

**Minutes of Treasury Sub-Committee Meeting  
Of the Lower Severn (2005) Internal Drainage Board  
Held Wednesday 11<sup>th</sup> March 2020 at 11.00am  
At the LSIDB Offices**

**Present:** Ald C Williams                      Chairman  
 Mr J Cornock                              Deputy for Cllr Riddle  
 Mr J Nichols  
 Cllr F Hance                                Deputy for Mike Barnes

Martin Dear                              Accounts Officer                      AO  
 Louise Reading                          Minutes

**\*\*Please refer to your meeting papers as dated above for the documents referred to in these minutes\*\***

<b>3010</b>	<p><b>Election of Chairman for 2019/2020</b>          The AO requested nominations for Chairman. Mr Cornock proposed Ald Williams and this was seconded by Cllr Hance. There were no further nominations.</p> <p><b>It was resolves unanimously that</b></p> <ul style="list-style-type: none"> <li>• <b>Ald Williams be elected Chairman of the Committee for the coming year.</b></li> </ul>	
<b>3011</b>	<p><b>Apologies/Welcome</b>          Apologised were received from Mr Barnes and Cllr Riddle.</p> <p>The Chairman welcomed and thanked Cllr Hance and Mr Cornock who were deputising for Mr Barnes and Cllr Riddle.</p> <p>The Chairman extended his welcomes to new Treasury Sub-Committee Member Cllr Howells.</p>	
<b>3012</b>	<p><b>Chairman's Announcements.</b>          There were no announcements.</p>	
<b>3013</b>	<p><b>Declaration of Members' Interests</b>          There were no declaration of interests.</p>	
<b>3014</b>	<p><b>Minutes of the Previous Meeting</b></p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The minutes of the meeting held on 11<sup>th</sup> March 2020 be approved.</b></li> </ul>	
<b>3015</b>	<p><b>Matters arising from the minutes</b>          All actions were complete.</p>	
<b>3016</b>	<p><b>Performance Schedule - Report from Smith and Williamson</b>          The Investment valuations, as in the papers, were as at 31 January 2020.</p> <p>The Chairman gave a brief history of the investment of developer's funds for Cllr Howells and the Members deputising.</p> <p>Mr Nicholls asked if the AO had the investment valuations as at today's date. The AO explained that todays figures had not been sought, the market was extremely volatile in light of Covid-19 and the market was rapidly changing.</p>	

	<p>The investment valuations for 29 February 2020 will be sent to Members shortly and that the next report is due at the end of March 2020. It was felt that day to day monitoring provided no benefit in the current climate.</p> <p>Mr Nichols asked if the figures were net of charges. The AO advised the figures were gross. Charges were taken quarterly, by Smith &amp; Williamson, from the investment account.</p> <p>Mr Nichols further asked if the AO could note the charges on the Smith &amp; Williamson schedules.</p> <p>The Chairman suggested that a single sheet be compiled showing the management charges and that this be presented at future meetings.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>At future meetings a paper showing management charges be presented.</b></li> </ul>	<p><u>Action 1</u> The AO to include a charges summary for future meetings</p>
<p><b>3017</b></p>	<p><b>Review of Treasury Management Policy</b></p> <p>The AO did not propose any changes to the current policy.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Treasury Management Policy, as per Appendix A, be presented to F&amp; GP Committee and the Full Board for approval.</b></li> </ul>	
<p><b>3018</b></p>	<p><b>Review of Capital Financing and Reserve Policy.</b></p> <p>The AO presented the Capital Financial and Reserve Policy as per Appendix B.</p> <p>The Chairman suggested that under Capital the wording be replaced with:</p> <p>'this reserve is needed to regularly appropriate from the expected excess income arising annually from the Income and Expenditure Account a sum of such magnitude as to be sufficient to cover the expected cost of the Board's approved capital expenditure which is incorporated into its medium-term financial plan. The major element of this reserve will be to cover the expected cost of replacing pumps at pumping stations to meet the 2009 Eel Regulations'</p> <p>and delete all the yellow highlighted explanation at the end of the Policy.</p> <p>Discussion was held around the wording in the policy with particular reference to the aspect of depreciation of the new pumps. Cllr Howells felt this was beneficial to have this separate.</p> <p>It was agreed to accept the changes with the added request that the Chairman and the AO make any further minor amendments as they see fit.</p> <p>Discussion then took place concerning the management accounts and the presentation of the new pumps as a fixed asset, the capital reserve and the future depreciation of the new pumps.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Capital Financing and Reserve Policy be amended and the Chairman and AO agree on any further minor amendments.</b></li> </ul>	<p><u>Action 2</u> The AO and Chairman agree any minor changes to the Capital Financing and Reserve Policy and any changes to the presentation of the management accounts</p>

	<ul style="list-style-type: none"> <li>• <b>The Capital Financing and Reserve policy, as per Appendix B, be presented to F&amp; GP Committee and the Full Board for approval.</b></li> <li>• <b>The AO and Chairman to discuss further and agree the presentation changes to the management accounts.</b></li> </ul>	
3019	<p><b>Balance Sheet and Developers funds as at 30<sup>th</sup> November 2019</b>  <u>Balance Sheet</u>  Members noted there were no material changes to the Balance Sheet since November 2019.</p> <p>Cllr Hance asked if the figures were audited. The AO explained that the Board was subjected to an annual internal audit performed by an external audit firm. The audit was classed as internal as the Board appointed the audit firm.</p> <p>The Board was subject to a National External audit where the audit firm were appointed by the Smaller Authorities' Audit Appointments Ltd. This external audit took the form of a distance audit where papers were sent the External Audit firm. There was no visit to the Board's premises. The main form to be completed and sent to the External Auditors was the Annual Governance and Accountability Return (AGAR), which was completed on a cash basis. This meant that the management accounts needed adjusting to a cash basis before the AGAR could be completed.</p> <p><u>Developers Funds</u>  The Chairman informed Members that there was £118,310 of Developer's funds in cash. He proposed that with the falling markers now would be a good time to invest further funds into the market.</p> <p>Cllr Hance commented that the stocks and shares may continue go down.</p> <p>The AO explained that there is an annual charge from the Developer's funds to the income and expenditure account. This is a transfer of cash, so £44,000 will transfer in 2020/21 and a further £45,000 in 2021/22. Currently we do not know if and when there will be future payments from new developers. The Investment in the market was originally agreed as a long term investment strategy and putting some monies in for a short term didn't agree with this strategy.</p> <p>The AO advised Members that it was important to keep the Board's cash flow and Developer's reserves separate at all times.</p> <p>Mr Cornock felt that the risk of investments dropping further outweighed the possible return.</p> <p>The AO also pointed out that should no developers fund be received over the next couple of years then the investments dividends would be needed to pay for the annual transfers to the income and expenditure account rather than invested in the market.</p> <p><b>It was resolved that</b></p> <ul style="list-style-type: none"> <li>• <b>Due to the volatility of the current market no further Developers' funds would be invested and for this to be revisited at the next meeting.</b></li> </ul>	
3020	<p><b>Schedule of Investments</b>  Members noted the schedule of investments for the periods</p> <ul style="list-style-type: none"> <li>• 1<sup>st</sup> April 2017 – 31<sup>st</sup> January 2020;</li> <li>• 1<sup>st</sup> January 2019 - 31<sup>st</sup> January 2020;</li> <li>• 1<sup>st</sup> April 2019 – 31<sup>st</sup> January 2020;</li> </ul>	

	<ul style="list-style-type: none"> <li>• 1<sup>s</sup> January 2020 to 31<sup>st</sup> January 2020 for review.</li> </ul> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>For future meetings schedules for the current financial year, the current physical year and from April 2017 would be provided.</b></li> </ul>	
<b>3021</b>	<p><b>Cash Flow</b> The AO reported that the current cashflow looked healthy however an expensive year was forecast with the pumps at two pumping stations being replaced. This will significantly impact amount of cash that the Board has.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The cash flow forecasts be noted</b></li> </ul>	
<b>3022</b>	<p><b>Date of next meeting</b> Members agreed that the next Treasury Sub-Committee would be held on Wednesday 26<sup>th</sup> August 2020 at 10.30am.</p>	
	The Meeting closed at 12.25pm	

# LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

## Treasury Management Policy

Approved 5<sup>th</sup> June 2019, Minute 2880

To be reviewed 10<sup>th</sup> June 2020

### Introduction

The primary principle governing the Board's investment criteria is the security of the financial institution in which the Board places its funds. Yield/return and liquidity are also key considerations.

### 1. The Board's funds

#### Approved Financial Institutions

The Board's principal banker is NatWest.

Cash may be deposited with any of the four main clearing banks (NatWest, Lloyds, Barclays and HSBC).

### 2. Accountabilities

The Treasury Sub-Committee will determine the amount of cash that is available for deposit with the four main clearing banks.

In addition to the NatWest Direct Reserve account, there will be two or three other deposit accounts.

Cash may be deposited in instant access accounts, fixed term accounts or notice accounts

If deposited in a fixed term account then the maximum fixed term period is six months.

If deposited in a notice account then the maximum notice period is six months.

The Accounts Officer to have flexibility to allocate funds between accounts in order to attract the best return. In particular the Accounts Officer is authorised to move funds between the Bonus Saver and the two Notice Accounts to increase the return of interest received on cash balances having regards to the cash flow requirements of the Board.

### 3. Funds received from Developers

Under minute No. 2218 at 24 June 2015 Board Meeting, the Board approved the appointment of Smith & Williamson Investment Managers. They manage the fund on a non-discretionary basis.

The Board resolved to invest £500,000 of the funds into a balanced multi asset portfolio. The income from these investments are to be re-invested.

The Treasury Sub Committee has the authority to invest future sums received from Developers. Before investing any future sums received, the Treasury Sub-Committee must take into account the cash flow requirements of the Board.

The Treasury Sub-Committee has the authority to agree into which funds these should be invested following consultation with Smith & Williamson.

## **LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD**

### **Capital Financing and Reserves Policy**

**To be approved by the Board on 10<sup>th</sup> June 2020**

#### **Introduction**

Reserves are an essential part of good financial management. They help the Board cope with unpredictable financial pressures and plan for future spending commitments. The purpose of this Reserves policy is to maintain an adequate level of funds to support the ongoing operations of the Board and to provide a source of internal funds for operational priorities such as rhine and ditch maintenance, pumping station running costs and repair, capital replacement and improvement programmes.

The Reserves policy will complement other governance and financial policies and will support the goals and strategies contained in strategic and operational plans.

#### **Background**

The Board is required to set a balanced budget annually, which broadly means that cash raised within the year correlates to the cash expended in that year. However variances to the budget will occur. This may result in surplus funds through unbudgeted income such as Developer Contributions, better values achieved on the sale of assets or additional income from grants, contributions and recharges. Expenditure might be greater than budgeted for example such as lower values achieved on sales of assets, greater maintenance costs than predicted or an increase in pump electricity usage.

There will also be the funding of major (capital) spend. Most purchases, mainly vehicles and plant, are resourced through internal funds which are then replenished through appropriate depreciation charges based upon the life of the assets.

However, there may be instances where monies need to be identified to fund larger capital spend items such as the replacement of pumps or significant flood alleviation and land drainage management schemes. When this occurs forward planning will need to take place in order to ensure that sufficient funds are available at the appropriate times.

Importantly, there is a requirement to manage cash flows to ensure that cash is available when needed.

## Types of Reserve

There are two types of Reserves:

- Earmarked Reserves – funds that are set aside to meet known or future predicted future spending.
- Unallocated Reserves – funds that are working balances to manage cash flow and protect annual budgets against unplanned expenditure.

## Reserves Held

### Earmarked

- **Development (Committed Sums)**  
This reserve consists of sums received from developers to maintain agreed rhines, ditches and ponds in perpetuity within specified areas.
- **Capital Pump Replacement**  
This reserve is, **predominantly**, a provision to meet the costs of replacing the pumps at pumping stations to meet the 2009 Eel Regulations
- **Pump Station Future Depreciation Provision**  
This reserve is a provision to meet the **future depreciation costs of the new pumps at pumping stations.**
- **Pension**  
This reserve is the liability, of the Board, related to the defined benefit pension scheme. Note it is a negative reserve.
- **Revaluation**  
This reserve is the increase in value of land and buildings, from cost, as at 15 January 2015.

### Unallocated

- **Income and Expenditure**  
This reserve provides protection against unplanned expenditure. Any under spend, at the year end, is transferred to this reserve. Any over spend, at the year end, is met from this reserve.

## Review of Reserves

Each reserve will be reviewed, on an annual basis by the Treasury Sub-Committee prior to review by the Board. The Board's review will form part of the annual budget setting process. Part of this review will include considering guidance published by the Association of Drainage Authorities.

## Creation / Cessation of a Reserve

An earmarked reserve may be created for a specific purpose if it is agreed by the Board. Likewise the Board may close an earmarked reserve if it is no longer required. Any remaining funds in a Reserve to be closed will be transferred to another reserve.

## Level of Reserves Held

The Board has no legal powers to hold reserves other than those for reasonable working capital needs, or for specifically earmarked purposes.

If, at the year end, the Income and Expenditure Reserve is significantly higher than the annual Special Levies and Agricultural Rates income then an explanation will be provided by the Board. The Board's Financial Regulations state that the general provision, including a contingency, should be maintained which is equivalent to approximately 30% of the Board's annual expenditure.

## Liquidity of Reserves

Reserves will be held jointly in general cash and investment accounts of the Board.

## Explanation of the creation of the Pump Station Future Depreciation Provision Reserve

The function of depreciation is to make the Balance Sheet more accurately reflect the current value of fixed assets. The objective of charging depreciation is to spread the cost of the fixed asset over its useful life. Depreciation is a source of internal financing which does not affect working capital as it does not involve the outflow of any cash like other expenses.

The full cost of the new pumps have already been allowed for via the transfer of funds from the Income and Expenditure Account to the Capital Reserve. However the pumps have a useful economic life stretching over a number of years and therefore need to be recognised as a fixed asset with an annual depreciation charge being made to the Income and Expenditure Account. If there was no future depreciation provision reserve then the Income and Expenditure Account would be charged twice. Once for the original purchase of the pumps via the transfer of funds to the Capital Reserve and secondly by the annual depreciation charge. A transfer from this depreciation provision reserve will be made annually to the Income and Expenditure Account. This will nullify the depreciation charge and hence the pumps will only be financially accounted for once.



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### **Background**

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## Reserves Held

### Earmarked

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Subsequent to the purchase of an asset, annual depreciation will be applied at its appropriate rate and charged to the Income and Expenditure Account. Simultaneously the same amount will be removed from the Capital Reserve by a transfer back to the Income and Expenditure Account.
- **Pension**  
This reserve is the liability, of the Board, related to the defined benefit pension scheme. Note it is a negative reserve.
- **Revaluation**  
This reserve is the increase in value of land and buildings, from cost, as at 15 January 2015.

### Unallocated

- ~~Income and Expenditure~~ **Accumulated Fund**  
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## **Review of Reserves**

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## **Liquidity of Reserves**

Reserves will be held jointly in general cash and investment accounts of the Board.