



Agenda

Extraordinary Meeting of Council

Notice is hereby given that a Extraordinary Meeting of Council of Council will be held at Council Chambers, 1 Belgrave Street, Manly, on:

Monday 4 June 2007

Commencing at 7:30pm for the purpose of considering items included on the Agenda.

Persons in the gallery are advised that the proceedings of the meeting are being taped for the purpose of ensuring the accuracy of the Minutes. However, under the Local Government Act 1993, no other tape recording is permitted without the authority of the Council or Committee. Tape recording includes a video camera and any electronic device capable of recording speech.

*Copies of business papers are available at the Customer Services Counter at Manly Council, Manly Library and Seaforth Library and are available on Council's website:
www.manly.nsw.gov.au*

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******* END OF AGENDA *******

TO: Extraordinary Meeting of Council - 4 June 2007
REPORT: Corporate Services Division Report No. 16
SUBJECT: Sustainable Investment for Local Councils
FILE NO:

SUMMARY

Council at the Ordinary Meeting of 21 May 2007 Councillor Pederson presented, as a matter of urgency, a report with a proposal to participate in a pilot program to develop a sustainable investment policy.

INTRODUCTION

Council at the Ordinary Meeting of 21 May 2007 Councillor Pederson presented, as a matter of urgency, a report with a proposal to participate in a pilot program to develop a sustainable investment policy. Due to the requirement that Councils were required to enter into a formal agreement to participate by 15 June 2007, this item was considered as a Matter of Urgency, and Council resolved:

That:

- 1. Given the apparent tight timeframe for making the grant application for the project, that Council give in principle support to the proposed project while seeking a more detailed brief from the proponent to enable staff to assess its merits and value to Council, bearing in mind that Council is already involved in investing in ethical funds.*
- 2. Council be informed of progress on the outcome of the grant application.*
- 3. Council note the deadline of 15 June 2007.*
- 4. An Extra-Ordinary meeting be scheduled for 4 June 2007 to discuss this matter.*

REPORT

The pilot program would involve three (3) Council's (Manly, Sydney City and Byron Shire) working a specialist financial advisor to assist in developing an investment strategy suitable to local government to incorporate social and environmental sustainability criteria into their investment portfolios.

Funding for the project is being made available through the Federal department of Environment and Water and a Mr Simeon Michaels has been appointed through the Australian Greenhouse Office's Community Partnerships Program to manage the project.

The project will resource three Councils to participate in the pilot program which includes:

- Funding of \$15,000 to be divided amongst the participating Councils as a contribution towards staff time and expenses;
- Funding of \$12,000 for a specialist financial advisor to assist participating Councils with the development of their strategy;
- Access to Mr Michael's advice and expertise.

As part of the project each participating Council will receive professional assistance to:

- Develop a sustainable investment policy consistent with their social, environment and investment objectives;
- Communicate with their existing investment managers to enquire whether, and to what extent, their funds meets these criteria;

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- Where practical, alter their portfolio to investments which have similar or superior risk/return profiles and which meet Council's sustainability criteria;
- Monitor the performance of their portfolio.

The project will comprise 3 stages: Foundation; Delivery; and Reporting and Distribution. These stages are outlined in the attached Report.

Mr Michaels has been contacted and advised that Council has resolved, in principle, to participate in the project. Further background information was provided to Mr Michaels including the size of Council's Investment Portfolio; the mix of Investment types, including "Ethical" investments; and that Council has approximately half of its Investment Portfolio placed through Grange Securities in an "Individually Managed Portfolio" (IMP).

Authority for Council to invest is provided through:

- The Local Government Act 1993 – Section 625;
- Local Government Act 1993 – Order (of the Minister)
- Local Government (General) Regulation 2005 – Clause 212
- The Trustee Amendment (Discretionary Investments) Act 1997 – Sections 14A(2), 14C(1) &(2)
- Manly Council Investment Policy - (draft – currently being reviewed)

The Department of Local Government Circular 06/70 sets out the following points that Councils must consider when considering an investment:

- The purpose of the investment
- The desirability of investment diversification
- The nature and risks associated with the investments
- The likely income return and timing of any income return
- The length of the proposed investment
- The costs involved in making the investment
- Other matters as appropriate

Whilst investment in "Sustainable Investments" is not precluded in Council's investment strategy, the main objective of investing surplus funds whilst ensuring their security, is to maximise earnings on investments, and manage the risk. "Sustainable" investing will add a further criteria to be considered when placing an investment.

RECOMMENDATION

That the report regarding Sustainable Investment for Local Councils be received and noted.

ATTACHMENTS

AT- 1 Schedules for Councils 7 Pages

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***** End of Corporate Services Division Report No. 16 *****

Sustainable Investment for Local Councils

D) INTRODUCTION

Local Councils have demonstrated leadership on a wide range of environmental and social welfare issues including climate change, coast and land care and affordable housing. However, Local Councils' investment strategy is often overlooked as a means by which Councils can effect positive social and environmental change.

Nationally, Local Councils hold over \$10 billion in investments..

“Best Practice Investment for NSW Councils”ⁱ states that NSW Councils can have an ethical/sustainable investment policy consistent with fiduciary duty, and the NSW State of the Environment Guidelines now require Councils to apply sustainability measures “throughout all of councils activities.”ⁱⁱ

In this context, the Federal Department of Environment and Water has approved a project to assist Local Councils to incorporate social and environmental sustainability into their investment portfolios.

The Australian Greenhouse Office's Community Partnership's Program has contracted Mr Simeon Michaels to manage the project. Mr Michaels is a previous advisor to the United Nations Environment Programme Finance Initiative and the current Vice President of the Ethical Investment Association.

The project will resource three Councils to participate in a pilot program which includes:

- Funding of \$15,000 to be divided amongst the participating Councils as a contribution towards staff time and expenses
- Funding of \$12,000 for a specialist financial advisor to assist participating Councils with the development of their strategy
- Access to Mr Michaels' advice and expertise

As part of the project, each participating Council will receive professional assistance to:

- Develop a sustainable investment policy consistent with their social, environmental and investment objectives.
- Communicate with their existing investment managers to enquire whether, and to what extent, their fund meets these criteria
- Where practical, alter their portfolio to investments which have similar or superior risk/return profiles and which meet Council's sustainability criteria
- Monitor the performance of their portfolio.

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A report titled “Sustainable Investment for Local Councils” will be distributed nationally to assist other Councils to develop, implement and monitor a Sustainable Investment Strategy.

II) PROJECT ELEMENTS AND STAGES

Stage 1: Foundation Work

The aim is to identify 3 Local Councils who have, or wish to have, a sustainable investment policy. Ideally, participating Councils will show a spread between rural suburban and metropolitan, and between small, medium sized and large.

Councils to be approached at the outset are:

- a. Sydney City Council (large metropolitan)
- b. Manly Shire Council (small suburban)
- c. Byron Shire Council (medium sized rural)

Other Councils also considered for participation should the above be unable to participate

- d. Wollongong City Council (large metropolitan)
- e. Newcastle City Council (large metropolitan)
- f. Shoalhaven Shire Council (medium sized rural)
- g. Gwydir Council (medium rural)
- h. North Sydney Council (medium suburban)

At the conclusion of this stage, three Local Councils will have entered into formal agreements to participate and funding will commence.

Completion of Stage: 15th June 2007

Stage 2: Delivery

- A specialist SRI Financial Advisor will be engaged to assist each Council in this project
- Councils will develop a Sustainable Investment policy consistent with their broader social and environmental objectives, and incorporate it into their existing investment policy document (unless this has already been done)
- A form letter will be sent to Councils’ existing investment managers. The letter will explain the Council’s sustainable investment policy and enquire whether, and to what extent, the investment satisfies the criteria of the policy. In essence, this requires no more than a ‘customized’ disclosure of information already required by Federal FSRA legislation
- The Financial Advisor will assist the Council to assess and evaluate the responses.

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- Where existing investments do not satisfy the Council's sustainable investment policy, the Financial Advisor will locate investments which have similar risk/return profiles but which do meet the Council's criteria have more positive sustainability credentials with a view to investing in those products
- The Financial Advisor will make recommendations on proposed changes to Council's portfolio to bring it into line with the Council's Sustainable Investment policy.
- Performance of the portfolio will be monitored for 12 months.

Completion of Stage: August 2008

Stage 3: Reporting and Distribution:

A report will be produced titled "Sustainable Investment for Local Councils." The report will be of national relevance, and will serve to assist Council's Australia-wide to develop, implement and monitor a Sustainable Investment Strategy

The report will include;

- a) A summary of the legislative framework/constraints on investment by Local Councils within each State
- b) A toolkit/description of the process by which a Local Council can develop, implement and monitor a Sustainable Investment Policy.
- c) Case studies from the 3 local Councils who worked on this project, including data on
 - i) Portfolio prior to the implementation of the Sustainable Investment strategy
 - ii) Analysis of pre-existing investments in the light of the sustainability policy.
 - iii) Description of which investments did and didn't meet the criteria
 - iv) Selection of new investments which did meet the criteria
 - v) Analysis of transition into more sustainable investments
 - vi) Performance data

The report will be distributed to all Local Councils in Australia, and will be publicised via a targeted media campaign.

The Ethical Investment Association will be approached to develop a category within its "SRI Symbol" certification regime. Should this eventuate, Councils who develop and implement a Sustainable Investment Policy are able to achieve recognition via the EIA's certification program.

Other means to encourage the use of the report will be investigated

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IV) ROLES

ROLE OF COUNCIL:

Stage:	Task	Completion Date	Funding at completion
Stage I: Foundation	<ul style="list-style-type: none"> • Reach internal agreement to participate • Sign formal agreement of participation 	15 th June 2007	\$2,000 (each Council)
Stage II: Delivery	<ul style="list-style-type: none"> • Work with financial advisor and project co-ordinator to develop a sustainable investment policy • Formally adopt sustainable investment policy • With assistance of project manager, correspond with existing fund manager to ascertain sustainability of investments • With assistance of Financial Advisor, evaluate responses from fund managers and assess whether they meet Councils' sustainable investment policy • With assistance of Financial Advisor, adjust portfolio to sustainability criteria • Monitor performance for 12 months 	<p align="center">August 2007</p> <p align="center">August 2008</p>	\$2,000 (each Council)
Stage III: Reporting	<ul style="list-style-type: none"> • Write case study and provide performance data to project co-ordinator and financial advisor • Comment on report • Availability to comment in media 	September 2008	\$1,000 (each Council)

ROLE OF FINANCIAL ADVISOR

Stage:	Task	Completion Date	Funding
Stage I: Foundation		15 th June 2007	-

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<p>Stage II: Delivery</p>	<ul style="list-style-type: none"> • Assist Council to develop a sustainable investment policy in line with broader ethos • Evaluate responses from fund managers and assess whether they meet Councils' sustainable investment policy • Where existing investments do not satisfy the Council's sustainable investment policy, research and identify investments which have similar risk/return profiles but which do meet the Council's criteria • Make recommendations on proposed changes to their portfolio to align with Council's Sustainable Investment policy • Monitor portfolio for 12 months 	<p align="center">August 2007</p> <p align="center">August 2008</p>	<p>\$10,000 (total) NB: The Financial Advisor's time under this grant is sufficient to complete the task, but is nevertheless limited. If Councils wish to utilise the Financial Advisor in excess of the time allowed by this grant they will need to negotiate with them separately</p>
<p>Stage III: Reporting</p>	<ul style="list-style-type: none"> • Write up brief contribution for report • Comment on report • Availability to comment in media 	<p align="center">September 2008</p>	<p>\$2000</p>

ROLE OF PROJECT CO-ORDINATOR:

<p>Stage:</p>		<p>Completion Date</p>
<p>Stage I: Foundation</p>	<ul style="list-style-type: none"> • Identify 3 Councils for participation • Develop Project Proposal for each Council which sets out: <ul style="list-style-type: none"> ○ The outcomes, funding and support they will receive. ○ The benefits from SRI, ○ The deliverables required under this partnership. <p>Draft formal agreement for each Council's participation</p>	<p>15th June 2007</p>

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<p>Stage II: Delivery</p>	<ul style="list-style-type: none"> • Project-Manage process • Identify Suitable Financial Advisor and negotiate participation • Consult with Councils and Financial Advisor to develop sample Sustainable Investment policy consistent with each Council's broader social and environmental objectives. • Develop form letter to be sent to existing investment managers as above • Assist throughout the 12 months where required 	<p align="center">August 2007</p> <p align="center">August 2008</p>
<p>Stage III: Reporting</p>	<ul style="list-style-type: none"> • Collate information from Councils and financial advisor/s for report • Prepare report as described above • Seek feedback on report from DEH, Councils and Financial Advisor • Negotiate Symbol category with EIA • Assist DEW with media campaign • Assist DEW to distribute report 	<p align="center">September 2008</p>

V) BENEFITS FOR PARTICIPANTS

- **Cities for Climate Change Program:** The project compliments the objectives of Cities for Climate Change
- **Local Councils more effective:** Assists Local Councils to bring their investment policy into line with their broader social and environmental objectives and responsibilities.
- **Growth of SRI:** There is currently a total of \$11.98 billion dollars invested in SRI in Australia (2006 SRI Benchmarking Survey) Local Councils invest \$10 billion nationally. If, as a result of the resources and example provided by this project, a significant proportion of Local Councils adopt sustainable investment strategies, it will account for a significant uplift in the total funds invested in SRI
- **Improved Corporate Conduct/ Positive Social/Environmental Outcomes:** The growth of the SRI Industry is inextricably linked with the progress of

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business towards CSR, and with the capitalization of environmentally friendly technologies and projects.

- **Thought Leadership and Disclosure:** The project demonstrates thought leadership, and facilitates a high level of debate and transparency on investment and environmental issues

VII) CONTACT

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ⁱ NSW Local Government Investments Best Practice Guide, developed by the NSW Local Government Managers Association – Finance Professionals Special Interest Group. The Guide can be found at <http://lgfp.lgmansw.com.au/images/uploads/Investment%20Best%20Practice%20Guidelines%20-%20Final%20Version.pdf>

ⁱⁱ From Environmental Guidelines; State of the Environment Reporting by Local Government, 1999 Foreword by Harry Woods, Local Government Minister.
<http://www.dlg.nsw.gov.au/dlg/dlghome/documents/information/soe99.pdf>