

Report for: **Cabinet**

Date of Meeting:	15 th July 2021
Subject:	Treasury Management – Shared Service and Collective Investment Arrangements with the Greater London Authority
Key Decision:	Yes
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Portfolio Holder:	Cllr Natasha Proctor – Deputy Leader and Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All Wards
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out the recommendation that Harrow Council become a participant in the shared service arrangement operated by the Greater London Authority (GLA) for the provision of treasury management services. This will include the Council transferring its investment balances into the GLA Group Investment Syndicate (GIS).

Recommendations:

Cabinet is requested to:

- i. Approve the Council entering an agreement for the provision of treasury management services with the GLA in accordance with the Local Authorities (Goods and Services) Act 1970, subject to the conclusion of negotiations to the satisfaction of the Director of Finance and Assurance with the Portfolio Holder for Finance and Resources together with the Director of Legal and Governance

- ii. Approve the Council entering an investment management agreement with LTL, the GLA's wholly-owned investment management subsidiary, authorised and regulated by the Financial Conduct Authority (FCA), for the provision of investment management services in accordance with the Local Authorities (Contracting Out of Investment Functions) Order 1996, subject to the conclusion of negotiations to the satisfaction of the Director of Finance and Assurance following consultation with the Portfolio Holder for Finance and Resources together with the Director of Legal and Governance
- iii. If required, approve a waiver to offer a direct award to London Treasury Limited (LTL), the GLA's wholly owned investment management subsidiary for the minimum of one year, subject to performance and not exceeding the services threshold of Public Contract Regulations 2015 (amended).
- iv. Approve the Council entering an agreement to participate in the GLA Group Investment Syndicate (GIS), subject to the conclusion of negotiations to the satisfaction of the Director of Finance and Assurance following consultation with the Portfolio Holder for Finance and Resources together with the Director of Legal and Governance
- v. Authorise the Director of Finance and Assurance to approve any amendment to the Council's Treasury Management Strategy Statement for 2021/22 to allow funds to be invested via the GIS in accordance with the GIS Investment Strategy for 2021/22, including adopting and signing such strategy; and
- vi. Authorise the Director of Finance and Assurance to do all such things (including the finalisation, approval and execution of any documents and agreements) that they may consider necessary or desirable to give effect to the above.

Reason: (for recommendations)

To promote effective financial management and comply with regulations issued under the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

Section 2 – Report

Introductory paragraph

The Council operates a Treasury Management function in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice.

Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

Treasury management functions are reported to Cabinet three times a year:

- Treasury Management Strategy Statement Report
- Mid-Year Review Report
- Treasury Management Outturn Report

The reports to Cabinet are required to be adequately scrutinised and this role is undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS).

Options considered

Three options are considered:

Option 1 – Re-commence the recruitment process for the Head of Service post which covers both Treasury Management and Pension Fund. This has been considered however, due to the recruitment challenges experienced over recent years to fill this role with a successful candidate, there is little confidence a further recruitment campaign will deliver a candidate with the required senior level skills in both treasury management and the Local Government Pension Fund scheme.

Option 2 – Become a participant in the shared service arrangement operated by the GLA for the provision of treasury management services. The GLA service is an established service with other public sector organisations. The London Fire Commissioner joined the shared service in 2011 with the London Legacy Development Corporation, the London Pensions Fund Authority and the Major's Office for Policing and Crime joining in 2013. All these parties remain participants. The service is also responsible for advising on and managing the investments and borrowings of the GLA and its shared service partners. The team also supports the GLA in the analysis and appraisal of major capital spending and investment decisions ranging from Housing and Regeneration to major infrastructure projects such as Crossrail and the Northern Line Extension. Such services will be very beneficial to the Council as it embarks on the Harrow Strategic Development Partnership. And the Council will have the opportunity to benefit from a much more resilient and specialist team, aligned to the public sector, at a cost that is affordable.

Supported by the Mayoral priority for increased collaborative working, the GLA is keen to expand its current set of partners to include London Borough's. Harrow Council would be the first London Borough to become a participant in the share service arrangement.

Option 3 – Commence a tender process for the procurement of the treasury management advice and support services

An option would be to commence a tender process for the procurement of treasury management advice and support. However, this would take time and there are concerns that it would be a challenge to source such a service within the limited funds available. A principle of the GLA service is that is an affordable option for local authorities and bespoke to the public sector.

This report recommends that the Council become a participant in the shared service arrangements operated by the GLA for the provision of treasury management services, option 2.

Current situation

The Councils' Treasury Management Function is very lean and comprises 1fte:

Head of Treasury Management and Pension Fund (0.5fte – Vacant)
Senior Finance Officer - Treasury and Pensions (0.5fte)

The in-house team works with the Council's Treasury Management advisors, LINK.

Over recent years the post of Head of Treasury Management and Pension Fund Manager has proved challenging to recruit to and the post has been vacant since February 2020. During this time, which coincides with the COVID-19 pandemic, treasury management activity has been kept to a minimum. No prudential borrowing has been taken on during this period and investment activity has been undertaken as normal. There are stable interim arrangements in place to cover the pension fund element of the role and these are expected to continue until the end of the one-year pilot period being recommended in this report. After the one-year period, being a participant in the GLA shared service arrangement position can be reviewed and decisions on the permanent recruitment to the role of Head of Treasury Management and Pension Fund can be agreed.

Taking into account the recruitment challenges, this report recommends that the Council enter into an agreement with the GLA for treasury management services.

The GLA Treasury Management Services Offer

The GLA, through shared service arrangements, currently provides treasury management services to the London Fire Commissioner (LFC), the Mayor's Office for Policing and Crime (MOPAC), the London Legacy Development Corporation (LLDC) and the London Pensions Fund Authority (LPFA), and cash management services to the Old Oak and Park Royal Development Corporation (OPDC) and the London Waste and Recycling Board (LWARB).

Treasury management services include investment management, liquidity management, debt management, treasury reporting and strategic advice services.

Shared service participants have been able to maintain or sometimes reduce individual expenditure on the treasury management function, benefiting from the resilience and expertise of a large, specialist team. In particular, the arrangement reduces key individual risk and facilitates delivery of a more sophisticated treasury management strategy than might be feasible individually.

Investment management services are delivered through the GLA's wholly owned, FCA authorised and regulated investment management subsidiary, LTL. As the Council only has powers to contract out their investment functions to authorised firms under the Local Authorities (Contracting Out of Investment Functions) Order 1996, this is an essential feature of the GLA's proposed arrangements.

As part of the provision of investment management services, shared service participants have the possibility to invest their cash balances in the GIS or in their own names, independently of the GIS, noting that the latter will lose some of the efficiencies of the collective investment arrangement.

It is recommended that the Council enters an agreement for the provision of treasury management services with the GLA in accordance with the Local Authorities (Goods and Services) Act 1970 and an investment management agreement with LTL for the provision of investment management services in accordance with the Local Authorities (Contracting Out of Investment Functions) Order 1996.

Collective Investment

The GIS is currently structured as a contractual arrangement for investing collectively between local authorities. It is a jointly controlled operation of jointly controlled assets. Participating authorities exercise control through a committee of their nominated representatives, who set the GIS investment strategy and exercise certain decisions set out in the strategy.

The jointly controlled assets are held in the name of the GLA, and the GLA has appointed LTL as its investment manager.

The day-to-day implementation of the GIS investment strategy is carried out by LTL and/or external managers acting on LTL's instructions.

The GIS is managed by LTL in a similar fashion to a commercial money market fund. The GIS participants can deposit and withdraw funds daily, which restricts most investments to highly secure, short-dated instruments with low price volatility.

Through the effects of pooling, the GIS provides its participants with both greater and more stable minimum balances than would generally be the case for individual participants. This provides increased opportunity for longer term investments providing greater yields without significantly greater risk. Increased balances also provide greater bargaining power in respect of instant access and notice accounts with banks, allowing the GIS to maintain yields for the shortest dated investments.

It is recommended that the Council enters an agreement to participate in the GIS and approves any amendment to the Council's Treasury Management Strategy Statement for 2021/22 to allow funds to be invested via the GIS in accordance with the GIS Investment Strategy for 2021/22, including adopting and signing such strategy. All current GIS participants have approved investment strategies based on identical principles to those set out in the Council's TMSS for 2021/22 so no significant amendment is expected.

Any amendments to the GIS investment strategy have to be agreed by the statutory chief financial officers of all participants: the Director of Finance and Assurance will therefore have oversight of this strategy, although day to day decisions within the parameters of the strategy are delegated to LTL as investment manager.

Fees

The GLA aims at apportioning fairly the costs of the treasury management shared service and collective investment arrangements between the participants via a fixed administrative fee, a variable borrowing fee and a variable investment fee.

The administrative fee has been set at £25k per participant for 2021/22. The borrowing and investment fees are calculated as basis-point charges on the participants' borrowing and investment balances.

Assuming the Council joins the shared service and collective investment arrangements on 1 October 2021, fees of circa £57k have been provisionally estimated for the Council for 2021-22, based on the GLA's forecast costs and the Council's forecast borrowing and investment balances (£422m and £110m respectively). Estimated fees include an administrative fee of £25k, with pro-rated debt management and investment costs amounting to a further £32k.

The GLA will compare fees paid against actual costs at year-end and adjust the following year's fees to reflect any material over or underpayment. The GLA will provide quarterly budget monitoring to all shared service participants and involve participants in the setting of the treasury management budget.

Risk Management Implications

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**.

Treasury Management activity and risk is reviewed monthly by the Council's Treasury Management Group chaired by the Director of Finance and Assurance and the Council is supported by its independent Treasury Manager Advisor, LINK.

The relevant risks contained in the register are attached/summarised below.

n/a

The following key risks should be considered when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
Treasury management services provided by the GLA and/or investment management services provided by LTL are unsatisfactory	<ul style="list-style-type: none"> ▪ Initial One Year Contract to assess performance ▪ Exit clause ▪ Established provider of treasury management service to other public sector providers. 	Amber
Procurement Risk: Non-compliance with Act/CPRs	<ul style="list-style-type: none"> ▪ Due to value, approved waiver from CPR's 	Green
Council not in control of its investment management decisions/investment strategy	<ul style="list-style-type: none"> ▪ Participating authorities exercise control through a committee of their nominated representatives, who set the GIS investment strategy and exercise certain decisions set out in the strategy. ▪ Through pooling, the GIS provides its participants with both greater and more stable minimum balances than would generally be the case for individual participants and increased opportunity for longer term investments providing greater yields without significantly greater risk. ▪ Increased balances provide greater bargaining power in respect of instant access and notice accounts with banks, allowing the GIS to maintain yields for the shortest dated investments 	Amber
Ineffective financial management	<ul style="list-style-type: none"> ▪ The resilience and expertise of a large, specialist team. In particular, the arrangement reduces key individual risk and facilitates delivery of a more sophisticated 	Green

Risk Description	Mitigations	RAG Status
	treasury management strategy than might be feasible individually	
Non-compliance with the Act and or CIPFA Code and or Fin Regs	<ul style="list-style-type: none"> ▪ LTL authorised and regulated by the Financial Conduct Authority (FCA), for the provision of investment management services in accordance with the Local Authorities (Contracting Out of Investment Functions) Order 1996, 	Green
Inadequate advice on the Council's borrowing requirements	<ul style="list-style-type: none"> ▪ Borrowing requirement is reviewed and calculated annually as part of budget setting process by Council officers ▪ Independent Treasury Management Advisors retained 	Green

Procurement Implications

As the value of joining the shared service is below the threshold for supply and services (current threshold £189,330) under the Public Contract Regulations 2015 (amended) this is not a regulated procurement. The Council can therefore offer a direct award to LTL enter by waiving the Councils Contract Procedure Rules.

Legal Implications

Legal notes that the value of direct award to LTL for the Treasury management services contracts fall below the procurement threshold for services therefore the procurement is not subject to the full requirements of the Public Contract Regulations 2015 (PCR) including undertaking a procurement exercise; the principles of the PCR however must still be adhered to. Officers must also comply with the waiver process for this direct award as set out in the Council's Contract Procedure Rule.

Financial Implications

As at June, the Council's Treasury Management activity is:

- Outstanding long-term debt of £422.30m (£348.5m of Public Works Loan Board loans and £73,8m of market loans)
- Investment balances of £110m.

For 2021/22 the Council's cost of borrowing budget is set at £12.586m and the interest receivable budget set at £1.4m. In addition, the Council holds a small budget to support treasury management activities and, due to the affordable nature of the GLA offer, the cost of the Council becoming a participant in the GLA shared service arrangement will be contained within the current budget envelope.

The recommendations of this report have no impact on the role of the Senior Finance Officer - Treasury and Pensions (0.5fte). In terms of monitoring and performance, the GLA will report into the Director of Finance and Assurance and their deputy quarterly as a minimum.

This report is classed as a key decision on account of the Investment balances of £110m, which are recommended for transferring into the collective investment vehicle.

The Council will use the first year of the arrangement as a pilot to ensure the service received is as expected and beneficial. If so next steps will be looked at to ensure compliance with procurement regulations.

The Council's fee arrangements will be with the GLA only, with part of the those fees being used by the GLA to fund the investment activity of LTL, which is a wholly owned GLA subsidiary; the reason for the investment management agreement between the Council and LTL is because legislation only allows certain investment functions to be delegated to entities with authorisation from the FCA.

The Council should note the intention to restructure the GIS as a stand-alone fund, albeit replicating the GIS governance structures and controls: at this point, the GLA will cease to charge any fees in relation to investment and the costs of LTL and external managers will be met directly from fund returns. In due course, this will provide an opportunity to simplify the contractual arrangements described above.

Equalities implications / Public Sector Equality Duty

There are no direct equalities impact. Compliance with s.149 of the Equality Act is integral to all aspects decision-making.

Council Priorities

This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer:

Signed by the Chief Financial Officer
Dawn Calvert

Date: 8th July 2021

Statutory Officer:

Signed on behalf of the Monitoring Officer
Blessing Enejo / Jessica Farmer

Date: 8th July 2021

Chief Officer:

Signed off by the Corporate Director - Resources
Charlie Stewart

Date: 8th July 2021

Head of Procurement:

Signed on behalf of the Head of Procurement
Lisa Taylor

Date: 7th July 2021

Head of Internal Audit:

Signed by the Head of Internal Audit
Susan Dixson

Date: 7th July 2021

Mandatory Checks

Ward Councillors notified: NO, n/a

EqlA carried out: NO, n/a

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert, Director of Finance and Assurance,
dawn.calvert@harrow .gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee

NO