Regional Subsidiaries**

<table>
<thead>
<tr>
<th>Position Statement</th>
<th>The Local Government Act 1995 should be amended to enable two or more Local Governments to establish a regional subsidiary to provide shared services to and on behalf of their communities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Background</td>
<td>The regional subsidiary model, has the potential to provide improved service delivery to communities on behalf of the constituent Local Governments. There are three key benefits of the regional subsidiary model: the model is flexible, as it is principally governed by a charter, the model’s governance structure enables the appointment of independent expertise and the model provides greater accountability than the traditional Local Government service delivery model.</td>
</tr>
</tbody>
</table>

The regional subsidiary legislation is contained within the *Local Government Legislation Amendment Bill 2014* which passed through the State Parliament on Wednesday 14 September 2016.

The Department of Local Government and Communities are currently considering what regulations may be necessary to ensure the successful introduction of regional subsidiaries in WA.

The Department have distributed a consultation paper to all Local Governments together with WALGA and the LGMA. (Consultation paper is Attachment 4).

The Association’s position in respect to regulations was contained within the submission to the Legislative Council Legislation Committee in 2011 where recommendation 1 was that “*Regulations regarding regional subsidiaries should be minimal with the majority of the regulatory and governance requirements contained in individual regional subsidiary charters.*” The rationale here is to ensure that
the Local Governments responsible for the establishment of a Regional Subsidiary are best placed to continuously monitor the successful delivery of its purpose.

WALGA sent an Info page to all Local Governments and Regional Councils on 15 September requesting feedback on the Department’s consultation paper to assist with WALGA’s Submission.

The Department had initially requested submissions by 30 September 2016, WALGA has obtained an extension until 7 October 2016.

COMMENT

A draft submission was prepared and circulated to the Governance & Organisational Services Policy Team for input and also circulated prior to this meeting for the Executive Committee to consider endorsing the interim submission. The submission is attached below.

RESOLUTION

Moved: President Cr Stephen Strange
Seconded: Mayor Henry Zelones

That the interim submission on Regional Subsidiaries be endorsed.

*The Executive Committee formally acknowledged the work of Mr Tim Lane and Ms Jo Burges in the preparation of the Interim Submission and the Draft Modal Subsidiary Charter respectively.*

6. Next Meeting

The next meeting of the Executive Committee meeting will be held on **29 November 2016** at 170 Railway Parade, Leederville in the WALGA **Wattle** Meeting Room at 1.00pm.

7. Closure

There being no further business, the Chair declared the meeting closed at 12.20pm.