



Shire of Dardanup

A G E N D A

AUDIT COMMITTEE MEETING

To Be Held

Wednesday, 18 September 2019
Commencing at 1.30pm

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

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NOTICE OF AN AUDIT COMMITTEE MEETING

Dear Committee Member

The next Audit Committee Meeting of the Shire of Dardanup will be held on Wednesday 18 September 2019 in the Council Chambers, Shire of Dardanup - Administration Centre Eaton, 1 Council Drive, Eaton - commencing at 1.30pm.



MR PHIL ANASTASAKIS
Acting Chief Executive Officer

Date: 11 September 2019

Note: If interested persons would like to make comment on any items in this agenda, please email records@dardanup.wa.gov.au or hand deliver written comment to the Shire of Dardanup – Administration Centre Eaton, 1 Council Drive, Eaton. To be included in the meeting comments are to be delivered no later than 48 hours prior to the meeting.

The Chief Executive Officer will use his discretion as to whether the written comments are relevant and applicable to the meeting before approving their inclusion in the meeting.

TABLE OF CONTENTS

1	DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS	1
2.	RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED	1
2.1	Attendance	1
2.2	Apologies	1
3.	PETITIONS/DEPUTATIONS/PRESENTATIONS	2
4.	CONFIRMATION OF MINUTES OF PREVIOUS MEETING.....	2
4.1	Audit Committee Meeting Held 17 July 2019.....	2
5.	ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED.....	2
6.	QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN	2
7.	DECLARATION OF INTEREST	2
8	REPORTS OF OFFICERS AND COMMITTEES	3
8.1	Title: Western Australian Auditor General Performance Reports.....	3
8.2	Title: Update on the Financial Management Systems Review Actions.....	6
8.3	Title: Investment Strategy.....	10
8.4	Title: Insurance Review.....	16
9.	ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN	24
10.	NEW BUSINESS OF AN URGENT NATURE.....	24
11.	MATTERS BEHIND CLOSED DOORS	24
12.	CLOSURE OF MEETING.....	24

COMMITTEE MEMBERSHIP:

- CR P ROBINSON - CHAIRPERSON
- CR J DOW - DEPUTY CHAIRPERSON
- CR. T G GARDINER
- CR. M T BENNETT
- CR. J LEE

COUNCIL ROLE

Advocacy	When Council advocates on its own behalf or on behalf of its community to another level of government / body /agency.
Executive/Strategic	The substantial direction setting and oversight role of the Council eg. Adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
Legislative	Includes adopting local laws, town planning schemes and policies.
Review	When Council reviews decisions made by Officers.
Quasi-Judicial	<p>When Council determines an application/matter that directly affects a person's rights and interests. The Judicial character arises from the obligations to abide by the principles of natural justice.</p> <p>Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg: under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</p>

DISCLAIMER

"Any statement, comment or decision made at a Council or Committee meeting regarding any application for an approval, consent or licence, including a resolution of approval, is not effective as an approval of any application and must not be relied upon as such.

Any person or entity that has an application before the Shire must obtain, and should only rely on, written notice of the Shire's decision and any conditions attaching to the decision, and cannot treat as an approval anything said or done at a Council or Committee meeting.

Any advice provided by an employee of the Shire on the operation of a written law, or the performance of a function by the Shire, is provided in the capacity of an employee, and to the best of that person's knowledge and ability. It does not constitute, and should not be relied upon, as a legal advice or representation by the Shire. Any advice on a matter of law, or anything sought to be relied upon as a representation by the Shire should be sought in writing and should make clear the purpose of the request."

SHIRE OF DARDANUP**AGENDA FOR THE SHIRE OF DARDANUP AUDIT COMMITTEE MEETING TO BE HELD ON WEDNESDAY, 18 SEPTEMBER 2019, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 1.30PM.****1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The Chairperson to declare the meeting open, welcome those in attendance and refer to the Acknowledgement of Country; Emergency Procedures; and the Disclaimer and Affirmation of Civic Duty and Responsibility on behalf of Councillors and Officers:

Acknowledgement of Country

The Shire of Dardanup wishes to acknowledge that this meeting is being held on the traditional lands of the Noongar people. In doing this, we recognise and respect their continuing culture and the contribution they make to the life of this region by recognising the strength, resilience and capacity of Wardandi people in this land.

Affirmation of Civic Duty and Responsibility

Councillors and Officers of the Shire of Dardanup collectively declare that we will duly, faithfully, honestly and with integrity fulfil the duties of our respective office and positions for all the people in the district according to the best of our judgement and ability. We will observe the Shire's Code of Conduct and Standing Orders to ensure efficient, effective and orderly decision making within this forum.

Committee members acknowledge that only the Chief Executive Officer or a member of the Shire of Dardanup staff appointed by the Chief Executive Officer is to have contact with consultants and suppliers that are appointed under contract to undertake the development and implementation of projects.

The exception to this Policy is when there is a meeting of the committee or working group with the consultant and the Chief Executive Officer or the Chief Executive Officer's representative is present.

Members of committees acknowledge that a breach of this Policy may result in a request to Council to have them removed from the committee.

Emergency Procedure

In the event of an emergency, please follow the instructions of the Chairperson who will direct you to the safest exit route. Once outside, please proceed to the Assembly Area points located to the western side of the front office car park near the skate park and gazebo where we will meet (and complete a roll call).

2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED

2.1 Attendance

2.2 Apologies

3. PETITIONS/DEPUTATIONS/PRESENTATIONS

None.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

4.1 Audit Committee Meeting Held 17 July 2019

OFFICER RECOMMENDED RESOLUTION

THAT the Minutes of the Audit Committee Meeting held on 17 July 2019, be confirmed as true and correct subject to no / the following corrections:

5. ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED

None.

6. QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

None.

7. DECLARATION OF INTEREST

“Members should fill in Disclosure of Interest forms for items in which they have a financial, proximity or impartiality interest and forward these to the Presiding Member before the meeting commences.”

Key Management Personnel (which includes Elected Members, CEO and Directors) are reminded of their requirement to disclose biannually transactions between Council and related parties in accordance with Council Policy CP039.

8 REPORTS OF OFFICERS AND COMMITTEES
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8.1 Title: Western Australian Auditor General Performance Reports

<i>Reporting Department:</i>	<i>Corporate & Governance Services</i>
<i>Reporting Officer:</i>	<i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995</i> <i>Local Government (Audit) Regulations 1996</i>

Overview

This report provides the Audit Committee with an understanding of the ‘performance audits’ that are conducted by the Auditor General. It also provides assurance to the Audit Committee of the practical approach being undertaken by Council staff in reviewing and comparing the recommendations arising from the performance audits against current practices and policies.

Background

The *Local Government Amendment (Auditing) Act 2017* was proclaimed on 28 October 2017. The purpose of the Act was to make legislative changes to the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General.

The Act also provides for a new category of audits known as ‘performance audits’ which examine the economy, efficiency and effectiveness of any aspect of a local governments operations. These audits are reported separately to Parliament when they are completed.

Two types of performance audits are conducted:

- Broad Scope – which focus on the effectiveness and efficiency of larger programs, projects and services; and
- Narrow Scope – which have a tighter focus and may assess internal controls, compliance with legislation, policy and good practice, and information systems.

Deciding what to audit is a key part of the Auditor General’s independence and is not subject to direction from Parliament or Government. The Auditor General has a topic selection framework to make sure that the topics are objective, robust and transparent. Entities that are selected to be included in the performance audit are contacted directly at the start of the audit process.

Unlike financial audits, which are paid for by each entity to cover the cost of doing the audit, performance audits are funded by Parliamentary appropriation. The number and size of performance audits is therefore determined by the level of appropriation received and the priority given to these by Parliament.

The findings of these audits are likely representative of issues in other local government entities that were not part of the sample. The Auditor General encourages all entities, not just those audited, to periodically assess themselves against the risks and controls noted in each of the performance audits when published.

Legal Implications

Local Government Act 1995
Local Government (Audit) Regulations 1996 (as Amended):

Reg 17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.

Strategic Community Plan

Strategy 1.1.2 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Strategy 1.1.3- Maintain best practice governance systems and practices. (Service Priority: Moderate)

Strategy 1.3.6 - Establish a Risk Management Governance Framework for the Shire of Dardanup. (Service Priority: High)

Environment - None.

Precedents - None.

Budget Implications - None.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation.

Tier 2 – 'Low' or 'Moderate' Inherent Risk.

Risk Event	Not considering the risks, controls and recommendations arising from the Auditor General's performance audits.
Risk Assessment Context	Strategic
Risk Theme Profile	3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

Consequence Category (Risk Effect/Impact)	Legal and Compliance
Consequence	Moderate (3)
Likelihood	Rare (1)
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)

Consequence Category (Risk Effect/Impact)	Reputational
Consequence	Moderate (3)
Likelihood	Unlikely (2)
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)

Risk Action Plan (treatment or controls proposed)	Not Required for 'Low' or 'Moderate' rating.
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As Council is taking a pro-active and considered approach by undertaking comparisons between the performance audit reports and Council best practice and policies the overall Risk Assessment for this report is considered low.

Officer Comment -

The Auditor General Performance Audit Reports provide an opportunity to examine how well the Shire of Dardanup's policies, practices and procedures perform against the findings.

The Compliance Officer is responsible for convening meetings with key staff that have an interest relevant to the performance audit topic selection. These informal meetings are structured so that the auditor findings and recommendations are compared to current practices and policies. Where necessary, further actions for improvement may be identified and assigned to responsible officers.

In June 2019, the Auditor General released a performance audit report on 'Verifying Employee Identity and Credentials' (Appendix AUD: 8.1A) which examined controls for verifying the identity and credentials of new employees and monitoring the status of existing employees.

The report covered a sample of local government entities within Western Australia. The audit found that all entities needed to improve their practices for screening employees. It identified many instances where local government entities were not checking the identity, right to work in Australia, employment history, qualifications and criminal backgrounds of new and existing employees.

Appendix AUD: 8.1B is provided to the Audit Committee to illustrate how the Shire of Dardanup compares to the Auditor General performance audit on 'Verifying Employee Identity and Credentials'. If not addressed accordingly, these control weaknesses could have significant impact on the quality of employees in, and the integrity of, the Shire of Dardanup.

This process will continue to be applied to future performance audits released by the Auditor General. The recommendations will also be taken into consideration when performing internal audits that have been highlighted as part of the Internal Audit Work Plan.

The analysis of the Auditor General Performance Reports in conjunction with the Internal Audit Work Plan provides Council with a greater level of confidence in internal control practices and processes throughout Council operations.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit Committee receive this September 2019 report on the Western Australian Auditor General Performance Audits.

8.2 Title: Update on the Financial Management Systems Review Actions

Reporting Department:	Corporate & Governance
Reporting Officer:	Mr Phil Anastasakis - Deputy Chief Executive Officer Mrs Cindy Barbetti - Compliance Officer
Legislation:	Local Government Act 1995 and Local Government (Financial Management) Regulations 1996

Overview

This report provides the Audit Committee with an update on the implementation of the Financial Management Systems Review (FMSR) actions.

Background

In accordance with regulation 5(2)(c) Local Government Financial Management Regulation 1996, the Chief Executive Officer is required to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (not less than once in every 3 financial years) and report to the Local Government the results of those reviews.

This review was undertaken by AMD Chartered Accountants in February 2019 and the report, along with management comments were presented to the Audit Committee meeting held on 6 March 2019.

At the Audit Committee Meeting of the 17 July 2019 and subsequent Council meeting of 14 August 2019, the following was resolved [249-19]:

THAT Council acknowledges that all actions arising from the February 2019 Financial Management Systems Review, except 7.2.1 Code of Conduct, have been completed.

This report is provided to the Audit Committee meeting as an update by management on the current status of the only outstanding action resulting from the review, being 7.2.1 Code of Conduct.

Legal Implications

Local Government Act 1995

Local Government (Financial Management) Regulations 1996 (as Amended):

- (2) The CEO is to —
- c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.

Strategic Community Plan

Strategy 1.1.2- Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Strategy 1.1.3- Maintain best practice governance systems and practices. (Service Priority: Moderate)

Environment - None.

Precedents

The previous review was undertaken by Butler Settineri in 2015 and presented to the Chief Executive Officer on 13 January 2016. The scope of the previous review was to compare the financial policies adopted by the Shire with the minimum requirements of the Local Government Act 1995 and its associated regulations and to determine the extent to which the stated policies and procedures as adopted by the Shire have been implemented by the Chief Executive Officer.

Budget Implications

The annual budget provides sufficient expenditure allocation for consultancies to cover the cost of the next review which will capture the period from January 2019 to December 2021.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance - None.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the Officer recommendation.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.

Risk Event	Financial Management System review not being undertaken in accordance with regulation 5(2)(c) Local Government Financial Management Regulation 1996 and not less than once in every 3 financial years.
Risk Assessment Context	Strategic
Risk Theme Profile	3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)
Consequence Category (Risk Effect/Impact)	Legal and Compliance
Consequence	Moderate (3)
Likelihood	Rare (1)
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)
Risk Action Plan (treatment or controls proposed)	Not Required for ‘Low’ or ‘Moderate’ rating.

As the Financial Management System review was completed by an independent professional third party recognised accounting firm and delivered within the required timeframe (not less than once in every 3 financial years) the Risk Assessment for this report is considered low.

Officer Comment

The Code of Conduct (Item 7.2.1) is the only outstanding action from the February 2019 Financial Management Systems Review. The auditor recommendation and management comment is provided in the table below:

Ref	Issue	Risk Rating	Proposed Completion Date	Status
7.	Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations			
7.2.1	<p>Code of Conduct The Shire Code of Conduct for Council Members, Committee Members and Staff was last reviewed and adopted by Council on the 6 November 2013.</p> <p>Auditor Recommendation We recommend the Code of Conduct be reviewed and subsequently communicated to current Council Members, Committee Members and Staff.</p> <p>Management Comment Management acknowledges and accepts the recommendation. Council staff have been working with Councillors and WALGA during 2018 to review the Code of Conduct. This was put on hold pending the finalisation of the Local Government Act review.</p>	Minor	31 December 2019	In Progress

The Auditor finding reported that the Code of Conduct had last been reviewed and adopted by Council on 6 November 2013. This date was the last time it went to Council in an adopted format, management have advised that the Code of Conduct has been reviewed since then.

In November 2018, Council considered a full review of the Code of Conduct at a workshop held with WALGA representative and management in attendance. On advice from James McGovern from WALGA, it was agreed that the review be held off pending the review of the Local Government Act 1995.

The Local Government Legislation Amendment Act 2019 will introduce some significant changes in the way Codes of Conduct are adopted and managed, in the following ways;

- The current Rules of Conduct Regulations will become mandatory content of a Code of Conduct, which must be adopted by all Local Governments. The Code will apply to Council Members, Committee Members and election candidates;
- Allegations of breach of a Rule will still be referred to the Local Government Standards Panel;
- A Code of Conduct can contain content in addition to the Rules of Conduct, and any allegations of a breach of Code content (i.e. not the Rules) will be dealt with by the Local Government;
- The Chief Executive Officer will be responsible for determining the Code of Conduct for employees. The Bill will also change the rules relating gifts and Chief Executive Officer's will in future use the Code as a means of describing employees' responsibilities to accept and declare gifts received in association with their employment.

Due to the substantial changes described above, it was therefore decided that the current Code of Conduct review be deferred until the new legislation relating to Codes of Conduct is passed.

At the time of compiling this report, the latest advice from the Department of Local Government is that further consultation will take place on the model Codes of Conduct. It is therefore expected that this reform won't come into effect until early 2020. An updated officer report on the status of the Code of Conduct reform will be presented to the next Audit Committee meeting scheduled for December 2019.

Council Role - Legislative.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit Committee:

- 1. Receive the September 2019 update report on the implementation of actions required from the findings of the February 2019 Financial Management Systems Review.**
- 2. Requests that Council acknowledges that action 7.2.1 Code of Conduct, will remain outstanding until 2020 when the Department of Local Government releases model Codes of Conduct.**

8.3 Title: Investment Strategy

<i>Reporting Department:</i>	<i>Corporate & Governance</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis - Deputy Chief Executive Officer</i> <i>Mrs Natalie Hopkins – Manager Financial Services</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Financial Management) Regulations 1996</i>

Overview

This report provides the Audit Committee with an investment strategy intended to guide and influence Council's investment portfolio decisions.

Background

At the Special Council Meeting dated 26 July 2018 Council adopted Council Policy CP036 – Investment Policy which expanded on the previous Investment Policy adopted in August 2017. Since the adoption of the Investment Policy just over 12 months ago, management has reviewed the Policy with the intention of introducing an investment strategy specifically formulated for the Shire of Dardanup.

In May 2019 Council staff engaged Amicus Advisory Pty Ltd, an independent investment advisory firm that has provided investment strategies and advice for over 42 local governments, several in Western Australia. The scope of the strategy explicitly stated that the investment strategy should complement Council's existing investment strategy whilst maximising investment opportunities and return on investments.

In practice, the way an Investment Policy and an Investment Strategy normally interact is as follows:

- The policy is reviewed annually and sets the risk parameters the Council is willing to take which are determined by the prevailing legislation and the investment portfolio risk guidelines contained within the Investment Policy.
- The strategy determines what investments are made and when, depending on market conditions while operating within the confines of the Investment Policy at all times. The purpose of this strategy is to look at alternative methods of increasing the return on Council's investments, primarily interest earned on investments and term deposits.

Amicus Advisory has provided management with a comprehensive Investment Strategy Formulation Report. A separate Recommendations Summary is provided herein (Appendix AUD: 8.3) which outlines several suggested changes and recommendations to Council's existing Investment Policy, and includes suggested Investment Strategy Options to achieve the desired outcomes for Council's investment portfolio. It should be noted not all of the suggested changes and recommendations are supported by management and are therefore not included in the Officer's Recommendations.

In summary, management have highlighted the following supported recommendations from the report as suggested changes to Council's Investment Policy '*CP036 – Investment Policy*' to be included when Council undertakes a formal review of the policy.

- *Suggested Changes and Additions to Existing Investment Policy – Supported by management:*

1. Expand the definition of credit ratings to also include ratings by Moody's and Fitch.

Management Response:

Council's current Investment Policy 'CP036 – Investment Policy' includes ratings by Standard & Poor's (S&P). Both Moody and Fitch are held in a similar high regard as S&P and can be utilised if there is no S&P rating available on an investment or issuer.

2. Use only long-term ratings as opposed to a combination of short and long-term ratings to avoid confusion which, as advised by Amicus Advisory's experience with other Councils, can arise in practice.

Management Response:

Council's current Investment Policy 'CP036 – Investment Policy' includes both Long Term and Short Term Ratings. Confusion can arise if a short term rating does not automatically map to a long term rating and can cause illogical outcomes when an instrument moves from greater than 1 year (long term investment) to less than 1 year (short term investment). It should be noted that the Monthly Statement of Financial Activity reported to Council includes graphical representation of Long Term ratings only.

3. Expand the "AA" rated policy band to "AA and Major Banks" to safeguard Council against a situation where the Major Banks are downgraded (most likely as a group because of a downgrade to either Australia's sovereign rating, the sovereign's support for the banking system or a change in S&P's view of the risks in the whole Australian banking environment).

Management Response:

Council's current Investment Policy 'CP036 – Investment Policy' includes only 'AA' banks which have a rating investment grade of Very High (Very Low Credit Risk) in Amicus Advisory Ratings Comparison Table. Expanding the 'AA' rating to include the term 'Major Banks' will protect Council against policy breach in the event a 'major bank' is downgraded from 'AA' Very High standard to, for example, 'A+'. Major Bank can further be defined as ANZ, CBA, NAB and Westpac.

4. Expand the policy to include fixed and floating rate notes in addition to term deposits.

Management Response:

Council's current Investment Policy 'CP036 – Investment Policy' is currently restricted to the following Approved Investments:

- Interest Bearing Deposits with Authorised Deposit Taking Institutions (ADI's);
- Commercial Bank Bills; or
- Guaranteed Bonds by the Commonwealth Government;

Noting that all of Council's investments over the last 12 months have been through ADI approved term deposits.

Bank issued Floating Rates Notices (FRNs) is a security that pays a coupon linked to a variable benchmark. Generally the FRN pays a coupon set as a margin above the bank bill swap rate. The primary advantage of FRN's over term deposits is their tradability where they can be sold at market prices, and monies realised within two days.

5. Consider adding provisions within the policy for rectification of breaches to policy and “grandfathering” of investments;

Management Response

Council’s current Investment Policy ‘CP036– Investment Policy’ does not include a ‘grandfathering’ provision which protects Council against breaches of its investment policy whereby that breach is outside the control of Council. Specifically Grandfathering applies to any investment that:

- Was made ineligible by a previous change to the external legislation if that change allows for grandfathering;
- Is made ineligible as a result of a change to the adopted Investment Policy;
- Is in breach of the Investment Policy due to a change of circumstance (eg because the investment has been downgraded or has had its credit rating withdrawn post purchase); and
- Is in breach due to a change in portfolio size or composition (eg because the overall portfolio size has decreased and as a result the percentage of total portfolio limit which applies to individual remaining investments increases and therefore causes a breach.

The following Strategy Recommendations form part of both Amicus Advisory’s Recommendation Summary and Investment Strategy Formulation Report. The report notes that returns can be enhanced by taking a moderate and conservative level of risk in the areas of credit, interest rate and maturity, or a combination of these, depending on the prevailing market conditions and the relative value of the investment opportunity available.

On review of the Investment Policy to be presented to Council at a later date, the following strategies will guide the Investment Policy and decision making process.

- *Suggested Investment Strategy Options - Supported by management*

- **Strategy 1 - Short Dated High Quality Term Deposits**

Management Response:

This strategy is the simplest lowest risk, lowest return option.

- **Strategy 2 - Enhance Returns through increased Interest Rate Risk.**

Management Response

This strategy has worked well for many Councils, including the Shire of Dardanup, who invested in fixed rate term deposits because both credit margins and interest rates have fallen over the past few years. Councils were able to log in high rates available which provided a performance benefit. In the current market it is expected interest rates will continue to fall in the short term. In the long term interest rates are currently at historic lows and should expect to rise in the future.

- **Strategy 3 - Enhance Returns through Increased Maturities.**

Management Response

This strategy has benefited councils who were able to lock in outperformance of the BBSW rate by purchasing Floating Rate Notices (FRNs). These FRN’s have appreciated in value because the credit spreads have been stable. The same strategy can be executed via longer dated floating rate term deposits, except they may not be offered the same rate of ADI’s and term deposits do not provide a contingent source of liquidity in the long term.

- **Strategy 4 - Reducing the amount of cash in the “At Call” accounts if liquidity considerations allow.**

Management Response:

Consideration is given to Council’s cash flow requirements at the time of investment.

- **Strategy 5 - Matching known liabilities over the next 12 months**

Management Response:

This strategy incorporates the investment of additional portfolio monies to match known liabilities. This can be done in the form of fixed or floating investments but the concept is to take advantage of the maximum investment term possible.

- **Strategy 6 - Considering investing in fixed rate term deposits to hedge against future interest rate reductions.**

Management Response

Whilst not advocated directly by Amicus Advisory due to the low yield rate return, management considers fixed rate term deposits dependent on the market conditions as an effective strategy pursuant to low risk low return model.

This report has been presented to the Audit Committee for endorsement. If the recommendations are supported by the Audit Committee, management will review *CP036 Investment Policy* and present this to Council for endorsement in the near future.

Legal Implications

Local Government Act 1995 – s. 6.14

6.14. *Power to invest*

- (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

Regulation 19 - Investments, control procedures for

Regulation 28 - Investment information required in notes

Regulation 49 – Invested money, information about in annual financial report

The Trustees Amendment Act 1977 – Part III Investments

Australian Accounting Standards

Strategic Community Plan

Strategy 1.1.3- Maintain best practice governance systems and practices. (Service Priority: Moderate)

Strategy 1.3.4 - Monitor and develop new revenue streams. (Service Priority: High)

Environment - None.

Precedents - None.

Budget Implications

The 2019/20 Annual Budget contains a provision for Interest Revenue for the Municipal Fund of \$60,000 and Reserve Fund Interest of \$312,957. Interest earned on Trust Fund accounts is returned to the funds held in Trust. Maximising interest revenue is critical in reaching budgeted interest revenue forecasts.

Budget – Whole of Life Cost - None.

Council Policy Compliance - None.

Risk Assessment -

The Risk Management Governance Framework has been considered in arriving at the Officer Recommendation.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.

Risk Event	That an adequate Investment Strategy is not considered.
Risk Assessment Context	Strategic
Risk Theme Profile	3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

Consequence Category (Risk Effect/Impact)	Reputational
Consequence	Moderate (3)
Likelihood	Unlikely (2)
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)

Consequence Category (Risk Effect/Impact)	Financial Impact
Consequence	Moderate (3)
Likelihood	Unlikely (2)
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)

Consequence Category (Risk Effect/Impact)	Legal and Compliance
Consequence	Moderate (3)
Likelihood	Rare (1)
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)

Risk Action Plan (treatment or controls proposed)	Not Required for 'Low' or 'Moderate' rating.
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Officer Comment

Council has adopted a conservative investment approach to ensure investment capital is preserved and funds are available in the short term. Whilst the investment policy provides clear direction and guidance for the management of Council's cash and investment portfolio, the six strategies identified above will influence changes to the Investment Policy which will be reviewed and presented to Council at a later date.

Council Role - Legislative.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION**THAT the Audit Committee:**

1. Receive the Amicus Advisory Pty Ltd Investment Strategy Review Report for the Shire of Dardanup (September 2019), and ;
2. Support the recommended changes and additions to Council's current Investment Policy 'CP036 – Investment Policy' to enable the achievement of the six Investment Strategies noted and supported within this report.

8.4 Title: Insurance Review

<i>Reporting Department:</i>	<i>Corporate and Governance</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis - Deputy Chief Executive Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Financial Management) Regulations 1996</i>

Overview

This report provides the Audit Committee with an overview of the current insurance portfolio in place, together with the service that is provided to Council and the financial implication.

Background

Local Government Insurance Services (LGIS) has been providing insurance services to Council for many years. LGIS was established in the early 1990's in response to widespread dissatisfaction amongst local governments across WA with the traditional insurance market. At this time local governments had difficulties in obtaining continuing cover in key insurance classes and where cover was available, local governments were being penalised with large, unmanageable and unbudgeted increases in the cost of cover.

The WA Local Government Sector established its own, sustainable solution for local governments in the format of an industry based self-insurance Scheme, entirely owned and controlled by its participating WA Local Government members.

The Scheme incorporates protection for property, civil liability exposures, volunteer fire fighters and workers compensation and is a superior alternative to what is made available by the traditional insurance market. In addition to the LGIS Scheme coverage, local governments also have access through LGIS insurance broking to a range of Non-Scheme insurance products.

Legal Implications

Local Government Act 1995

5.49. Workers' compensation arrangement

(1) In this section —

arrangement means the group self insurance arrangement established under subsection (2);

eligible body means —

(a) a local government; or

(b) a regional local government; or

(ca) a regional subsidiary; or

(c) any other body with functions relating to local government approved in writing by the Minister;

WCIM Act means the Workers' Compensation and Injury Management Act 1981;

WorkCover WA has the same meaning as it has in the WCIM Act.

(2) WALGA is to establish and manage, for the benefit of itself and any eligible body that chooses to participate, a group self insurance arrangement against liability to pay compensation under the WCIM Act.

(3) Subsection (2) does not apply unless the group of participants in the arrangement is exempted under section 164 of the WCIM Act.

(4) If an eligible body wishes to join or leave the arrangement, WALGA is to apply to WorkCover WA to seek a variation in the group exemption.

(5) Participants in the arrangement are jointly and severally liable for a liability of any participant to pay compensation under the WCIM Act, being a liability in relation to which that participant is exempted under section 164 of that Act from the requirement to insure.

(6) WALGA is to dissolve the arrangement if exemption of the group under section 164 of the WCIM Act is cancelled.

- (7) *Nothing in this section limits the application of the WCIM Act.
[Section 5.49 amended: No. 42 of 2004 s. 165; No. 49 of 2004 s. 12; No. 26 of 2016 s. 11.]*

Local Government (Functions & General) Regulations 1996

LGIS forms part of the WALGA Preferred Supplier Program and therefore tenders are not required for annual insurance renewals:

11. *When tenders have to be publicly invited*

- (2) *Tenders do not have to be publicly invited according to the requirements of this Division if—*
 (b) *the supply of the goods or services is to be obtained through the WALGA Preferred Supplier Program;*

Strategic Community Plan

Strategy 1.1.1 - To be equitable, inclusive and transparent in decision making. (Service Priority: High)

Strategy 1.1.3 - Maintain best practice governance systems and practices. (Service Priority: Moderate)

Environment - None.

Precedents None.

Budget Implications

The 2019/20 Annual Budget contains a total insurance provision of \$423,788 consisting of \$162,490 for Workers Compensation Insurance and \$261,298 for other Insurances. Total insurance costs for previous years have been \$436,043 in 2015/16, \$404,683 in 2016/17, \$396,833 in 2017/18, and \$405,884 in 2018/19. The 2019/2029 Long Term Financial Plan contain further annual provisions for insurance.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance

CP009 – Voluntary Works/Tasks – Equipment

CP034 – Procurement Policy

4.9 *Exemption from Procurement Quotations Requirements*

4.9.6 *The purchase is for utilities (ie: water, electricity, gas), legal fees or insurance services.*

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation.

Tier 3 – 'High' or 'Extreme' Inherent Risk.

Risk Event	Council not having adequate insurance services in place (including Workers Compensation) and suffering a substantial loss.
Risk Assessment Context	Operational

Risk Theme Profile	1 - Asset Sustainability Practices
	2 - Business and Community Disruption
	3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)
	14 - Safety and Security Practices

Consequence Category (Risk Effect/Impact)	Financial Impact
Consequence	Catastrophic (5)
Likelihood	Likely (4)
Inherent Risk Rating (prior to treatment or control)	Extreme (20 - 25)

Consequence Category (Risk Effect/Impact)	Reputational
Consequence	Major (4)
Likelihood	Likely (4)
Inherent Risk Rating (prior to treatment or control)	High (12 - 19)

Consequence Category (Risk Effect/Impact)	Health
Consequence	Major (4)
Likelihood	Possible (3)
Inherent Risk Rating (prior to treatment or control)	High (12 - 19)

Consequence Category (Risk Effect/Impact)	Service Interruption
Consequence	Major (4)
Likelihood	Possible (3)
Inherent Risk Rating (prior to treatment or control)	High (12 - 19)

Consequence Category (Risk Effect/Impact)	Legal and Compliance
Consequence	Major (4)
Likelihood	Likely (4)
Inherent Risk Rating (prior to treatment or control)	High (12 - 19)

Consequence Category (Risk Effect/Impact)	Environment
Consequence	Catastrophic (5)
Likelihood	Unlikely (2)
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)

Risk Action Plan (treatment or controls proposed)	<p>Council having adequate provisions for insurance services in place will mitigate the risk of suffering a substantial loss.</p> <p>Management annually review the insurance portfolio to confirm the insurance cover is current and specific to Council needs and operations.</p> <p>The Residual Risk is therefore reduced after suitable treatment.</p>
Residual Risk Rating (after treatment or controls)	Moderate (5 - 11)

Any items with a Residual Risk Rating over 12 (considered to be 'High' or 'Extreme' risk after control or treatments proposed) will be added to the Risk Register.

Level of Risk Guide						
Consequence		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood		1	2	3	4	5
Almost Certain	5	Moderate (5)	Moderate (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	Moderate (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

Officer Comment

LGIS provide Council with greater security and certainty which is a benefit derived from the strength and commitment of working together. This commitment enables Council to finance and manage insurance services and risk through a shared vision and alignment of outlook, interest and loyalty.

In 2019-2020 Council undertook the following Scheme and Non-Scheme Insurance policies through Local Government Insurance Services (LGIS):

Class of Cover	Underwriter / Scheme	Situation	Interest Insured / Protected	Contribution / Premium GST Exclusive
Scheme				
Local Government Special Risks	LGIS Property	Anywhere in Western Australia	<i>Section 1 - Material Loss or Damage</i> All real and personal property of every kind and description (except as excluded in the Protection Policy Document) belonging to the Member or for which the Member is responsible or has assumed responsibility to insure prior to the occurrence of any damage including all such property in which the Member may acquire an insurable interest during the Period of Protection.	\$176,229.55

Class of Cover	Underwriter / Scheme	Situation	Interest Insured / Protected	Contribution / Premium GST Exclusive
			<p><i>Section 2 - Consequential Loss</i></p> <p>Item 1: Gross Revenue/Increase Cost of Working</p> <p>Item 2: Loss of Rent Receivable/Increase Cost of Working</p> <p>Item 3: Claims Preparation and Proving Costs</p> <p>Item 4: Additional Increased Cost of Working</p> <p>Item 5: Accounts Receivable</p>	
Bush Fire	LGIS Bushfire	Anywhere in Australia	<p>Volunteer Bush Fire Brigade Members in respect of medical expenses, loss of salary/wages and death benefit as prescribed by the Fire and Emergency Services Act 1998 (as amended and replaced from time to time), Western Australia and Injury Management Act 1981 (as amended and replaced from time to time) and Bush Fires Act 1954 (as amended and replaced from time to time), for injury and specified disease sustained by volunteer bushfire brigade members in the course of their normal brigade activities (as defined).</p> <p>Statutory Legal liability to volunteer bushfire members and cadets in accordance with the Bushfire Act 1954 as amended and replaced from time to time and Western Australia and Injury Management Act 1981 as amended and replaced from time to time.</p>	\$32,923.00
Public Liability	LGIS Liability	As Per Policy Document	<p>A. The scheme will pay to or on behalf of the Member all sums for which the Member shall become legally liable to pay by way of compensation in respect of:</p> <ul style="list-style-type: none"> • Death or Personal Injury • Loss or Damage to Property <p>happening during the Period of Protection and caused by an occurrence in connection with the Business, from:</p> <ol style="list-style-type: none"> i. Public Liability ii. Products Liability <p>All as defined in the Protection Wording.</p> <p>B. Professional Indemnity (this is a Claims Made Coverage)</p> <p>Any Claim or Claims first made against the</p>	\$63,382.90

Class of Cover	Underwriter / Scheme	Situation	Interest Insured / Protected	Contribution / Premium GST Exclusive
			Member and notified to the Scheme during the Period of Protection arising out of any negligent act, error or omission whenever or wherever the same was or may have been committed or alleged to have been committed by the Member in the conduct of the Member's Business (other than any indemnity provided by this protection under A (i) Public Liability and (ii) Products Liability).	
Casual Hirers Liability	LGIS Liability	As Per Schedule	<p><i>General Liability</i></p> <p>Legal Liability to Third Parties for -</p> <ul style="list-style-type: none"> • death, illness or personal/bodily injury. • loss or damage to property during the period of protection as a result of an occurrence happening in connection with the use of the hired facility by the Hirer. 	\$0.00
Crime	LGIS Liability	Anywhere in the world	<p>The loss must be a direct financial loss sustained by the Member anywhere in the world in connection with a single act or series of related continuous or repeated acts of:</p> <ul style="list-style-type: none"> a) an internal crime; or b) an external crime; or c) a theft; or d) physical loss or damage. <p>The loss will include the direct financial loss sustained by a client which is discovered during the policy period, or the discovery period as a result of the Member suffering an internal crime or an external crime or a theft, or physical loss or damage and where the Member has responsibility for the care, custody and control of the money, securities or property of any client unless caused by an employee in collusion with such client or any employee thereof.</p> <p>The loss must be sustained prior to the end of the policy period and be discovered and notified by the Member during the policy period or the discovery period, if applicable.</p>	\$1,609.70
Workers' Compensation	LGIS Workcare	Anywhere in Western	<p><i>Workers' Compensation</i></p> <p>Coverage is granted to the Member in accordance with the Workers</p>	\$169,049.10

Class of Cover	Underwriter / Scheme	Situation	Interest Insured / Protected	Contribution / Premium GST Exclusive
		Australia	<p>Compensation and Injury Management Act (1981) including unlimited common law cover.</p> <p><i>Journey Accident Cover</i> The cover extends to include accidents that occur whilst a worker is travelling directly to and from his/her workplace where the Workers Compensation and Injury Management Act (1981) does not provide cover.</p> <p><i>Death and Capital Benefits</i> \$300,000</p> <p><i>Weekly Benefits</i> 100% of weekly earnings (as defined) to a maximum of \$2,500 (payable for up to 104 weeks from the date of injury)</p> <p><i>Deductible/Excess</i> The Member shall bear the first Nil \$ of each and every loss or series of losses arising out of any one event.</p>	
Non-scheme				
Environmental Impairment Liability Pollution Legal Liability	AIG Australia Limited	Australia	For personal injury or property damage caused by gradual pollution, and includes costs of cleaning up any substance which has/would cause environmental damage e.g. a discharge of sewage into a waterway.	\$0.00
Cyber Liability	Chubb Insurance Australia Limited	Australia	Protects local government from internet based risk and more generally from risk relating to information technology infrastructure and activities.	\$3,300.00
Management Liability	Chubb Insurance Australia Limited	Worldwide	For individual Councillors and Officers in respect of claims for any alleged wrongful acts arising out of their official duties.	\$10,927.79
Motor Vehicle	Zurich Australian Insurance Limited	Anywhere in Australia	All Motor Vehicles and Trailers owned, leased, mortgaged under Hire Purchase Agreement, hired in or let out on hire, loaned to or by, or used or operated by the Insured including to the extent the Insured has accepted responsibility to insure.	\$39,529.11
Marine Cargo	QBE Insurance	Anywhere in	Loss of or damage to interest insured.	\$320.00

Class of Cover	Underwriter / Scheme	Situation	Interest Insured / Protected	Contribution / Premium GST Exclusive
	(Australia) Ltd through Key U/writing (Marine Cargo Facility)	Australia	<p>All goods &/or interests ('Goods') belonging &/or appertaining to the Insured's business consisting principally of but not limited to: Office supplies of every description, building materials, tools, computer/electronic equipment, food & beverage supplies, plant and machinery of every description and/or any other goods as and when required.</p> <p>Employees Personal Household Effects shipped by or for account of the Insured or the insurance of which is under their control as selling or purchasing agent unless insured elsewhere prior to inception of this contract or to insurable interest being acquired.</p> <p>Other interests held covered at rates to be agreed prior to the transit commencing.</p>	
Personal Accident	Chubb Insurance Australia Limited	Anywhere in Australia	<p>Covers loss of income and selected benefits resulting from death by accident or permanent/temporary disability caused by an accident or illness.</p> <p>This cover will reimburse non-refundable medical expenses for volunteers, and councillors of Local Governments.</p>	\$684.20
Corporate Travel	Chubb Insurance Australia Limited	Worldwide excluding Cuba and/or Iran	<p>Journey means a trip authorised by and undertaken on behalf of the policyholder provided such trip involves a destination beyond fifty (50) kilometres from the insured person's normal place of residence or business premises.</p> <p>A journey will commence from the effective date of coverage or the time the insured person leaves their normal place of residence or business premises, whichever is the latter, and will continue until they return to their normal place of residence or business premises, whichever occurs first. The maximum duration of any trip must not exceed one hundred and eighty (180) days.</p>	\$1,150.60

Council Role - Legislative.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit Committee receive the September 2019 Insurance Review report.

9. ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

None.

10. NEW BUSINESS OF AN URGENT NATURE

[Please Note: This is Not General Business – This is for Urgent Business Approved By the Person Presiding or by Decision. In cases of extreme urgency or other special circumstance, matters may, with the consent of the person presiding, or by decision of the members present, be raised without notice and decided by the meeting.]

11. MATTERS BEHIND CLOSED DOORS

None.

12. CLOSURE OF MEETING

The Chairperson advises that the date of the next Audit Committee Meeting is to be advised.

There being no further business the Chairperson to declare the meeting closed.