

Renewal of Shared Service Agreement for the Provision of Treasury Management Services by Adur and Worthing District Councils

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT
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Wards Affected: Relates to financial strategy which has an impact on all wards
Key Decision: No
Report to: Audit Committee
15 November 2022

Purpose of Report

1. This report informs members of the intention to renew the inter-authority agreement with Adur and Worthing District Councils for the provision of Treasury Management services to Mid Sussex District Council (MSDC). It is planned that the Shared Service Agreement (SSA) will be extended under delegated authority.
2. Members are asked to note the report, make any comments related to the extension of the arrangement, and approve the exercise of delegated authority by the Interim Head of Corporate Resources who is currently fulfilling the function of the Assistant Director, Corporate Resources.

Summary

3. The provision of Treasury Management is a key part of the finance service to MSDC. As part of the financial stewardship of the local authority the Council needs to manage its cash which is collected to provide for goods, services, contracts, and salaries. This cash is invested on financial markets to provide income in support of the Council's activities. Investments can include, banks, building societies, other local authorities and money market funds that access particular asset classes such as investment property.

Recommendations

4. **The Committee is recommended to:**
 - (i) **Note the contents of the report**
 - (ii) **Make any comments on the proposed arrangements**
 - (iii) **Approve the exercise of delegated authority by the interim Head of Corporate Resources to extend the Shared Service Agreement**
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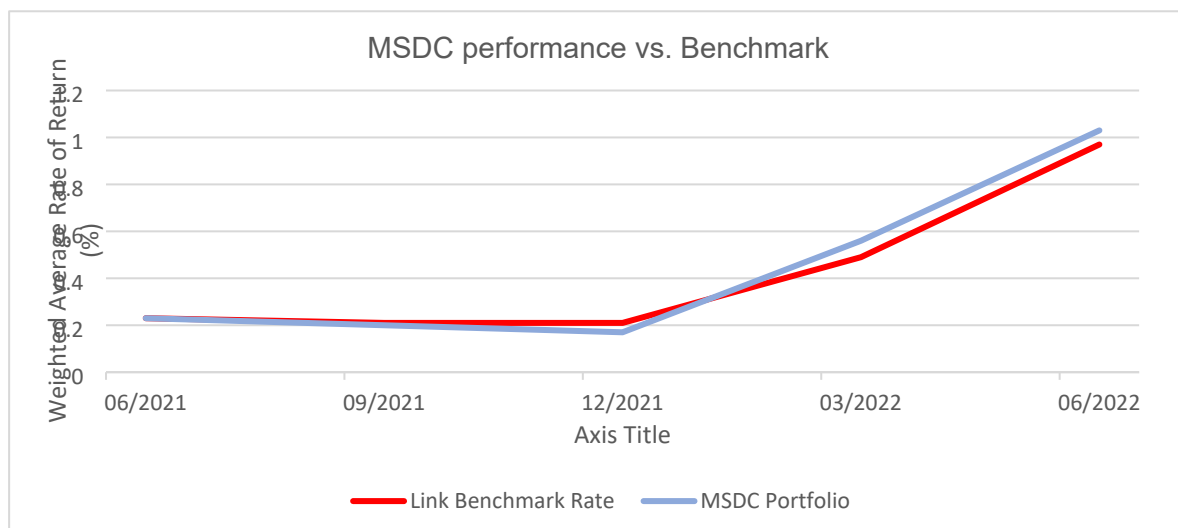
Background

5. MSDC has a Shared Service Agreement with Adur and Worthing District Councils for the provision of Treasury Management services. This is for the managing of the Councils' liquid assets which include the securing of loans and the placing of investments.
6. The agreement was originally established in October 2019 with the making of a Service Level Agreement (SSA) by the Head of Corporate Resources at the time, using his delegated authority.

7. That agreement has run its course and it is proposed that this arrangement should be renewed.

Performance of the Shared Service Agreement

8. Over the life of the Shared Service Agreement, Adur and Worthing have exercised their responsibilities on behalf of MSDC with technical excellence, immediacy, professionalism, and integrity. A key aspect of their function is to ensure that the Councils' money is protected from undue risk and invested to secure the maximum levels of income. Additionally, they play a key role in advising the Councils' Section 151 officer (as defined by the Local Government Act 1972) on decision making so far as treasury management and capital financing is concerned. Thirdly, they will report to the Section 151 officer and the Councils' Audit Committee on performance of the Councils' Treasury Management Strategy consistent with the CIPFA code of practice and associated professional guidance.
9. At any one time, the Council has up to £95m invested on financial markets. It is obviously important that the Councils' money is safe but also earns the maximum, in terms of interest receipts and dividend income, to support the Council's long term financial position.
10. The historical performance of MSDC treasury management activity is shown below:



11. This graph shows the performance of MSDC's market investments against a benchmark based on the performance of a group of similar public sector bodies (Note these figures exclude the results of the Local Areas Property Fund). The Council's stable cash flow means investments often can be placed long term. It is expected that the investment return will continue in-line with or above the performance of the Council's peers.

Governance Issues

12. Section 101 of the Local Government Act 1972 enables a local authority to arrange for the discharge of any of their functions by another local authority by way of delegation without the need for a formal procurement process.
13. Under the Financial Procedure Rules, the Assistant Director of Corporate Resources has responsibility for:
 - a) arranging the borrowing and investments of the Council, including bank overdrafts, in such a manner as to comply with the CIPFA Code of Practice on Treasury

Management, the Prudential Code, the Council's Treasury Management Strategy and the Council's Treasury Management Practices.

- b) reporting on treasury activities to the Audit Committee, with recommendations (including adoption of the Treasury Management Strategy Statement and Annual Investment Strategy) referred for approval by Full Council.
14. In making these arrangements, the responsibility for Treasury Management decisions always remains with the Council. The Council will ensure that the terms of the appointment of the shared services provider, and the methods by which their value will be assessed, are properly agreed, and documented and subjected to regular review.
 15. Under the Officer Scheme of Delegation, the Assistant Director of Corporate Resources has authority to take all actions and make all decisions not reserved to Council or Cabinet relating to the Council's finances, including borrowing, investment, income collection, recovery of debts, making of payments and accounting procedures. The Assistant Director of Corporate Resources has delegated authority to report to the committee on treasury activities and to take all actions and decisions relating to the council's finances not reserved to Council or Cabinet. On this basis it is appropriate for them to enter this reviewing and extending the agreement using officer's delegated powers. The Interim Head of Corporate Resources is currently fulfilling this function and is the Council's designated Section 151 Officer.
 16. However, in making this decision it is appropriate to make the Audit Committee aware and to take any comments on the proposed decision.

Options and alternatives considered

17. In reviewing the renewal of the Shared Service Agreement, all possible options were considered. The provision of local authority Treasury Management Services is a specialist area requiring knowledge of the guidance on Local Authority Treasury Management and the issues associated with the inter-authority loans and investments market. Additionally, it also requires an in-depth knowledge of the local authority Capital Finance Regulations. While there are external advisory firms that provides supportive advice (such as Link Asset Services that is currently used by MSDC) there are no firms that provide the holistic service that is delivered by the Shared Service Agreement. Additionally, to go to the private sector, the Council would need to initiate and pursue a full tendering service which would be costly and would not be guaranteed to deliver a bid that met the necessary criteria.
18. A further alternative considered is the establishment of a MSDC in-house team, however the cost of establishing a team from scratch would create a significant budget pressure. Best estimates are that the cost of such a team would be in the region of £100,000 a year including employment related costs. Additionally, MSDC would lose the professional expertise, economy of scale and resilience that that the Shared Service Agreement provides. There is also no guarantee that MSDC would be able to recruit suitably experienced and qualified staff given the challenges on the current recruitment market for finance professionals.
19. There are other local authorities that provide treasury management services, however, given that Adur and Worthing operate on a cost recovery basis there is no evidence that another local authority operation would be any cheaper. Additionally, they would not have the specific local knowledge of the MSDC circumstances and investment history. There would undoubtedly be significant costs of setting up with a new provider and there would be an increased risk in the short term through lack of familiarity with the MSDC situation.

Policy Context

20. The provision of Treasury Management is consistent with the policy context set in the Corporate Plan. Good performance in this area is fundamental to the delivery of the Medium-Term Financial Strategy that provides the resource base for all the Councils' corporate operations.

Financial Implications

21. The cost of the renewal of the Shared Service Agreement would be £16,454.80 for the remainder of 2022/23. For the remainder of the agreement, from 2023/24 and beyond the costs would be shown in the table below:

Total Annual Running Costs (Note 1): £36,400.00

Financial year	Cost* (apportioned)
2023/24	£36,400.00
2024/25	£36,400.00
2025/26	£19,945.20

*Fees are payable to the provider quarterly in arrears, all banking charges are to be met by MSDC.

Notes:

(1) Costs will be reviewed annually prior to the anniversary by mutual agreement, subject to service changes, annual pay awards and other inflationary pressures.

Included in this charge are £12,500 of related software and advisory services which MSDC would be required to procure were it not to continue the Shared Service Agreement.

This spend profile is considered to represent good value for money given the other options available, as outlined in this report. The costs of the provision of this service were included in the budget in March 2022 and are also included in the Councils' Medium Term Financial Strategy.

Risk Management Implications

22. Experience in the local authority sector is that there are significant risks in the making of loans and investments in financial markets. The most high-profile example of failure in risk management was the Icelandic banking collapse in October 2008 where approximately 25% of English local authorities had placed deposits in Icelandic banks that subsequently collapsed. The best way to mitigate these risks is to have a risk averse Treasury Management Strategy, which the Council currently adopts. Secondly the resilience that the Shared Service Agreement provides, helps to mitigate the risk that there will be insufficient appropriate qualified individuals to manage the Council's loans and investments and that there are appropriate defensive strategies in place in the case of negative market fluctuations.

Equality and Customer Service Implications

23. By engaging in a Local Authority delivered Shared Service the application of equalities is applied to the staff in Adur and Worthing as they are in MSDC.

24. In terms of customer service, the Shared Service Agreement has demonstrated a high level of performance both in is dealing with MSDC officers and presenting and engaging with Council Members at Audit Committee and on a more informal basis.

Sustainability Implications

25. The work on Treasury Management is undertaken in the context of the Councils' policies on sustainability and investments are made in a fashion which is consistent with Environment, Social and Governance principles.

Background Papers

MSDC/Adur and Worthing Shared Service Agreement, October 2019