

# CIPFA East Anglia Conference

Ethical Investing & Brexit: a View from the Dark  
Side

14<sup>th</sup> September 2018

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**Roy Nolan**  
FCPFA ba (hons)

RP Martin  
Level 3  
1 Snowden Street  
London  
EC2A 2DQ

Email: [Roy.Nolan@Martin-Brokers.com](mailto:Roy.Nolan@Martin-Brokers.com)  
Desk: 0207 894 8698

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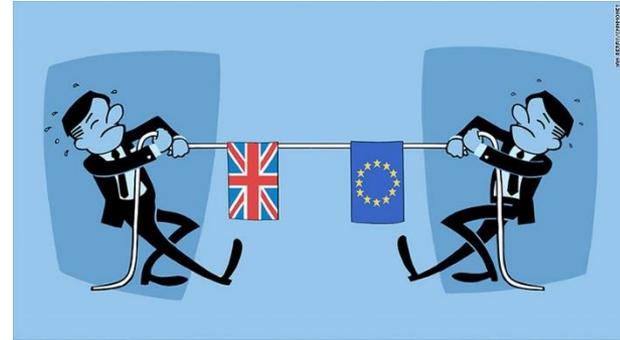


**Andrew Hinds**

RP Martin  
Level 3  
1 Snowden Street  
London  
EC2A 2DQ

Email: [Beansy@Martin-Brokers.com](mailto:Beansy@Martin-Brokers.com)  
Desk: 0207 894 8698

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# Brexit & The Public Sector

## *Things to consider ?*

**Trade:** Leaving the EU is likely to make trade with EU more difficult and expensive.

**Fiscal and funding:** The UK will no longer be required to make a financial contribution to the EU (assuming it does not opt to remain a member of the EEA). This could lead to acceleration of deficit/debt reduction plans. But policy makers also need to consider whether to re-create some or all of the EU Funds from which the UK currently receives payments.

**Regulation:** Brexit will mean an end to EU regulation. Public sector organisations will need to adapt as employers and in their role as policy makers to design new regulations taking account of any new freedoms.

**Sub-sectors:** Within the public sector, some sectors like education and health which have relied on the EU single market for talent mobility (students and staff) will feel a strong impact.

**Foreign Direct Investment:** Brexit will impact on business decisions to invest and trade with the UK. This means that devolved administrations and local governments will need to re-double their efforts to attract business regionally and locally

**Labour market:** The UK will now need to change its migration policies. This will be particularly important for organisations with many EU nationals on their staff.

**Uncertainty 2019 & beyond:** Uncertainty will continue after 2019 and as a consequence, there may be further squeezing of public sector budgets.

**Devolution:** The return of powers from the EU will not stop with the UK Parliament. Scotland is likely to call for a referendum to try to stay in the EU; LEPs and Combined Authorities may also be concerned at a loss of EU Funds and have to make the case for their replacement funds.

# Lessons from the past?



**HEALTHSOUTH**

**tyco**



Qwest 

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# Things can only get better?



## Some Caution Required?

- Pressure to maintain track record (EPS) – low volatility = complacency lack of investor scepticism
- Incentives are greater than before- CEO rewards greater than ever v Analysts – lower pay, less experience, tracking more companies = less chance of frauds being discovered?
- Universe of stocks has shrunk, take overs, incentives to sell and rewards of equity kickers

# Fraud is a late Cycle Phenomenon?

*" Auditors get sloppy, corporate governance is weak. As the business cycle turns managers start fudging the numbers, and some start down the slippery slope"*

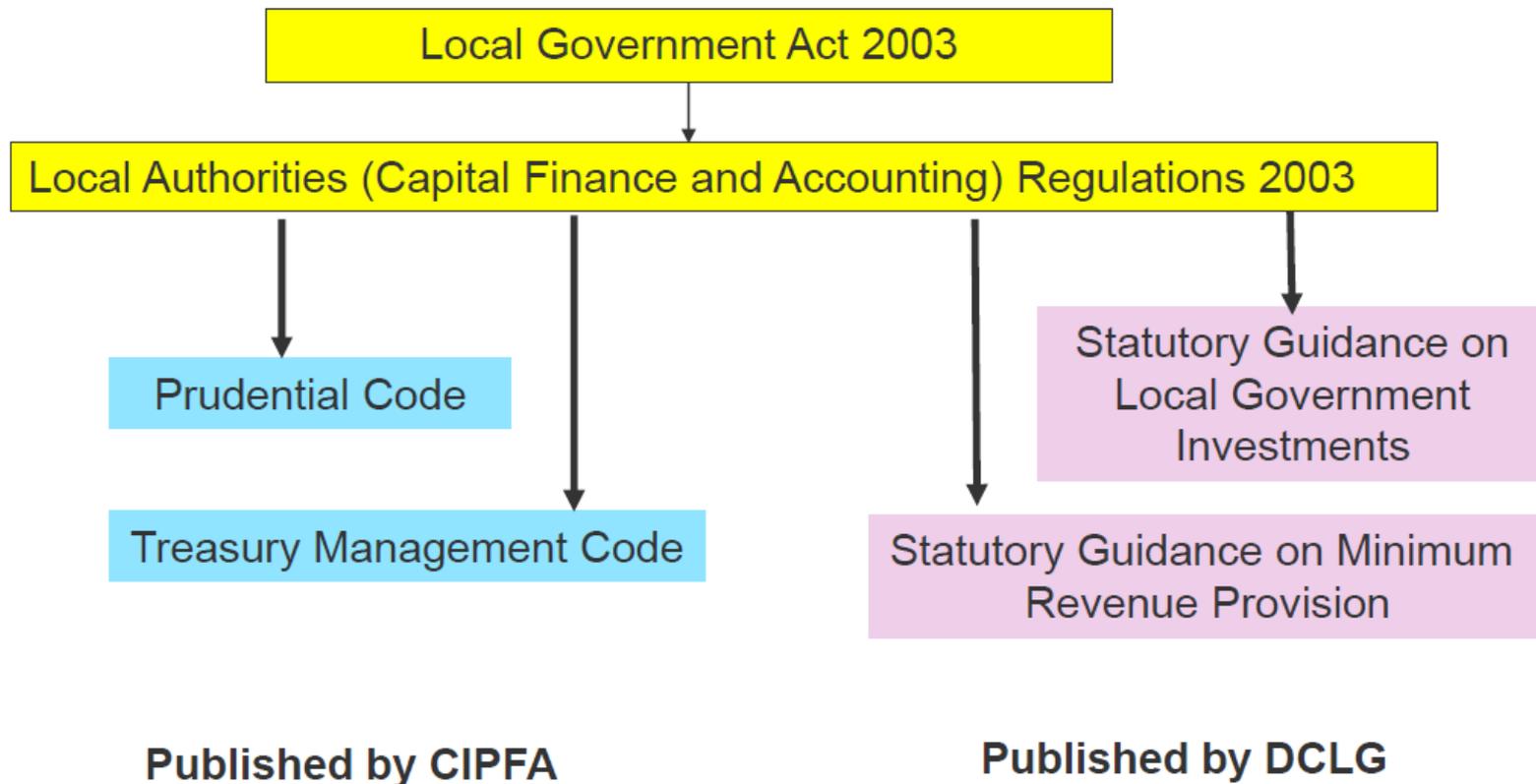
Dave Budge / Steve Clapham - Source Twitter

# Public Purse Under Pressure

- £250Bn central & local gov't to private suppliers
- £40bn Local authority cash

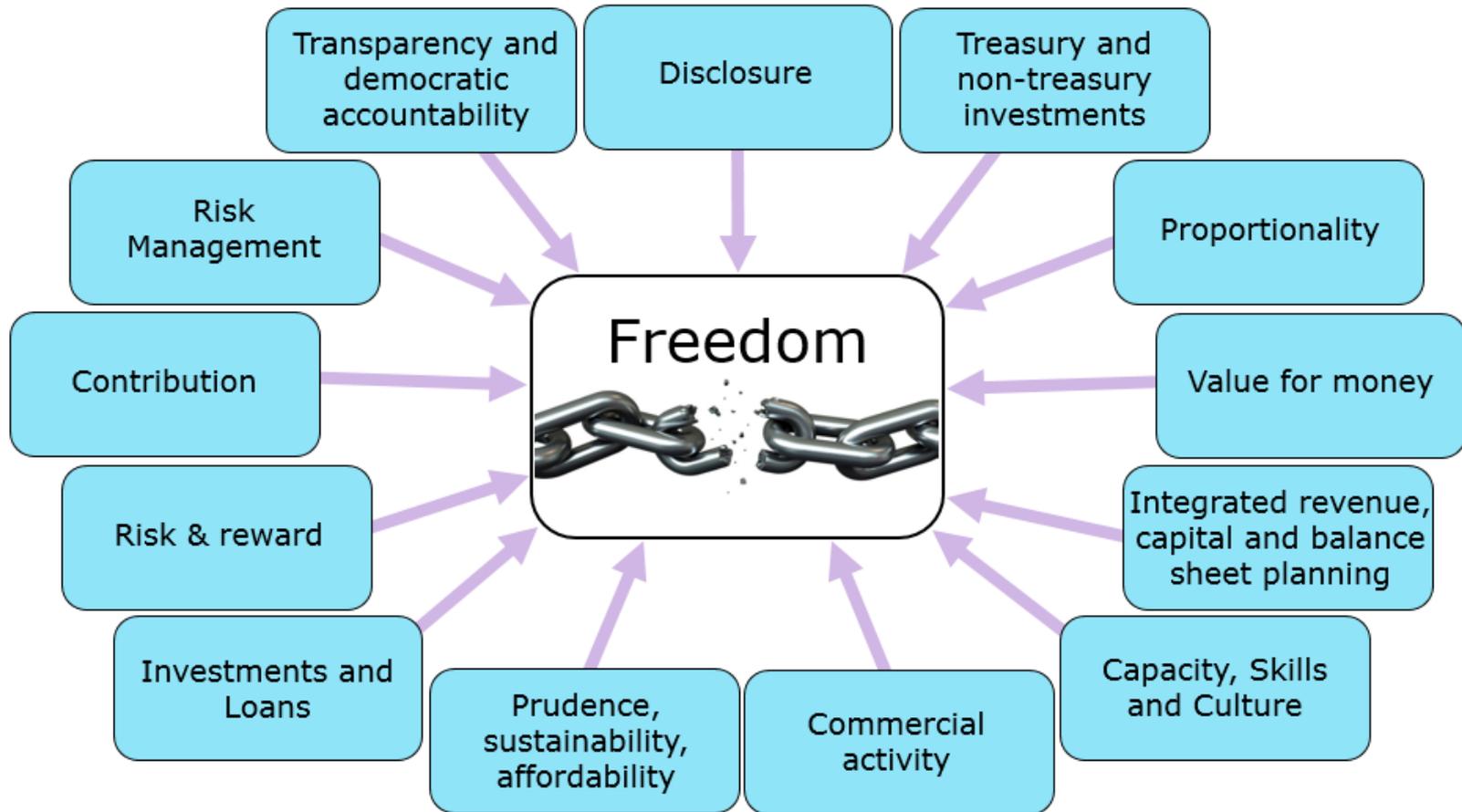


# The Prudential Framework



Source: Worth Technical Accounting Solutions

# Regulations in Summary



# Ethical Investing

- **Ethical investment** is also known as sustainable **investment** and socially responsible **investment** (SRI). The term describes an **investment** process that incorporates environmental and social factors when selecting **investments**, in addition to the objective of achieving a competitive financial return.
- Security Liquidity and Yield
- Versus Brexit, Austerity and Fraud

# Investment Definition

An investment covers all of the financial assets as well as other non financial assets the LA holds primarily or partially to generate profit; for example, investment property portfolios.

This may therefore include investments that are not managed as part of normal treasury management processes or under treasury delegations

# Spending power erosion

Base rate, inflation and real rates since Jan 2006

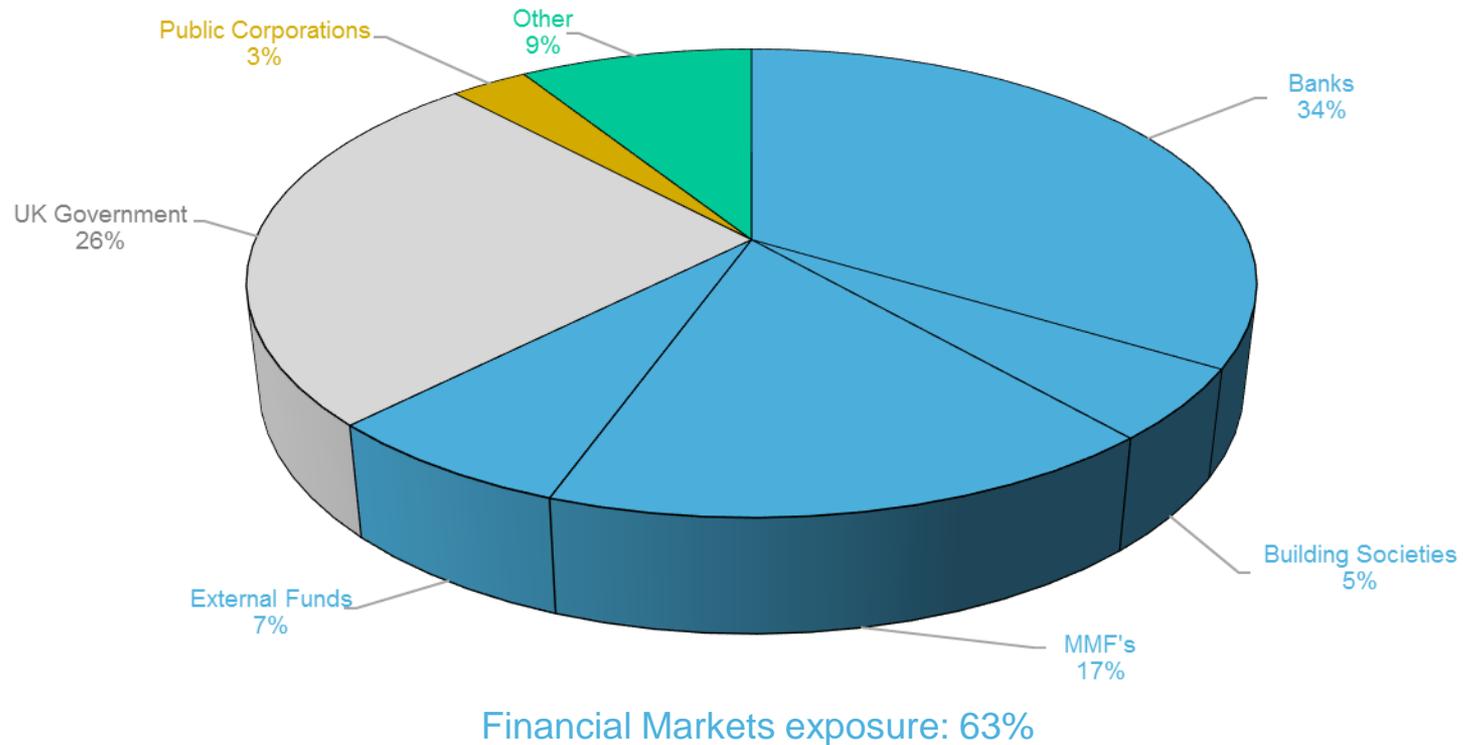




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# Strategy In Practice

Local Authority Investments (as at 31/12/17) - £42bn



# Risk Diversifying Investments

Green:



Renewable Energy



Waste to Energy

Business Support:



Pooled Investment Funds



Business Investment

Responsible:



Forestry



Carbon Reducing Tech.

Localism:



Leisure



Fuel Poverty

Regeneration:



Crematoria



Residential Property

Treasury returns:  
Tenor: 3 – 7 years  
Yield: 4.00% - 7.00%

Non-Treasury returns:  
Tenor: 5 – 30 years  
Yield: 5.00% - 10.00%

# Investment Criteria?

- Risk Diversification
- Avoiding losses
- Yield Impact.
- Accounting impact (IFRS9).
- Impact on cost of carry.
- Impact on benchmark: Bank rate v Inflation v Peers.
- Impact on sector concentration.
- Impact on maturity.
- Social / Environmental / Economic impact.

In deference to the code, any investment will be proportionate, include appropriate due diligence & incorporate expert advice

# Due Diligence and Expert Advice

- Financial Statements
- Cash flow / Revenue Streams / Debt Ratios / Assets
- Covenants
- Ownership Structure ( Debt / Equity)
- ESG policies
- Staffing
- Profit Margins
- Market Standing
- Impact of New technology

*"Governance is an enabler, not  
a straight jacket"*

Former CIPFA President – John Mathieson

## Any questions ?



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