

MINUTES

OF THE

SPECIAL MEETING OF COUNCIL

HELD ON

22 NOVEMBER 2011

AT 6.30PM IN THE COUNCIL CHAMBERS

MELVILLE CIVIC CENTRE

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MINUTES OF THE SPECIAL MEETING OF THE COUNCIL HELD IN THE COUNCIL CHAMBERS, MELVILLE CIVIC CENTRE, 10 ALMONDBURY ROAD, BOORAGOON, COMMENCING AT 6.30PM ON TUESDAY, 22 NOVEMBER 2011.

1. OFFICIAL OPENING

The Presiding Member welcomed those in attendance to the meeting and declared the meeting open at 6:30pm. Mr J Clark the Governance and Compliance Program Manager read aloud the Disclaimer and then His Worship the Mayor R A Aubrey, read aloud the Affirmation of Civic Duty and Responsibility.

Affirmation of Civic Duty and Responsibility

I make this Affirmation in good faith on behalf of Elected Members and Officers of the City of Melville. We 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 City's Code of Conduct and Standing Orders to ensure the efficient, effective and orderly decision making within this forum.

2. PRESENT

His Worship the Mayor, Russell Aubrey

COUNCILLORS

Cr R Willis
Cr N Pazolli, Cr P Reidy
Cr D Macphail
Cr S Taylor-Rees
Cr Hill
Cr M Reynolds

WARD

Bull Creek/Leeming
Applecross/Mount Pleasant
City
Bicton/Attadale
Palmyra/Melville/Willagee
University

3. IN ATTENDANCE

Dr S Silcox	Chief Executive Officer
Mr M Tieleman	Director Corporate Services
Mr J Christie	Director Technical Services
M L Hartill	Manager Neighbourhood Development
Mr J Clark	Governance & Compliance Program Manager
Ms J Paparella	Business Support Officer
Ms D Beilby	Minute Secretary

At the commencement of the meeting there were no members of the public and no members from the Press in the Public Gallery.

4. APOLOGIES AND APPROVED LEAVE OF ABSENCE**4.1 APOLOGIES**

Cr Foxton
Cr Barton
Cr Kinnell
Ms C Young - Director Community Development
Mr S Cope – Director Urban Planning

4.2 APPROVED LEAVE OF ABSENCE

Deputy Mayor Cr Robartson
Cr Nicholson

**5. ANNOUNCEMENTS BY THE PRESIDING MEMBER (WITHOUT DISCUSSION)
AND DECLARATIONS BY MEMBERS****5.1 DECLARATIONS BY MEMBERS WHO HAVE NOT READ AND GIVEN
DUE CONSIDERATION TO ALL MATTERS CONTAINED IN THE
BUSINESS PAPERS PRESENTED BEFORE THE MEETING.**

Nil

**5.2 DECLARATIONS BY MEMBERS WHO HAVE RECEIVED AND NOT READ
THE ELECTED MEMBERS BULLETIN.**

Nil.

6. QUESTION TIME

Nil.

7. DECLARATIONS OF INTEREST**7.1 FINANCIAL INTERESTS**

Nil.

7.2 DISCLOSURE OF INTEREST THAT MAY CAUSE A CONFLICT

Nil.

8. APPLICATIONS FOR NEW LEAVES OF ABSENCE

Nil.

9. IDENTIFICATION OF MATTERS FOR WHICH MEETING MAY BE CLOSED

- C11/6045 (Q022/11) – Provision of Independent Investment Advisory, Valuation and Reporting Services for a Two Year Period

The Confidential Attachments to the above matter are confidential in accordance with Section 5.23 (c) of the Local Government Act 1995 concerning a matter related to a contract that may be entered into by the City of Melville.

10. REPORTS OF THE CHIEF EXECUTIVE OFFICER

**C11/5210 – REVIEW OF FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE
COMMITTEE CHARTER (REC) (ATTACHMENT)**

Ward	:	All
Category	:	Policy
Subject Index	:	Audit - Financial – Policies, Procedures, Meeting Agenda and Minutes
Customer Index	:	City of Melville
Disclosure of any Interest	:	No Officer involved in the preparation of this report has a declarable interest in this matter.
Previous Items	:	C06/5024 – Occasional Committees and Portfolios – Ordinary Meeting of the Council – September 2006
Works Programme	:	Not Applicable
Funding	:	Not Applicable
Responsible Officer	:	Jeff Clark Governance & Compliance Program Manager

AUTHORITY / DISCRETION

DEFINITION

<input type="checkbox"/>	Advocacy	<i>when the Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input checked="" type="checkbox"/>	Executive	<i>the substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input type="checkbox"/>	Legislative	<i>includes adopting local laws, town planning schemes & policies.</i>
<input type="checkbox"/>	Review	<i>when the Council review decisions made by Officers.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>when the Council determines an application/matter that directly affects a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. 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.</i>

**C11/5210 – REVIEW OF FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE
COMMITTEE CHARTER (REC) (ATTACHMENT)****KEY ISSUES / SUMMARY**

- The Financial Management, Audit, Risk and Compliance Committee requested that the Committee Charter be reviewed.
- A review of the Charter has been conducted and is the subject of this report

BACKGROUND

The Financial Management, Audit, Risk and Compliance Committee at its meeting on 14 November 2011 requested that the Charter be reviewed. The previous review of the Committee's Charter was reported in September 2006.

DETAIL

The Charter [5210 Charter for FMARC](#) of the Financial Management, Audit, Risk and Compliance Committee has been reviewed with relatively minor amendments other than clarifying that the membership of the Committee will have "at least four persons" to recognise the Council's practice that the Mayor, six Elected Members and an independent person comprise the Committee membership.

The term of membership has been amended to be consistent with other committees and is now included to be reviewed after every Local Government Election.

The Committee does not have a delegation or power other than to review matters described in the Charter and refer decisions and recommendations to the Council.

PUBLIC CONSULTATION/COMMUNICATION

Not applicable.

CONSULTATION WITH OTHER AGENCIES / CONSULTANTS

Not applicable.

STATUTORY AND LEGAL IMPLICATIONS

The Council is required to have an Audit Committee under S 7.1A of the Local Government Act 1995 consisting of three or more persons. This statutory requirement is met by the composition of the Committee.

C11/5210 – REVIEW OF FINANCIAL MANAGEMENT, AUDIT, RISK AND COMPLIANCE COMMITTEE CHARTER (REC) (ATTACHMENT)

FINANCIAL IMPLICATIONS

The Committee includes an external member who is paid an honorarium for his attendance at Committee meetings.

STRATEGIC, RISK AND ENVIRONMENTAL MANAGEMENT IMPLICATIONS

The review of the Committee's Charter ensures that it is consistent with the requirements of the Council.

Risk Statement	Level of Risk	Risk Mitigation Strategy
That the Administration undertakes financial functions without appropriate review by the Council or a Committee	High	Ensure the Committee Charter identifies and lists matters that must be examined at an appropriate time.

POLICY IMPLICATIONS

The Financial Management, Audit, Risk and Compliance Committee will review all policies that affect matters within the responsibilities of the Committee.

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

The review of a Charter does not present an alternative option.

CONCLUSION

OFFICER RECOMMENDATION & COUNCIL RESOLUTION (5210)

APPROVAL

At 6.36pm Cr Macphail moved, seconded Cr Hill -

That the Financial Management, Audit, Risk and Compliance Committee Charter as attached [5210 Charter for FMARC](#), be approved.

At 6.36pm the Mayor submitted the motion, which was declared

CARRIED (8/0)

**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY,
VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
(CONFIDENTIAL ATTACHMENT)**

Ward : All
 Category : Operational
 Subject Index : Tenders
 Customer Index : City of Melville
 Disclosure of any Interest : No Officer involved in the preparation of this report has a declarable interest in this matter.
 Previous Items : Not Applicable
 Works Programme : Not Applicable
 Funding : 2011/2012 Budget
 Responsible Officer : Khris Yeoh
 Senior Financial Accountant

**AUTHORITY / DISCRETION
DEFINITION**

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<input checked="" type="checkbox"/>	Executive	<i>the substantial direction setting and oversight role of the Council. e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
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**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY,
VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
(ATTACHMENT)****KEY ISSUES / SUMMARY**

- To recommend acceptance of a quotation for the provision of independent investment advisory, valuation and reporting services for a two year period.

BACKGROUND

Quotations for the Provision of Independent Investment Advisory, Valuation and Reporting Services for a Two Year Period were invited in writing from four investment firms in early October and closed on Thursday 27 October 2011 at 4.00pm.

The quotation called for firms to provide independent investment advisory, valuation and reporting services for a two year period on the City's current and future investment portfolio which currently includes Collateralised Debt Obligations (CDO's) and Subordinated Debt investments (SD's).

The attached Qualitative Criteria and Special Conditions of Quotation formed the basis of what we required the quoters to respond to. When we developed the specification we sought to address the concerns that had previously been raised by elected members regarding the issues of independence and valuation. We have also enclosed a specific response from CPG which comprehensively explains how valuations are obtained for Elected Members information.

Price Schedule

The Price Schedule forms part of the Confidential Attachments to the Agenda, which was distributed to the Evaluation Committee on Monday 7 November 2011 under confidential cover.

Evaluation Process

All quotations were evaluated against relevant investment experience, company resources including technical skills and qualifications of key staff and proposed delivery of the services using a price weighted attribute method with submissions being scored points out of 65 percent qualitatively and then compared on price. Qualitative scores were achieved by joint agreement of the panel members at the evaluation meeting having first scored each submission individually.

The Evaluation Sheet forms part of the Confidential Attachments to the item.

The Evaluation Committee consisted of the Purchasing and Contracts Coordinator, the Director Corporate Services and the Senior Financial Accountant.

**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY,
VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
(CONFIDENTIAL ATTACHMENT)**

The criteria for this tender were based on the following specific attributes.

1. Relevant Experience
2. Capacity to deliver the services
3. Methodology
4. References
5. Price

DETAIL

Quotation documents issued: four
Tender submissions received: two, as follows:

Structured Credit Research and Advisory Pty Ltd
CPG Research and Advisory

The submissions received were compliant with quoting conditions.

The evaluation methodology is outlined under the heading Evaluation Process.

Structured Credit Research and Advisory Pty Ltd (SCRA) – SCRA offices are based in Bondi Junction, NSW. Information regarding how long they have been operating was not provided in the submission. Relevant experience in similar services as those requested was demonstrated through four local governments - City of Geraldton (WA), City of Newcastle (NSW), Goulburn Mulwaree Council (NSW) and City of Sydney Council (NSW). Details of the key personnel available for managing the account was included with the company having two working Directors and one Associate Director. Both have experience in broad analytical, trading and structuring experience in credit trading. In response to the question of any previous involvement with CDO's it was stated that both Directors had worked for Grange Securities but their involvement in CDO's was "limited to origination and research support for the product" and "not part of the sales and trading" of these investments other than "attending client visits as technical experts to explain the workings of investments to clients". The firm is quality assured but does not hold ISO accreditation. Management systems demonstrated within the submission appeared sound and the company holds an Australian Financial Services Licence (AFSL) (#384126) which allows for provision of all the required services requested under the quote. The company is experiencing growth with the current recruitment of an additional senior employee. Methodology response to the services required was generally acceptable with inclusion of details of their ability to independently value investments. It was not clear if additional fees (and additional travel costs) would be likely for attendance at meetings in Perth which would require further clarification. Insurance levels were lower than that requested however the company was willing to obtain quotes in order to evaluate if there would be any impact on the quoted price if they complied with the levels proposed.

**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY,
VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
CONFIDENTIAL ATTACHMENT)**

Qualitative Scoring: 50.50% out of 65%

CPG Research and Advisory Pty Ltd (CPG) – CPG was incorporated in Sydney in 1991 (formerly as Grove Research and Advisory) and is a wholly owned subsidiary of Western Financial who itself is a subsidiary of the WA Local Government Superannuation Plan. Relevant experience in the local government sector was demonstrated through investment services for Shellharbour City Council (NSW), Kogarah City Council (NSW) and Queanbeyan City Council (NSW) with recent “legacy” investment services being cited with the Town of Kwinana (WA), Woolahra Municipal Council (NSW) and Griffith City Council (NSW). CPG has two directors, one who actively works within CPG and the other a Chief Executive of Western Financial. Key personnel indicated for account managers for the City were the Director and a named advisor who are both supported by six analysts and assistants. Support personnel were also available from Western Financial if required.

The primary relationship manager has over 20 years experience in wholesale investments (which included 11 years in public sector investments), multi-asset portfolio management, investment research, advice and as an independent expert. In 2010 he returned to CPG as Managing Director (having previously been employed by Grove Research and Advisory). On the request for information regarding previous CDO involvement it was stated that the Director had in 2007 “publically warned the middle markets sector about sub-prime products” and that “no WA Council has ever lost money investing in accordance with our advice”. The company holds an AFSL (#243361) and could demonstrate sound management systems in place. Methodology was well structured and addressed all the required “deliverables” however some further clarification regarding their ability to independently value investments would be required. Additional meetings over and above those listed in the scope were offered free of charge and only extraordinary requests would be charged for, on a nominated hourly rate. Insurance levels met the requirements.

Qualitative Scoring: 52.00% out of 65%

Summary

It is the opinion of the evaluation panel that both companies demonstrated experience in providing the services and had provided quality submissions with only minor clarifications required.

Clarification was requested from SCRA regarding attendance at meetings and additional costs of insurance. The company indicated that the fees for attendance at meetings twice a year would be included in the fee however extra costs would be incurred if more frequently requested, were at short notice or if meetings were cancelled or re-arranged at short notice. The company was also prepared to absorb the extra cost for higher insurance with no impact to the quoted fee.

**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY,
VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
(CONFIDENTIAL ATTACHMENT)**

Clarification was also requested of CPG regarding the methods employed to ensure valuations are independently verified. The response cited a number of mechanisms used including utilisation of independent pricing sources for ADI investments (UBS – Australia) which is subject to third-party auditor verification, familiarity with the “active market”, arms length exchange (no broker associations) and sound understanding and experience of using correlation models. CPG have been accepted as an independent expert for the purposes of CDO valuations at audit by the Local Government auditors, as well as Audit NSW (for a public sector client).

It should be noted that both companies state a 100% unqualified audit rate.

The two companies were compared on price with the following outcome.

SCRA Score including price 75.50% out of 90%

CPG Score including price 72.42% out of 90%

Reference checks were conducted on both companies with both receiving very positive feedback.

SCRA Total Score 83.50 out of 100%

CPG Total Score 80.40 out of 100%

PUBLIC CONSULTATION/COMMUNICATION

No public consultation has been required.

CONSULTATION WITH OTHER AGENCIES / CONSULTANTS

No consultation with other agencies has been required.

STATUTORY AND LEGAL IMPLICATIONS

Section 3.57 of the Local Government Act 1995 states “A Local Government is required to invite tenders before it enters into a contract of a prescribed kind under which another person is to supply goods or services”.

The requirement for a tender only exists when a proposed purchase exceeds the threshold of \$100,000. The quotation is below this amount.

FINANCIAL IMPLICATIONS

The 2011/2012 budget provides \$40,000 net of GST for investment advisory services. The quoted prices are within this amount.

Expenditure for 10/11 financial year was \$29,166.72 excl GST.

**C11/6045 (Q022/11) – PROVISION OF INDEPENDENT INVESTMENT ADVISORY, VALUATION AND REPORTING SERVICES FOR A TWO YEAR PERIOD (REC)
(CONFIDENTIAL ATTACHMENT)****STRATEGIC, ENVIRONMENTAL AND RISK MANAGEMENT IMPLICATIONS**

The City's investment portfolio ranges from \$50m to \$120m over the over the course of the financial year, so the potential level of risk of loss could be extreme if inappropriate investments were made.

POLICY IMPLICATIONS

Procurement of Goods and Services Through Direct Purchasing and Public Tendering Policy 13-005.

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

No alternate options have presented themselves.

CONCLUSION

It is the opinion of the Evaluation Panel that the quotations submitted by Structured Credit Research and Advisory Pty Ltd and CPG Research and Advisory Pty Ltd for the Provision of Independent Investment Advisory, Valuation and Reporting Services for a Two Year Period have both demonstrated experience, technical expertise and have addressed all aspects of the quotation criteria to a high level. Whilst the submission by Structured Credit has achieved a 3.5% higher score than CPG as a result of a lower lump sum fee, the previous involvement of Structured Credit Research and Advisory Pty Directors with respect to CDO's remains as an overriding concern. The Directors attendance and technical support to sales teams at Grange Securities was at the time a sufficiently influencing factor in the original decision to invest in CDO's and whilst the experience could be portrayed in a positive light it is perceived as a higher risk option by the evaluation panel and is not supported. Whilst reliance on a specific individual at CPG for investment advice could also be perceived as a risk it is proposed that the contract is subject to termination if the Primary Relationship Manager (Director) ceases to be employed by CPG. The City would then be required to return to the open market with a new quotation request.

**EVALUATION PANEL RECOMMENDATION & COUNCIL RESOLUTION (6045)
(Q022/11) APPROVAL**

At 6.37pm Cr Macphail moved, seconded Cr Reynolds -

That the quotation submitted by CPG Research and Advisory Pty Ltd for the Provision of Independent Investment Advisory, Valuation and Reporting Services for a Two Year Period for the total lump sum of \$71,000 plus Hourly Rates specified for extraordinary meeting attendance be accepted as the most advantageous.

At 6.46pm the Mayor submitted the motion, which was declared **CARRIED (8/0)**

11. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil.

12. MOTIONS WITHOUT NOTICE BY ABSOLUTE MAJORITY OF THE COUNCIL

Nil.

13. CLOSURE

There being no further business to discuss, His Worship the Mayor declared the meeting closed at 6.47pm.