<u>Impact of leaving the European Union on Council budget and treasury management</u>

Introduction

This note covers the budgetary and treasury management impact of leaving the European Union, including the impact on financial planning (budget and medium term financial strategy and funding), the impact on treasury management activity, the impact on local businesses and residents insofar as it affects our budget, and key risks and opportunities arising.

Impact on budgeting and financial planning

Leaving the European Union (Brexit) could have a significant impact on the Council's budgeting and financial planning process. If the UK leaves the European Union in October 2019 with an unsatisfactory deal or no deal at all this could lead to a great deal of uncertainty around the long term impact on local funding and service costs in 2020 and beyond, along with other uncertainties relating to business rates retention and the fair funding review. The current level of uncertainty is unprecedented in over 20 years and it remains to be seen how Brexit and other factors influence the Government's spending plans beyond 2020. Budgeting and financial planning will also need to take account of likely cost pressures affecting adult and social care staffing, environmental health and trading standards services, corporate procurement and contract inflation (although there could be savings from streamlining procurement processes).

Impact on local government and public sector funding

There is also likely to be a significant impact on funding for the public sector as a whole and local government in particular. **The Office for Budget Responsibility is forecasting a year long recession following a no deal Brexit (even if significant disruption is avoided) leading to a 2% reduction in Gross Domestic Product (GDP), unemployment rising to over 5%, house prices falling by 10% and a £30bn increase in government borrowing which will also increase national debt. By 2021 GDP could be 4% below previous forecasts. The Treasury worst case scenario including major border disruption could lead to a fall in GDP up to 8%.** This would inevitably affect funding for local government, notwithstanding commitments to provide additional resources for schools and policing and support social care, given the commitment to additional funding for the health service and pressure to protect other areas such as defence. In addition, there is uncertainty whether European funding programmes such as the European social fund will be replaced by UK government funding as soon as they come to an end.

Impact on treasury management activities

Treasury management activity including the management of surplus cash funds and the Council's Pension fund could be affected by the economic impact of an unsatisfactory Brexit deal or no deal at all. There is a risk of turbulence in financial markets and negative impacts on economic growth (including recession and a financial crisis), plus risks and uncertainties around inflation, interest rates and exchange rates. This could affect the pension fund and the outcome of future revaluations including employer contributions, and also the approach to treasury management, which will need to focus on mitigating risk.

General impact on services in London boroughs and Islington

London Councils has engaged with the Government, Mayor of London and the Local Government Association to ensure that London's needs are recognised. There has also been engagement with borough leaders, Chief Executives and professional networks to support preparations and exchange insights and good practice. The London resilience forum has been meeting regularly focusing on business continuity, staff helplines, potential border disruption and key sectors such as health, food, fuel, energy, transport and water. Individual boroughs have assessed the short, medium and long term impact including the impact of no deal on health, the economy, the environment and society at local level. Key concerns include supply chain disruption, workforce issues, vulnerable people and exporting waste to the EU. Other concerns include community cohesion, information sharing and points of contact, clarity on EU citizens settled status, regulatory powers post Brexit, national contingency plans and business confidence. Service directors including children's and adults services, environmental services and communications are working together to deal with Brexit issues.

Islington has set up a Brexit Resilience Group to co-ordinate preparations working with the Strategy and Change team and Emergency Planning. We have identified cost pressures, including EU funding not being fully or immediately replaced, contract inflation, labour costs and availability (especially in social care), and reduction in business rates and other income – along with opportunities for increased localisation of business rates and other taxes, and streamlining of procurement regulations. With the government now committed to leaving the European Union by 31st October preparations are being accelerated including the increasing possibility of leaving without a deal. The government has already provided funding of £105k each in 2018-19 and 2019-20 and is expected to provide further funding of around £105k shortly.. Islington has set aside £160k of this fund for 2 posts within Registrars, who are supporting the ID Checking Service. The remaining funds will be used for any further planning requirements and contingency needs in the event of a 'no-deal' exit.

Impact on local businesses and residents

There are also likely to be impacts on local businesses and residents, which will in turn affect the Council's budget. Local businesses (already affected by business rates increases) are likely to be impacted by increased labour and running costs including regulatory changes, which could lead to them ceasing operations or relocating elsewhere. Businesses in the creative, hospitality and financial sectors could be particularly affected. Similarly, local residents could be affected by the impact of Brexit on their earnings, living costs and employment prospects. From the Council's point of view, this could lead to a reduction in income from retained business rates and also an increased demand for support services.

Principal risks and opportunities arising

Brexit is currently identified on our corporate risk register as the biggest single risk facing the Council, including disruption to council services and supply chains. Risks are being controlled by reviewing Brexit preparedness to ensure risk mitigations are captured in our business continuity plans in conjunction with our wider Brexit strategy. Central government guidance and London resilience group activity is being monitored on a regular basis. To date the risk template has been completed and is being monitored regularly, with a focus on financial impacts going forward. Reporting to London Councils and MHCLG was suspended pending the formation of a new government but is now recommencing as the 31st October deadline approaches and London resilience group and government planning recommence.

In summary, there are a number of budget and finance related risks and opportunities arising:

- The risk of EU funding not being fully or immediately replaced by the government
- Risks around cost pressures and inflation, including contract inflation
- Risk of adverse impacts on labour availability and costs, particularly affecting social care and housing with reduced availability of EU workers (London Boroughs are at most risk)
- Risk of reductions in retained business rates and other income
- Opportunities from pressing for increased financial devolution including further localisation of business rates and other taxes, along with possible streamlining of regulations in areas such as procurement.