



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 24 September 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 - 24 September 2007
REPORT: Corporate Services Division Report No. 32
SUBJECT: Sustainable Investment Policy for Local Councils
FILE NO:

SUMMARY

Council at an Extra-ordinary Meeting held on 4 June 2007 resolved to participate in a pilot program to develop a sustainable investment policy for local councils.

REPORT

Manly Council is participating in a pilot program with two (2) other councils (Sydney City and Byron Shire), funded through the Federal Department of Environment and Water and the Australian Greenhouse Office's Community Partnerships Program, to develop an Investment strategy suitable to local government to incorporate social and environmental sustainability criteria into their investment portfolios.

Working a specialist financial advisor council will receive professional assistance to:

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

Following meetings with the Project Co-ordinator a draft Sustainable Investment "Policy" has been developed for consideration by Council (attached). (Whilst Council is required to provide 28 days notice for amending or adoption of a new Policy, this would not prevent Council from writing to Council's fund managers / financial services providers enquiring whether investments satisfy the criteria of the (draft) policy).

Divisional Manager Corporate Services Comment

The Department of Local Government Circular 06/70 sets out the following criteria 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

Further, in placing investments, Council must comply with:

- The Local Government Act 1993 – Section 625;
- Local Government Act 1993 – Ministerial Investment Order
- Local Government (General) Regulation 2005 – Clause 212
- The Trustee Amendment (Discretionary Investments) Act 1997

Corporate Services Division Report No. 32 (Cont'd)

- Manly Council Investment Policy

The draft "Sustainable Investment Policy" as presented, whilst requiring some additional administrative work to be undertaken in checking current and new investments for compliance with the policy, this should not be onerous.

There does not appear to be anything in the draft Policy which would conflict with the Local Government Act and Regulations, the Ministers Investment Order, Council's Investment Policy (which is currently being reviewed) or the Trustee Amendment (Discretionary Investments) Act.

If a conflict or other issue were to arise in the placement of investments, compliance with the Act and Regulations, Department of Local Government policy directions and Ministers Investment Order would have precedent.

RECOMMENDATION

That Council give public notice of its intention to adopt the draft Sustainable Investment Policy in accordance with the requirements of the Local Government Act, 1993.

ATTACHMENTS

AT- 1 Draft Sustainable Investment Policy 5 Pages

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***** End of Corporate Services Division Report No. 32 *****

**Corporate Services Division Report No. 32 - Sustainable Investment Policy for
Local Councils
Draft Sustainable Investment Policy**

POLICY No. S. 99

POLICY TITLE SUSTAINABLE INVESTMENT POLICY

Date Adopted ... September 2007
Date of Review

Purpose

Aim of the Policy is to provide guidelines for Sustainable Investment.

Policy Objectives

Socially and Environmentally Sustainable Investments are those which:

- Avoid investment in the socially and environmentally harmful activities
- Direct investment towards the socially and environmentally productive industries

Background

Manly Council has demonstrated leadership on a wide range of environmental and social welfare issues. The opportunity now exists to extend this leadership to the Council's investment policy.

"Best Practice Investment for NSW Councils"ⁱ states that NSW Councils can have an ethical/sustainable investment policy consistent with fiduciary duty,. The NSW State of the Environment Guidelines now require Councils to apply the principles of Environmentally Sustainable Development (ESD) "throughout all of councils activities."ⁱⁱ

Manly's leadership has included the adoption of an Ethical Charter and inclusion of sustainability criteria in its Purchasing and Tendering Policy Guidelines.

Manly's Ethical Charter states:

The Charter is an umbrella over Council's implementation policies to ensure that Council's business and operations abide by the Charter's principles. Council is committed to supporting the principles of Ecologically Sustainable Development (ESD) as defined in the Local Government Act 1993 and ethical business practices.

Council believes that sustainability must be the guiding principle of our business, requiring policies that meet the needs and aspirations of the present generation without compromising the opportunity of future generations to fulfill their needs and aspirations.

Manly's Tendering Policy includes a Sustainability Checklist to guide purchasing decisions. The policy provides that Council may exercise a price preference of up to 10% to encourage the purchase and use of recycled or environmentally preferable products – the "sustainability preference".

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Draft Sustainable Investment Policy

Criteria include

- “Value for money” ie the long term performance of goods
- Waste reduction (source and disposal of goods)
- Energy efficiency and greenhouse reduction
- Water use
- Environmental Record of Service Providers

Council makes it clear that it does not wish to be associated with companies who pursue environmentally destructive practices

Investments need be given separate treatment due to their:

- **Significance:** investment decisions are crucial to Council’s ability to pursue its programs and return from a sustainably invested policy must be at least on par with a conventional portfolio.
- **Complexity:** the placement of investments have far-reaching social and environmental implications.

In addition to its own policy framework, Manly is able to consider and adapt elements of:

- Ecologically Sustainable Development as defined in the Local Government Act
- The internationally supported United Nations “Principles of Responsible Investment” (PRI), The Equator Principles, and Earth Charter
- Sustainable Investment Policies of other social organizations

Key issues for the policy are:

- Sustainable investments to meet all legislative requirements and all requirements of Manly’ s Investment Policy (ie comply with prudent investor rule, deliver same or better risk/return/diversification profiles)
- Investment policy to be in line with broader Council values
- Policy to set clear expectations for Council’s external investment managers
- The policy to be practical to implement and maintain

NB: For the purpose of this discussion, the terms SRI, Ethical Investment and Sustainable investment are interchangeable

Sustainable Investment Policy.

1. Where a sustainable investment opportunity competes with other instruments, should the financial analysis be consistent, preference will be given to investment that complies with this policy to the greatest extent

This is to ensure the investment performance is not compromised. Combined with paragraph 3, this provision means that if a proposed investment does not comply with the policy, Council Officers are required to search for alternatives which comply, or comply to a greater extent. However, if one cannot be found, Council is still able to invest in the “unsustainable” or “less sustainable” investment.

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The paragraph recognises that there are a limited number of SRI products available to Councils, and that it is unrealistic to expect the portfolio to be 100% sustainable at this stage. However, the policy sends a strong signal to the market that sustainable investment products are in demand, and if supplied, will attract investment. Over time the market will respond, and this directs the flow of capital towards sustainable projects and companies.

In considering the sustainability of an investment, Council will consider both

- **the investment product** (ie the social and environmental sustainability of the underlying assets)
- **the investment provider** (ie the social and environmental record and reputation of the organisation with whom the funds are placed)

This is particularly important for Local Councils as they usually have a higher proportion of funds in “cash”. Often with cash management accounts, it is impossible to know where the money actually “goes” As such the reputation and sustainability of the institution is more important than the product itself. For example, Council may find two term products with equal interest rates, but one is with a Credit Union with close ties to the community, another with an international merchant bank with Malaysian logging companies as key customers.

Giving weight to the sustainability of the provider also rewards companies who are acting as responsible corporate citizens, and encourages those who aren't to improve their performance. It also lends “teeth” strength to initiatives such as the “Reputation Index”

3. Council's investment officers will actively seek, and stay informed of, sustainable investment products and opportunities. Council may engage with providers on sustainability issues relevant to this policy.

See comments above. This is one of the most important functions of the policy, and takes Manly into a leadership position on this issue.

4. Council officers will report monthly on the degree of compliance achieved by the portfolio by listing, for each investment, whether it:
 - Complies with the policy
 - Substantially complies with the policy
 - Does not comply with the policy

When placing a new investment, Council Officers will report on the degree to which the investment meets this policy, and, should it not comply, attempts that have been made to find investments that comply.

Transparency and reporting are in line with the rest of the investment policy and other Council policies. This provision recognises that Council will not always be able to find compliant investments. As investment turnover is low, and information is sourced from the provider, this provision should not be onerous

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5. Defining “Sustainable”

Socially and Environmentally Sustainable Investments are those which:

- a. Avoid investment in the socially and environmentally harmful activities listed below, and/or
- b. Direct investment towards the socially and environmentally productive industries listed below.

Environmentally Harmful Activities:

- Production of pollutants, toxins and greenhouse gases
- Habitat destruction, especially destruction of forests, marine eco-systems, wetlands and grasslands, and other endangered eco-systems.

Socially Harmful Activities:

- Abuse of Human Rights and Labour Rights
- Involvement in bribery/corruption
- Production or supply of armaments

Environmentally Productive Activities:

- Resource efficiency, especially water and energy efficiency
- Renewable energy
- Waste and emissions reduction

Socially Productive Activities

- Provision of housing, especially affordable housing
- Fair trade and provision of a living wage
- Human health and aged care
- Equal Opportunity Employers, and those that support the values of indigenous peoples and minorities.
- Provision of housing, especially affordable housing

**Corporate Services Division Report No. 32 - Sustainable Investment Policy for
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Draft Sustainable Investment Policy**

6. This policy applies to new and rolled over investments

Many of Council's investments are for a fixed term, and it would be costly to unwind these investments. Therefore this policy only applies to new investments, and investments which are due to be rolled over.

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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>