**AUDIT COMMITTEE – 26 JULY 2016**

**PART I – DELEGATED**

**10. REPORT ON IMPLICATIONS FOR THREE RIVERS DISTRICT COUNCIL OF THE REFERENDUM ON MEMBERSHIP OF THE EUROPEAN UNION (EU)**

(DoF)

1. **Summary**

1.1 This Committee in June requested a briefing note on the implications of the recent referendum to leave the European Union.

2. **Details**

2.1 On 23 June 2016 the electorate of the UK voted in a referendum on the continuing member ship of the European Union (EU). The majority vote was in favour of the UK leaving the EU. The impacts of this result have reverberated across the world and although the impacts are likely to be long-lasting and profound, in many ways they are currently difficult to predict.

2.2 Nonetheless, after a chaotic few weeks in British politics, some things at least have become clear. The new Prime Minister has said clearly that the result of the referendum must be respected. Therefore the countdown to Britain’s withdrawal from the EU has started. When it was still widely anticipated that the leadership contest would last until September, Theresa May indicated that the formal exit negotiations would not begin until January 2017 at the earliest.

2.3 However, major questions remain over the process of withdrawal, how long it will take, and what sort of relationship will the UK government negotiate with the EU and the rest of the world.

2.4 The exit process starts with the formal notification of the UK’s intention to leave the EU through Article 50 of the Treaty of the European Union (TEU). As the EU cannot compel the UK to use Article 50, in theory the UK can delay indefinitely, although currently this seems unlikely. There has been, however, speculation that the UK might want to delay until after the French and German elections next year, but the German Federal elections are in October.

2.5 For those with a keen interest, Article 50 and more details around the process for departure are at Appendix 1.

2.6 The remainder of this briefing deals with issues related to the process of exit and the options for future relations with the EU, focusing on economic and trade issues. There is a brief sketch of some of the implications for local government and for the devolved legislatures. The final section looks ahead to the near-term economic consequences, which will only become fully apparent in the autumn.

2.7 It is likely that the future relationship with the EU will be negotiated alongside the withdrawal agreement. The variety of possible future relationships with the EU is discussed in more detail below.

2.8 There is no guide as to what constitutes a withdrawal agreement. It could focus only on the mechanics of withdrawal and transition arrangements, before a separate agreement on the future relationships between the EU came into force. One issue that is likely to be given priority is the status of EU citizens already in the UK and of UK citizens in the EU.

2.9 The government report “**The process for withdrawing from the European Union”,**published several months before the referendum, lists other key matters in the withdrawal and transition provisions as follows:

* unspent EU funds due to UK regions and farmers;
* cross-border security arrangements including access to EU databases;
* co-operation on foreign policy, including sanctions;
* transfer of regulatory responsibilities;
* arrangements for contracts drawn up in accordance with EU law;
* access to EU agencies that play a role in UK domestic law, such as the European Medicines Agency;
* arrangements for the closure of EU agencies headquartered in the UK;
* departure from the Single European Sky arrangement;
* access for UK citizens to the European Health Insurance Card;
* the rights of UK fishermen to fish in traditional non-UK waters, including those in the North Sea;
* continued access to the EU’s single energy and aviation markets;
* the status of the UK’s environmental commitments made as party to various UN environmental conventions and currently implemented through EU legislation.

2.10 An important outcome of the negotiations will be a re-configuration of the rights, benefits, and obligations that govern access to the Single Market. The permutations are many, but existing models provide some guide as to what the final package could be. The options run through a continuum from a complete break with the EU (the WTO option) at one extreme to close association (the Norway option) at the other.

2.10.1 A complete break: The WTO option. A complete break with the EU would mean that the UK would have no preferential access to the Single Market, but neither would it have any obligations. It is referred to as the ‘WTO option’ because the UK would trade with the EU and other countries under World Trade Organisation (WTO) rules. The UK and other EU countries are members of the WTO in their own right.

2.10.2 Bespoke option: Turkey. The EU and Turkey have had an Association Agreement since 1963 and Turkey has participated in a Customs Union with the EU since 1995. Turkey’s partial access to the Single Market covers industrial goods and processed agricultural products but not raw agricultural goods or services. In areas where Turkey has access to the Single Market, it must enforce rules that are equivalent to those of the EU and is required to align rules on state aid.

2.10.3 Bespoke options: Canada. The Free Trade Agreement (FTA) between the EU and Canada goes further than any other existing deal between the EU and a non-EU country. It took seven years to negotiate and has not yet come into force, requiring approval by the Council and the European Parliament. The agreement provides for the phasing out of tariffs on manufactured and most agricultural goods entering the EU and addresses a number of other discriminatory practices such as quotas and subsidies.

2.10.4 Back to EFTA: Switzerland. In the 1980s, the European Free Trade Area (EFTA) countries, of which the UK was once a part, entered negotiations with the EU on a new trade bloc that would expand the scope of the single market and would eventually become the European Economic Area (EEA). In 1992, the Swiss electorate voted against EEA membership. Instead, Switzerland negotiated over 100 separate agreements with the EU covering market access in different sectors. It remains part of EFTA along with Norway, Iceland, and Liechtenstein.

2.10.5 Back to EFTA: Norway. Norway agreed terms to join the EU in 1972 along with the UK, Denmark, and Ireland, but this was rejected in a referendum later that year. In the early 1990s, Norway negotiated entry into the EEA as a preparation for full entry into the EU, but this was again rejected in a referendum in 1994. Norway remains outside the EU but inside the EEA along with Iceland and Liechtenstein.

2.11 More details on all these options and what they might mean for the UK are given in Appendix 2.

**The view from Europe**

2.12 Given the political and economic uncertainty created by the referendum result, European leaders are urging a swift resolution to negotiations. This is unlikely.

2.13 What sort of deal the UK ends up with is, of course, largely dependent on what it can persuade its European neighbours to agree to. During the referendum debate, it was confidently asserted that the EU would want to negotiate a favourable deal with the UK because it is an important trading partner. But any deal will have to be agreed by all Member States. UK trade is important for Germany and Ireland, but much less so for some of the eastern European members.

2.14 Given that the governments of all the 27 Member States want to preserve the union, they all have an incentive to make leaving difficult. Warnings have been issued that the UK cannot ‘cherry pick’ a new agreement – access to the Single Market comes with rules and obligations. It is very difficult to see the bloc agreeing unanimously to the UK’s preferential access to the Single Market without a reciprocal acceptance of the fundamental principle of the free movement of labour.

2.15 The other 27 European states will meet on 16 September in Bratislava to discuss their common position towards the UK. Germany has already said it envisages some form of associate membership but it has ruled out compromise over the fundamental question of whether the UK can have access to the single market while refusing to accept the free movement of people.

**Brexit and the devolved legislatures**

2.16 Under the Scotland Act 1998, the Government of Wales Act 2006 and the Northern Ireland Act 1998, the devolved legislatures are obliged not to legislate or act in a manner that is contrary to EU law. Sections of UK legislation that set out the legislative competence of the devolved legislatures that make direct reference to EU law will have to be amended. However, with regard to Scotland, the UK has committed to not legislating with regard to devolved matters without the consent of the Scottish Parliament. There is therefore a question as to whether Westminster would seek the Scottish Parliament’s consent to amend EU legislation as it applies to Scotland. This would include the repeal of the European Communities Act.

2.17 Scotland, Wales, and Northern Ireland, as do local areas in England, receive substantial amounts of EU funds for agriculture and economic development; Wales in particular receives substantial amounts of EU Objective 1 funding. It will undoubtedly be the case that the devolved legislatures, which are already represented in EU structures, will be represented in the upcoming negotiations. Northern Ireland in particular faces the possibility of the re-imposition of a ‘hard border’ in the event of the ‘WTO option’ (see above) or in the absence of any agreement over the free movement of labour.

**Brexit and local government**

2.18 Given the pervasive nature of EU law, the UK’s exit from the EU will at the very least impose a considerable administrative burden on local government. These burdens will be most apparent in the areas of environmental management (including waste disposal), consumer protection, trading standards, health and safety, and procurement. However, EU law will continue to apply through the period of negotiation.

2.19 English local government is represented in EU structures, for example, through the Committee of the Regions (see related briefings), and such representation will continue through the negotiation. The LGA is currently lobbying for local representation in the upcoming negotiations. Of immediate concern is the status of EU funds transferred to local areas, particularly the Structural Funds, which are an important source of additional funding for economic development. Local government will be concerned that any repatriation of powers from Brussels is not simply a transfer of power to Westminster. Also of concern in England is further progress on devolution, which in part hinges on the immediate outlook for the economy and public spending (see below).

**How this affects councils as a provider of services**

2.20 A worsening economic performance may impact on the consumer (reducing household spend and house and commercial property prices) and lead to a great demand on local authority services.

2.21 Similarly EU regulation impacts on many council services. The regulatory framework for a range of services such as waste, employment, the environment, consumer protection, health and safety and trading standards originates in Brussels, as does the legal framework for public procurement. In the medium term, the UK has choices about how and where future rules are formulated. Substantial new legal arrangements will have to be drafted for public services which have to date been based on EU regulation. Any new framework would be influenced by the exit negotiations which could range from a Norwegian-style model based on a close association with the EU to a more detached Swiss-style model.

2.22 The LGA is currently mapping out those aspects of local government service delivery that have origins in EU law or regulation. They are focusing on the service areas which are most likely to be covered by EU laws: environmental policy, air pollution, energy, waste, workforce and employment, procurement, state aids, regional policy, regulatory services, VAT and data protection. It is their understanding that because EU Directives have become enshrined in our law, they could continue to apply even after the UK leaves the EU, unless the directives are specifically repealed by the UK Parliament. However EU Regulations will cease to apply. We will be seeking further clarification on this point and will keep you updated.

**Future of EU Structural Funds**

2.23 Immediately for councils, there will be a risk to local regeneration funding, worth £5 billion in England (2014-2020). It is important for the Government to guarantee it will protect this vital funding to avoid essential growth-boosting projects stalling and local economies across England being stifled. The LGA has already registered this important issue with Ministers and our call has been reported widely by the media. Councils have also asked the LGA to look at how the framework covering state aids for businesses could be developed in future in the absence of EU competition rules.

2.24 Three Rivers District Council does not currently have any direct or indirect funding from EU funds.

**How this affects Councils as Leaders of Place**

2.25 Councils, of course, have a much wider role in their communities and local government is going to be central in bringing communities together following this vote. The implications of exit are wide-ranging. Business will want to consider future international trade, universities will want to consider new sources of research funding and farming communities will need a response to promises to replace Common Agricultural Policy receipts with domestic funds. There will also be uncertainty for workers in jobs who were born outside the UK but within the EU and for UK citizens who have retired outside the UK to other EU nations.

2.26 The LGA has already made a public statement emphasising councils’ role in bringing communities together. The Prime Minister has raised concerns about the rise in hate crimes and “verbal abuse hurled against individuals because they are members of ethnic minorities”.

2.27 The referendum debate raised many local concerns about jobs, homes and the health service. Devolution deals offer the opportunity for more effective local public services and the LGA considers that it will be important that the impetus on the devolution agenda be maintained.

2.28 This paper does not speculate on the medium and long-term market reactions or long-term trends in the housing market. However, the importance of councils as facilitators of local economic development and coordinators of place is likely to be of greater importance in the future. Councils across the country have raised a number of issues for Government departments to consider.

2.29 Councils will need support over the next few months as they work with businesses, residents and other parts of the public sector to assess the impact on the whole place. Local government’s formal position in the exit negotiations will be key and there may be an important role for the LGA to provide the channel for local concerns to both Government and other national organisations during national negotiations.

**The economy: short term outlook**

2.30 The immediate consequences of Brexit have been extreme disturbances in financial markets. The referendum outcome surprised the financial markets, which had priced in a “Remain” vote and the sharp drop in the value of the pound has been widely reported. This fall reflects the foreign exchange markets’ assessment of the demand for the UK’s currency which has been re-assessed in the light of the UK’s likely future trading position. In effect, it represents a revaluation of the UK economy. Whilst a weaker pound would mean the price of UK goods on the foreign markets are relatively cheaper, this may not necessarily be good for manufacturing exports, because inputs for manufacturing, many of which have to be imported, will now be more expensive.

2.31 Accompanying the fall in sterling has been a sharp rise in the FTSE100, but this reflects the fact that shares in FTSE100 companies, which are mostly global in nature, can now be bought at rock-bottom prices because of sterling’s fall in value.  The FTSE250 index, which represents more UK-orientated companies, has not risen by as much.  Another important development is the rise in price of government bonds, representing a ‘flight to safety’ of investment funds. A beneficial consequence of this is the accompanying fall in yields, which means lower interest on government debt.

2.32 The Bank of England has responded to the crisis by an injection of liquidity meant to calm credit markets. How the Treasury will respond over the medium term is as yet not entirely clear, but early indications are that the Government’s fiscal target will be abandoned. Given the extraordinary low level of interest on government debt, it is likely that that there will be announcements of some fiscal stimulus later in the year through infrastructure spending. The outgoing Chancellor announced further cuts in corporation tax, throwing uncertainty over current commitments to reduce income tax further.

2.33 The lag in official statistics means that the effect on the wider economy will not be fully known until the autumn. The first signs of real trouble are always in the labour market, but these signs will not appear until August. An early survey by the Swiss bank Credit Suisse into corporate spending intentions indicates a sharp cut in spending and hiring decisions since the referendum result.

2.34 It would be difficult to make comment on the longer term economic consequences given the current levels of uncertainty of what the UK’s exit would look like and indeed when Article 50 is triggered. It is worth noting that almost all the major national and international economic forecasting bodies – the IFS, the IMF, the OECD, the NIESR, and the CEPR – have warned of serious consequences, with recovery from a short-term shock being to a lower than otherwise previous growth path. Much depends on the outcome of the UK’s trade negotiations. At local levels, it is reasonable to expect to some prolonged industrial restructuring, as some business leave and are replaced by others better suited to the new international trading position.

2.35 A summary of the implications for the council’s treasury operations is provided at Appendix 3.

3. **Options/Reasons for Recommendation**

3.1 None – briefing note only.

4. **Policy/Budget Implications**

4.1 None – briefing note only.

5. **Financial, Legal, Equal Opportunities, Staffing, Environmental, Community Safety, and Customer Services Centre, Website and Risk Management Implications**

5.1 None.

6. **Recommendation**

6.1 None – briefing note only

Appendices

1. Article 50 of the Treaty of the European Union.
2. What future relationship with the EU? The options.
3. Brexit – Implications for Treasury Operations.

**Sources of information**

Local Government Association Briefing: “Leaving the European Union” - 30 June 2016

LGiU Policy Briefing: Brexit: A guide to the negotiations – 14 July 2016

Treasury summary from Capita Asset Services

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**Appendix 1**

**Article 50 of the Treaty of the European Union**

Article 50 is very short and, unusually for a document drafted by lawyers, is very easy to understand. With less than 300 words, it can be reproduced in full:

1. *Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.*
2. *A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union.  That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.*
3. *The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.*
4. *For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it. A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.*
5. *If a State which has withdrawn from the Union asks to re-join, its request shall be subject to the procedure referred to in Article 49*

There has been some discussion that Article 50 requires a Parliamentary vote. This might be desirable, but as yet it is not clear that it is a legal requirement. There has also been much discussion as to whether the UK can simply leave unilaterally, for example, by repealing the European Communities Act 1974 which was passed when the UK first joined the EU, but the weight of expert legal opinion is that Article 50 is the only legal way to leave the EU. Nonetheless, the 1974 Act will probably be repealed if the exit negotiations are concluded successfully.

Article 50 is also the only legal way the EU can manage the UK’s exit. It can only force the UK to leave if the UK is deemed to be in breach of basic foundational principles of freedom, democracy, equality, and rule of law, which it has not.

There is nothing in the wording of Article 50 that says a country cannot change its mind after notification of its intention to leave has been issued. However, if it does not, the wording of the Article indicates that negotiations must be concluded within two years, regardless of whether an agreement has been reached or not. An extension can be negotiated, but only with the unanimous agreement of all the 27 Member States.

**Appendix 2**

**What future relationship with the EU? The options**

At stake in the negotiations is access to the Single Market (the world’s largest economic bloc, in terms of population, market value, and import and export volume) in addition to 53 markets outside the EU with whom the EU has negotiated trade deals. In addition to these markets, is the potential loss of others with whom the EU is in the process of negotiating, including Canada, the USA, and Japan.

Whatever the terms of the UK’s trade with the EU, it would still have to abide by the EU’s rules in product standards, consumer protection, and environmental regulation, about which it will have no further say.

On the other hand, leaving the EU could relieve the UK of certain obligations, for example, of contributing to the EU’s budget, and of complying with fundamental principles such as the free movement of labour. The UK could be free to make its own trade deals with countries outside the EU.

An important outcome of the negotiations will be a re-configuration of the rights, benefits, and obligations that govern access to the Single Market. The permutations are many, but existing models provide some guide as to what the final package could be. The options run through a continuum from a complete break with the EU (the WTO option) at one extreme to close association (the Norway option) at the other.

**A complete break: The WTO option.**

A complete break with the EU would mean that the UK would have no preferential access to the Single Market, but neither would it have any obligations. It is referred to as the ‘WTO option’ because the UK would trade with the EU and other countries under World Trade Organisation (WTO) rules. The UK and other EU countries are members of the WTO in their own right.

There are many snags with the WTO option. One is that that the UK would have to negotiate separate trade deals not only with the EU but with each of the WTO’s 162 members or otherwise operate a single set of tariff rates. The UK would lose access to 53 markets outside the EU (which includes countries like Mexico, South Africa, and South Korea) negotiated by the EU on behalf of its Member States, which would have to be re-negotiated. Negotiating new trade deals is a very lengthy process.

This option has other snags which it shares with the other options listed below. There would be less legal protection for British companies in the event of any infringement of a trade agreement than under existing arrangements. It would add to complications for some UK exporters to the EU over and above that presented by the EU’s Common External Tariff (CET). For example, much of the UK’s automotive industry is fully integrated into pan-EU supply chains and a high proportion of UK exports to the rest of the EU take the form of intermediate goods, which would be less competitive within Europe if they faced tariffs.

There is also the potential loss of ‘passporting rights’ for non-EU firms based in Britain (such as Nissan in Sunderland or Honda in Swindon) which means that they can trade with the EU on the same basis as firms with an EU origin. A similar consideration almost certainly applies to the large number of foreign banks located in the City of London. Passporting rights are an important incentive for foreign direct investment (FDI) into the UK.

It is likely that the UK can negotiate some sort of free Trade agreement (FTA) with the EU, although this will be easier for manufactured goods than services. However, an FTA is unlikely to come without strings attached, meaning the WTO option could  be closer in nature to some of the others discussed below.

**Bespoke options: Turkey**

The EU and Turkey have had an Association Agreement since 1963 and Turkey has participated in a Customs Union with the EU since 1995. Turkey’s partial access to the Single Market covers industrial goods and processed agricultural products but not raw agricultural goods or services. In areas where Turkey has access to the Single Market, it must enforce rules that are equivalent to those of the EU and is required to align rules on state aid. Turkey’s external tariffs must be aligned with the EU’s and where the EU signs a trade agreement with a third country Turkey must allow access to its own market on the same terms, but this need not be reciprocated, that is, the third country need not allow Turkey access to its markets on the same terms.

As with the WTO option, Turkey has no, or little, influence on EU regulations and few reciprocal obligations. Turkey receives some financial assistance from the EU, but this is because of its status as an accession candidate.

**Bespoke options: Canada**

The Free Trade Agreement (FTA) between the EU and Canada goes further than any other existing deal between the EU and a non-EU country. It took seven years to negotiate and has not yet come into force, requiring approval by the Council and the European Parliament. The agreement provides for the phasing out of tariffs on manufactured and most agricultural goods entering the EU and addresses a number of other discriminatory practices such as quotas and subsidies.

Snags in this arrangement, if the UK were to aim for something similar, include tougher rules of origin than currently apply to the UK. Rules of origin determine the proportion of a product made in a country of origin that that qualify it for preferential tariff arrangements. In addition, not all services, notably air transport, are covered by the agreement .Many Canadian products remain dependent on approval by EU regulation authorities before they can enter the single market. Although tariffs are eliminated for most agricultural products, quotas remain in place for the export of Canadian beef and pork.

**Back to EFTA: Switzerland**

In the 1980s, the European Free Trade Area (EFTA) countries, of which the UK was once a part, entered negotiations with the EU on a new trade bloc that would expand the scope of the single market and would eventually become the European Economic Area (EEA). In 1992, the Swiss electorate voted against EEA membership. Instead, Switzerland negotiated over 100 separate agreements with the EU covering market access in different sectors. It remains part of EFTA along with Norway, Iceland, and Liechtenstein.

As a result, Switzerland has only partial access to the Single Market, mostly in goods. Agriculture is not comprehensively covered, and there is only limited access to trade in services. Switzerland It is not part of the passporting system that lowers barriers for financial services across the EU and hence Swiss Banks have to establish a subsidiary in an EU or EEA country in order to obtain passporting rights. Switzerland does not have to change its own laws in response to EU legislation but if it fails to do so, the EU can block access to the relevant parts of the Single Market. Switzerland can conclude its own trade agreements with other parts of the world. It has 29 agreements, covering 41 countries.

Switzerland contributes to the EU’s budget and participates in EU programmes like Erasmus and Horizon 2020. Although Switzerland chose to join the Schengen area and takes part in EU arrangements for asylum seekers, it is currently in dispute with the EU over immigration. In 2014, the Swiss voted in a referendum for quotas on migrants from other EU countries, but the EU has responded by arguing that this is a beach of EU-Switzerland bilateral agreements, and has suspended negotiations on further access to the Single Market.

**Back to EFTA: Norway**

Norway agreed terms to join the EU in 1972 along with the UK, Denmark, and Ireland, but this was rejected in a referendum later that year. In the early 1990s, Norway negotiated entry into the EEA as a preparation for full entry into the EU, but this was again rejected in a referendum in 1994. Norway remains outside the EU but inside the EEA along with Iceland and Liechtenstein.

In order to secure access to the Single Market, Norway is obliged to ensure that its domestic law complies with any EU legislation that forms part of the EEA agreement. This applies not only to product specific rules, but also in cross-cutting areas like completion policy. Even so, it faces tougher rules of origin than would be the case if it had been inside the EU, does not receive any benefits from trade deals between the EU and third countries, and is outside the Single Market for agriculture and fisheries altogether.

Norway is obliged to accept the free movement of labour and is part of Schengen. Norway makes a very large contribution to the EU’s budget, thought to be comparable with EU Member States of similar size and income. Like Switzerland, it participates in education and science programmes like Erasmus and Horizon 2020.   Although it has no formal say in the making of EU rules, Norway has a right of reservation over the application of new single market rules, but has never used it.

**Appendix 3**

**Brexit – Implications for Treasury Operations**

The recent UK referendum provided significant uncertainty to investors surrounding what type of trade agreement we can implement with the EU. This is further compounded with the background of considerable political change.

The world economic environment was recovering from the 2008 financial crash, but the slowdown in China and a resultant fall in commodity prices, resultant emerging markets difficulties and a weak EU all suggested world economic growth would soften before the UK‘s vote to leave the EU, which has merely accelerated this view. The vote also has an adverse impact on the EU (the UK was the second largest economy in the EU), and has wider worldwide ramifications.

The main outcome of this uncertainty is that businesses postpone investment decisions if they are uncertain whether that investment would be worthwhile. This in turn has a drag on economic growth worsening the expected UK/world slowdown. Sterling has depreciated (good for exports, bad for inflation). Concerns surround the property market, consumer confidence (the key driver of the UK economic recovery), high street sales and many other economic indicators. Economic growth may stall in the second half of 2016. This expected fall in economic prosperity has been reflected in a downgrade of the UK sovereign rating to AA (from AAA/AA+).

From a UK Government fiscal perspective the deficit is likely to widen as a result of the referendum result and consequently the Chancellor has removed his target for a balanced budget.

Against this uncertainty it is impossible to provide a clear steer of economic and interest rate movements and the likely impact on the Council’s treasury operations. In the longer term trade agreements will be agreed, political instability will be resolved and uncertainty will fall away, however, initially the economic outlook has worsened. The fall in Sterling and economic concerns will likely see a fall in the Bank rate from its current 0.5%, with Mark Carney potentially supporting any cut with further Quantitative Easing. This in turn has seen borrowing yields fall sharply.

There is significant uncertainty to the current interest rates view; on 14 July the BoE Monetary Policy Committee (MPC) voted (8:1) to hold the base interest rate at 0.5%, however many experts are predicting that the next move will be downwards and may not be that far away. The table below represent Capita Asset Services latest view of future rates:



This is not an ideal background for local authorities’ treasury operations. However, in terms of the Council’s treasury operations little will change. It is important to remember that the Council was operating on a low risk basis beforehand, so were well prepared for a leave vote. As a consequence there is unlikely to be significant change:

* Investment yields will fall, although the current 0.5% Bank rate did not allow material returns to be made before the referendum.
* Counterparty concerns have been elevated since the referendum, although this has to be considered in the light of a strengthening of banks’ balance sheets over a number of years. This fact, and the current low risk approach to investing, should see little change in investment operations.
* Borrowing yields have fallen and should remain low in historical terms.