

**Minutes of Treasury Sub-Committee Meeting
Of the Lower Severn (2005) Internal Drainage Board
Held Wednesday 26th August 2020 at 10.00am
Via Zoom Virtual Meetings**

Present: Ald C Williams Chairman
 Cllr M Riddle
 Mr J Nichols
 Mr M Barnes
 Cllr P Howells

Martin Dear Accounts Officer AO
 Louise Reading Minutes
 Mr V Boscawen Smith & Williamson S&W
 (For items 3056, 3057 & 3058)

3050	Apologies/Welcome The Chairman welcomed all Members The Chairman welcomed Vere Boscawen to the meeting at 10.30am.	
3051	Chairman's Announcements. There were no announcements.	
3052	Declaration of Members' Interests No interests were declared.	
3053	Minutes of the Previous Meeting It was resolved that: <ul style="list-style-type: none"> • Subject to Cllr P Howells being added as present, the minutes of the meeting held on 11th March 2020 be approved. 	
3054	Matters arising from the minutes All actions were complete.	
3055	Management Fees charged by Smith & Williamson Members discussed the AOs report outlining the fees charged by Smith & Williamson for managing the Portfolio. In response to Cllr Howells question, the Chairman advised that the fees were in line with what other companies would charge. Mr Nichols asked if the investment figures in the Smith and Williams report were net of fees. The AO advised that they were not and that the fees came out of the Investment account. Mr Nichols also informed Members that he has received a factsheet from Baillie Gifford advising that their fund management fee was 0.43%, The Chairman advised that this was not a comparative fee as Smith & Williamson managed the Boards entire portfolio. It was resolved that: <ul style="list-style-type: none"> • The report be noted. 	
3056	Review of current Portfolio The Chairman welcomed Mr Boscawen to the meeting.	

	<p>Mr Boscawen explained that despite the COVID 19 pandemic the Boards funds had performed satisfactorily. Whilst there had been significant reduction on return by some funds held by the Board, 3 funds managed by Baillie Gifford had provided a significant return. This meant that overall, the Board had seen a return of +3.6% against an average of -1.4% across the market.</p>	
3057	<p>Market Update</p> <p>Mr Boscawen advised Members that Asian markets had recovered well in comparison to America and Europe. Europe, including Britain, being hit hardest.</p> <p>Funds held within leisure, retail, hospitality and travel had seen significant reductions in return. However, it looked promising that these economically sensitive stocks would successfully grow again in the long term.</p> <p>The technology giants had continued to report growth especially as Covid 19 forced business to adapt quickly to provide homeworking resources.</p> <p>Funds held in commercial property stocks hadn't performed well due to Covid 19 and the realisation that now home working would become a more permanent feature.</p> <p>Mr Boscawen also advised Members against investment in the gilt and bond markets as it was felt this would take longest to recover, as interest rates would not increase for a long time.</p>	
3058	<p>Future Investment Strategy</p> <p>Although happy with the performance of the portfolio overall during such turbulent times Mr Boscawen recommended the following investment changes:</p> <ol style="list-style-type: none"> a) Polar Emerging Markets be sold and reinvested in JP Morgan Emerging Markets. b) The income account be invested 50:50 to Monks Investment Trust and Schroder UK Mid Capital Fund <p>The Chairman thanked Mr Boscawen for his time and Mr Boscawen left the meeting.</p> <p>It was resolved that:</p> <ol style="list-style-type: none"> c) Polar Emerging Markets be sold and reinvested in JP Morgan Emerging Markets. d) The income account be invested 50:50 to Monks Investment Trust and Schroder UK Mid Capital Fund 	<p>20200826TRE1 AO to instruct S&W</p>
3059	<p>Balance Sheet & Developers Funds as at 30th June 2020</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The Balance Sheet and Developers fund be noted. 	
3060	<p>Schedule of Investments</p> <p>The Chairman reminded Members that investment funds derived from Developers funds only. These funds were considered a long-term investment.</p> <p>He also mentioned that when producing comparisons, over a time frame, the starting date will have an effect on the results shown.</p>	

	<p>The AO explained to Members that the reports showed movement on the first investment amount of £500,000 in April 2017 separately to the additional £150,000 invested in December 2019.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The Schedule of Investments be noted. 	
3061	<p>Consideration of Information Received from Baillie Gifford The Chairman informed Members that the information requested had not been received from Baillie Gifford thus this item could not be considered.</p> <p>As and when the information became available an additional Treasury Sub-Committee meeting may be arranged to discuss this item, as appropriate.</p>	
3062	<p>Cash flow forecast – Capital Programme 2020/2028 The AO explained to Members that this cash flow would form an appendix to the Capital Report that is going to the next Engineering Committee Meeting on 2nd September 2020.</p> <p>The Chairman noted that it was important to remember that the further into the future the cash flow went, the less certainty there is and these figures were reflective on the programme being delivered within budget and on time.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The Cash Flow forecast – Capital Programme 2020/2028 be noted. 	
3063	<p>Cash Flow 2020/2021 The AO advised Members that cash at the beginning of the year was £1.2m and this reduced to £591,000 by the end of the financial year. This was predominately due to Capital Programme Expenditure.</p> <p>In reply to Cllr Howells question, the AO advised that on completion of the Pump Replacement Programme in 2028, the cash flow would show an increase in monies as the Capital Reserve improved, until the next capital project took place.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The Cash flow 2020/2021 be noted. • 	
3064	<p>Cash Flow Forecast for 2020/2021 – 2024/2025 The Chairman highlighted to Members that by 2024/2025 the cash figure was significantly reduced with developers and capital reserved displaying negativity. This affirmed the need for the Capital Programme's budget and timetable to be monitored regularly.</p> <p>The AO explained that if further developers' funds were not received then funds would be taken from investment dividends as cash, instead of dividends being reinvested.</p> <p>Cllr Riddle felt that even with the negative balances it was positive that the Board were aware of the situation.</p> <p>It was resolved that:</p>	

	<ul style="list-style-type: none"> • The Cash Flow 2020/2021 – 2024/2025 be noted. 	
<p>3065</p>	<p>Review of Reserves. The AO advised that the review of the reserves was the responsibility of the Treasury Sub Committee annually.</p> <p>The Chairman also informed Members that along with the AO he had spent considerable time in determining the wording for the Capital Financing and Reserves Policy.</p> <p>The Chairman guided Members through each section.</p> <p>Under Level of Reserves held, Cllr Riddle questioned that previously the reserves held were around 30% but now the suggestion was 100% of annual expenditure.</p> <p>The Chairman explained that this was in line with guidance from The ADA Good Governance Booklet and whilst historically 30% had been agreed the Board had a duty to follow any good guidance provided by ADA.</p> <p>The AO referred members to the paragraph in the policy which states that an explanation will be provided when the reserves are not within 25% of the normal year's expenditure. It seemed sensible to increase this reserve gradually and not to the detriment of the ratepayer.</p> <p>Cllr Riddle was concerned that this advice was standard across all IDBs and not all IDBs were the same in respect of size, business models, and history.</p> <p>If the policy was agreed, then there would be an impact on the Financial Regulations. Which would be amended to reflect the change in the level of reserves to be held.</p> <p>Members thought it best practice if this could be considered at the next Governance and Probity Committee Meeting due to be held on Wednesday 2nd September.</p> <p>Cllr Riddle agreed as Chair of the Board he would contact Cllr Behan, Chair of the Governance and Probity Committee, to add this on as an urgent item.</p> <p>This would allow for the Capital Financing and Reserves Policy to be submitted to the next Finance and General Purposes Meeting and subsequent Board Meeting for approval.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The Level of Reserves change from around 30% of annual expenditure to 100% annual income be submitted to the Governance and Probity Committee as an urgent item on 2nd September 2020. • The new Capital financing and Reserves wording be accepted and submitted to the Finance and General Purposes Committee for review and then forwarded to the Board for approval as per Appendix A. • Subject to the above, to note that the Financial Regulations, will need to be amended to reflect these changes, to agree these changes and submit to the Finance and General Purposes Committee for agreeing and then forwarded to the Board for approval. 	<p>20200826TRE2</p> <p>Cllr Riddle to speak with Cllr Behan about inclusion of item at the next G&P</p>

3066	Date of next meeting The date of next meeting to be advised	
	The Meeting closed at 12.10pm	

LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

Capital Financing and Reserves Policy

To be approved by the Board on 23rd September 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

- **Capital Account**
This reserve consists of the total net value/worth, (assets less liabilities) of the Individual Drainage Boards when they amalgamated in 2005 to become one entity, the Lower Severn (2005) Internal Drainage Board.

- **Developers Funds**
This reserve consists of sums received from Developers. A Developer will pay the Board an agreed sum, up front, for the Board to maintain agreed rhines, ditches and ponds over the lifespan of the Developers project within the Developers specified areas of responsibility.

Annually, an amount will be transferred from this Reserve to the Income and Expenditure Account, to cover the applicable income and maintenance costs in that year. Within the Income and Expenditure Account there will be an income entry showing the transfer of funds. The corresponding expenditure will be shown within the relevant expenditure headings.

- **Capital Expenditure**
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.

Subsequent to the purchase of an asset, annual depreciation will be applied at its appropriate rate and charged 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

- **Accumulated Fund**

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.

Earmarked Reserves will only be held for genuine and intended purposes and their levels regularly reviewed. Each Earmarked Reserve will be separately identified and enumerated.

In practice Auditors consider a Board to be acting properly if the level of the Unallocated Reserve (Accumulated Fund) is a normal year's expenditure less any grant funding received.

If, at the year end, the Accumulated Fund is over 25% higher or lower than the normal years expenditure less any grant funding received 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 a normal year's expenditure less any grant funding received.

Liquidity of Reserves

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