AUDIT COMMITTEE

30 JUNE 2016

TREASURY UPDATE

Report from: Phil Watts, Chief Finance Officer

Author: Jonathan Lloyd, Principal Accountant

Summary

This addendum report updates members on developments following the UK referendum held on 23 June 2016.

1 Budget and Policy Framework

1.1 The council's treasury management strategy and policy are approved by Full Council following consideration by Cabinet and Audit Committee.

2 Background

2.1 The vote by the electorate in favour of Britain leaving the European Union has caused volatility in the financial markets which is likely to continue for some time.

3 UK Credit Rating

3.1 All three rating agencies, Fitch, Moody's and Standard & Poor's (S&P), have now assessed the outlook for their sovereign rating of the UK as negative. In the case of S&P this is not a change but for the other two this represents a downgrading from a stable outlook.

3.2 As at 28 June Fitch had downgraded UK sovereign rating from AA+ to AA and S&P from AAA to AA. Moody's rating remains at Aa1 (equivalent to AA+ from the other agencies.)

3.4 On Tuesday evening (28 June) Moody's started downgrading their ratings of UK banks including Barclays and Lloyds. Lloyd's long term outlook was downgraded from positive outlook to stable. Barclay's long term outlook was downgraded from stable to negative outlook.

4 Implications for Treasury Investment

4.1 Officers will continue to adopt a cautious approach to investment. Deposits will only be placed with banks meeting the criteria recommended by our advisors Capita Asset Services. These assessments are updated daily based on the ratings by the agencies and credit default swap (CDS) data. The team only place deposits with notice periods within the durations recommended by Capita, and in compliance with country and individual institution limits set out in the treasury strategy.

4.2 The Council also has some £19.475m lent to other UK local authorities. These investments are unaffected by recent events.

4.3 The Council holds units in the CCLA Property Fund which is invested in a portfolio of commercial property. The cost of this investment was £3m.This is regarded as a long term investment but valuations will be kept under review on an on-going basis.

5 Implications for Borrowing

5.1 Uncertainty in the equity markets tends to cause a flight to safety by investors and an increase in gilt prices. This in turn reduces yield on gilts which are the basis for PWLB lending rates. Between 22 and 28 June PWLB rates for 1 year loans fell from 1.37% to 1.14%, 5 year loans from 1.88% to 1.52% and 50 year loans from 2.89% to 2.62%.

5.2 The low cash balance at 31 March 2016 coupled with the government revision of grant payment dates has resulted in a need for short term borrowing. The Council has so far been able to borrow at rates of 0.5% or less. Whilst these funds continue to be available at similar rates there is no incentive to take longer term loans at higher rates. Officers will work with our advisors to keep this position under review.

6 Recommendation

6.1 Audit Committee is asked to note the content and recommend this report to Cabinet

Background papers
None

Lead officer contact

Phil Watts, Chief Finance Officer, Gun Wharf, Tel (01634) 332220, e-mail phil.watts@medway.gov.uk