Appendix 6

IMPACT OF EUROPEAN UNION (WITHDRAWAL) ACT 2018

The Council's treasury advisor, Arlingclose Ltd, informed the Council on 14 January 2019 that the European Union (Withdrawal) Act 2018, as drafted, changes the status of most pooled investment and money market funds. When the UK leaves the EU (currently 29 March 2019), transactions with almost all external pooled funds and money markets will become capital expenditure. Whilst we understand this was not the Intention of the legislation, there is now little time or opportunity to correct this position prior to the planned EU exit date.

The implications for the Council's external pooled fund investments, whilst significant, are manageable over the short term by deferring any further investment or disinvestment in these funds until this position is resolved.

For Money Market Funds, action needs to be taken to ensure that the Council can maintain sufficient cash management capacity without resorting to a large number of short term deposits with Banks and Local Authorities which would be administratively burdensome and would be inflexible in that we could not repatriate funds before the term date.

Arlingclose have confirmed that there are two money market funds that are not affected by this change. These are

• CCLA Public Sector Deposit Fund

• Federated Short-term Sterling Prime Fund

The Federated Sterling Cash Plus Fund, which is a very liquid short term pooled fund, is also not affected by this legislative change.

As part of existing BREXIT preparations, an application to open an account with Federated Investors has already been made.

Proposal

To ensure that contingency arrangements can operate within the terms of the Council's Treasury Management Strategy, officers recommend the following limits are approved to temporarily amend to tables 4 and 5 of the Council's Treasury Strategy until the legislative position is clarified.

- Increase the specific counterparty limit for CCLA to £16m from £10m. This equates to the existing £10m investment with the Local Authority Property Fund and up to a further £6m in the Public Sector Deposit Fund for cash management purposes.

- Introduce a specific counterparty investment limit of £12m for federated investors, representing up to £6m in the Federated Sterling prime fund and, up to £6m in the Short-term Sterling Prime Fund.

The maximum that Council can invest in this fund will also be subject to the proportionality limits determined by in Tables 4 and 5 of the Council's Treasury Strategy.

Alongside these measures the Council also already has access to a current account with Handelsbanken that can be used to invest up to £3m for liquidity management purposes.

These temporary limits will operate from the day the European Union (withdrawal) Act 2018 commences until either:

1. An updated Treasury Strategy is approved by full Council; or
2. The Government amends relevant legislation to ensure that Pooled and Money Market funds can be classified as revenue by Local Authorities.

Once these limits cease to be extant, unless an updated Treasury Strategy has been approved by Council, the limits in Tables 4 and 5 in the Treasury Strategy contained in Appendix 2 to this report will be in force, assuming the strategy is approved by Council.