

BABERGH AND MID SUFFOLK DISTRICT COUNCILS

From: Assistant Director – Corporate Resources	Report Number: JAC86
To: Joint Audit and Standards Committee	Date of meeting: 12 September 2016

IMPACT OF BREXIT ON OUR TREASURY MANAGEMENT STRATEGY

1. Purpose of Report

- 1.1 This report explains the impact of the decision to end the UK’s membership of the European Union (EU) on Babergh and Mid Suffolk’s Treasury Management Strategy.

2. Recommendations

- 2.1 That the key factors affecting the treasury management activities set out in this report be noted.

3. Financial Implications

- 3.1 Decrease in revenue generated from cash investments and a decrease in borrowing costs.

4. Legal Implications

- 4.1 None.

5. Risk Management

This report is not linked with the Council’s Corporate / Significant Business Risks. Key risks, however, are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment and/or liquidity problems	Unlikely	Bad	Strict lending criteria for high credit rated institutions.
Poor return on investments	Probable	Noticeable	Focus is on security and liquidity. Careful cash flow management and budget monitoring in accordance with the strategy, is undertaken.
Higher than expected borrowing costs – interest rate increases and/or lower capital receipts than forecast	Unlikely	Noticeable	Benchmark is to borrow from the Public Works Loan Board (PWLB) whose rates are very low and can be on a fixed or variable basis or from other local authorities. The use of internal surplus funds will continue to be used where possible. Capital receipts monitored.

6. Consultations

- 6.1 Advice on borrowing and the investment of surplus funds from our treasury advisors, Arlingclose, who also provide regular and important updates on treasury management issues as they arise.

7. Equality Analysis

- 7.1 None.

8. Shared Service / Partnership Implications

- 8.1 This report relates to both Babergh and Mid Suffolk Councils although the effects will differ due to the different financial position of each Council.

9. Links to Joint Strategic Plan

- 9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Background Information

- 10.1 Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on the 23rd June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK.

- 10.2 This is a significant event with unknown implications. Following this decision the UK markets and currency were hit with losses and the withdrawal of investor confidence and wealth. This has led to a time of volatility and uncertainty which is causing the market to take a prudent approach until Britain can conclude its exit and bring stability and confidence back to the market.

- 10.3 The subsequent decision taken by the Bank of England's Monetary Policy Committee on the 4th August 2016 to cut the Base Rate to 0.25% has added to this volatility and uncertainty.

- 10.4 Following the Brexit decision in June the FTSE 100 has subsequently recovered.

- 10.5 Credit ratings and outlooks have also been hit by Brexit, having a negative affect and downgrading. Please note that all the Councils investments made comply with the Treasury management strategy and approved counterparties taking into account downgrades after Brexit. Currently Babergh and Mid Suffolk have been unaffected.

11. Impact on Babergh and Mid Suffolk's Treasury Management Strategy

Long term Investments

- 11.1. Babergh and Mid Suffolk invested £5m each in Churches, Charities, and Local Authorities Property Fund (CCLA) in 2015. These are long term investments with the aim of collecting steady income through price volatility. Following the Brexit decision, CCLA revalued the fund downwards by 4%.

- 11.2. This currently has no material effect on either Council unless a decision was taken to sell the investments now. The fair valuation of the investment in the balance sheet will be affected however this is likely to recover over time.
- 11.3. The current anticipated return generated from these funds will remain as forecast, between 4-5%.
- 11.4. Babergh also invested £2m in UBS Multi Asset Fund in 2015. There is currently no adjustment to the fund valuation or performance. Since this is a diversified fund any risk should be mitigated and the anticipated returns should remain the same. However it is still possible that depending on the impacts of Brexit that the fund could be affected, this will be carefully monitored by the finance team over the coming months.
- 11.5. Both Councils invested £100k each in Funding Circle in 2015 and have not as yet seen any negative impact. The Councils have lent to the highest rated borrowers mitigating credit and default risk. Businesses' are continuing to understand the impact of the Brexit decision on their individual circumstances, and we will continue to review and monitor the level of bad debt.

Low Interest rates

- 11.6. Due to the uncertainty and volatility in the UK market, interest rates have fallen by approximately 0.2 basis points being quoted from UK Bank and Building Societies. In August the Bank of England decreased the Base rate by 0.25%. This will have a negative impact on the Council's income which if material will be highlighted in the second quarters budget monitoring.
- 11.7. However the same percentage decrease applies to borrowing rates, which will result in savings on interest payable on short term loans, currently only applicable for Mid Suffolk.
- 11.8. At Budget setting time we took a prudent approach when forecasting interest receivable and payable. Babergh will be affected by the base rate decrease as the estimated return from liquid investments will decrease by £25k, however the CCLA property fund is performing better than forecast and will likely offset this decrease.
- 11.9. Mid Suffolk is estimated to achieve a greater return due to the increased performance of the CCLA property fund of approximately £30k.
- 11.10. Mid Suffolk currently has a need for borrowing and due to the interest rate decrease it will benefit in the region of £15k.

12. Conclusion

- 12.1 The effects of this decision on our investments will be one that we continue to monitor closely within finance, any significant variances to interest receivable or payable as a result of this will be reported to members through the quarterly budget monitoring reports.
- 12.2 Further updates will be reported to this Committee as part of the half yearly and outturn Treasury Management reports.

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