

LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

Treasury Meeting

Wednesday 5th September 2018

LSIDB Office
10.00am

**Minutes of Treasury Management Sub-Committee Meeting
Of the Lower Severn (2005) Internal Drainage Board
Held Wednesday 18th July 2018 at 10.00 am
At Drainage Board Offices, Waterside Buildings**

Present: Ald C Williams Chairman
 Mr G Littleton
 Mr J Nichols
 Cllr M Riddle
 Martin Dear Accounts Officer AO
 Sue Williams Minutes

2700.	Apologies No apologies	
2701.	Declaration of Member's Interest No interests were declared.	
2702.	Minutes of the Previous Meeting It was resolved that: <ul style="list-style-type: none"> • The minutes of the 14th March 2018 meeting be approved as a true and accurate record. 	
2703.	<p>Cash Deposits The AO had prepared a monthly cash flow to the 31st March 2019. The Sub-Committee noted the fluctuation in balance over this period demonstrated that maximum flexibility was a priority consideration when placing deposits.</p> <p>The Sub-Committee identified that £500k could be invested in deposit accounts.</p> <p>The AO had circulated 21 examples of instant and 12-month term accounts, offered by institutions authorised by the Financial Services Compensation Scheme.</p> <p>The Sub-Committee observed that the difference in interest rates between instant and 12 months term accounts was minor at the time of the meeting.</p> <p>It was resolved:</p> <ul style="list-style-type: none"> • The AO close the Nat West; Hempsted Pond, Area Wide Charge accounts and the Lloyds; Commuted Sum 32-day notice deposit account. <p>It was resolved that:</p> <ul style="list-style-type: none"> • £500,000 be approved by the Sub-Committee as being available for investment in deposit accounts for a better return. <p>It was resolved that:</p> <ul style="list-style-type: none"> • The AO be given discretion to place deposits: <ol style="list-style-type: none"> a. Up to a maximum of £85,000 with institutions that were participants of the FSCS. b. The maximum fixed term to be up to six months. c. Fixed term notice accounts were acceptable. d. Ensure that funds were available when needed. 	<p><u>Action 1</u> AO to notify Members of deposit placements.</p>

	<p>It was resolved that:</p> <ul style="list-style-type: none"> • The AO notify the Sub-Committee Members by email once the investments had been placed. • This strategy to be reviewed annually. • A list of the investments to be included on the agenda of future Treasury Sub-Committee meetings. 	
2704.	<p>Reserve Policy</p> <p>The Sub-Committee considered that the Board should develop a 'Reserves Policy' that recognised the Board's objectives in raising levies and rates for building up reserves for specific purposes.</p> <p>The Sub-Committee asked the AO to broadly draft a policy for them to consider at the next Treasury Sub-Committee meeting prior to recommendation to the F&GP and Board for approval.</p>	<p><u>Action 2</u> AO to draft a broad outline for a Reserves Policy</p>
	The meeting closed at 10.45 am	

Un-approved

Mr GR Littleton
Lower Severn Internal Drainage Board
Waterside Buildings
Oldbury Naite
South Gloucestershire
BS35 1RF



Collective Investment Schemes

Smith & Williamson is undertaking an exercise to determine whether clients are holding the cheapest available share classes of Collective Investment Schemes for which they are eligible.

The purpose of this notice is to explain the actions we intend to take on behalf of our clients. Where a cheaper share class is available and can be invested in, Smith & Williamson will automatically convert the holding into the cheaper share class. This will mean that the same fund will be held, but at a lower overall cost, which we believe to be in all clients' interest.

Conversion of units in this way is not a taxable event and no charges will be incurred on this switch.

Unless we hear from you to the contrary within 60 days, we will arrange to convert all holdings of any schemes which have cheaper shares classes available. This notice is applicable to you in all capacities, whether received as an individual, one of joint clients, as a trustee, as a partner in a partnership or as a director of a company.

If you have any questions about this notice, or you would like to receive a copy of the Key Investor Information Document describing the features of the particular fund(s) in the portfolio, please contact your investment manager.

Smith & Williamson Investment Management LLP
July 2018

LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

31 July 2018

Increase in Investments since 31 March 2017

Date	Valuation		
	Cash £	Capital £	Total £
31-Jul-18	13,813	598,761	612,574
31-Mar-17	13,371	550,114	563,485
Increase	<u>442</u>	<u>48,647</u>	
Total increase in value			<u>49,089</u>
Percentage Increase in value			8.71% (16 months) 6.53% (annual rate)

Stated MSCI WMA Balanced NR Index Since 31 December 2017

Portfolio	Market
1.92%	3.09%

Note:

Cash of £20,060 transferred into Capital in November 2017.

Management Charges since 31 March 2017

	£	£
Investment Services Fee (0.8%)		
April, May, June 2017	1,143.91	
July, August, September 2017	1,180.94	
October, November, December 2017	1,216.54	
January, February, March 2018	1,119.23	
April, May, June 2018	<u>1,187.69</u>	
		5,848.31
Custody Services Fee (0.2%)		
April, May, June 2017	285.98	
July, August, September 2017	295.23	
October, November, December 2017	304.10	
January, February, March 2018	279.81	
April, May, June 2018	<u>296.92</u>	
		1,462.04
Total		<u><u>7,310.35</u></u>
Approximate annual charge of		<u><u>5,848.28</u></u>

Price and World Indices

Price Indices

CPI and CPIH

The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 2.3% in July 2018.

The Consumer Prices Index (CPI) 12-month rate was 2.5% in July 2018.

CPIH is similar to the Consumer Prices Index (CPI) but attempts to add a measure of owner occupiers' housing costs. This is done by estimating what are called "Owner Occupiers' Housing" costs, adding these to CPI (along with Council Tax prices) to create CPIH.

RPI

The Retail Price Index (RPI) 12 month rate was 3.2% in July 2018.

World Indices

The MSCI World Index 1 year index performance was 12.49% in July 2018.

The MSCI World Index captures large and mid-cap representation across 23 Developed Markets countries. With 1,643 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country.

Key differences between CPI and RPI

	CPI	RPI
Origins	EU in 1996	UK in 1956
Purpose	To compare euro countries for compliance with Maastricht Treaty	To monitor cost of living for government planning and the basis of many agreements (e.g. wages)
Main exclusions (compared with household expenditure)	<ul style="list-style-type: none"> Council tax Mortgage interest payments House prices (depreciation) House purchase costs (e.g. stamp duty) Buildings insurance Ground rent Holiday spending abroad Income tax/National insurance 	<ul style="list-style-type: none"> Income tax/National Insurance Life insurance and pension charges
But includes	<ul style="list-style-type: none"> Foreign students tuition fees Forex commission for tourists 	Spending when abroad on holiday
How data averaged	<ul style="list-style-type: none"> Mainly geometric means Some normal ratio of averages 	Mix of ratios of averages (i.e. normal average of all prices checked) and average of the relatives (i.e. work out the price change at each store and then average these)
Data source for weights	Household monetary consumption expenditure component of the national accounts (-> weighted towards consumption of the rich)	ONS's Living Costs and Food Survey
Population for weighting	All UK residents	Excludes the wealthy and pensioners on state benefits (i.e. 13% of population)
Used to index	<ul style="list-style-type: none"> Benefits Tax credits Public service pensions 	<ul style="list-style-type: none"> Government debt payments Most pay negotiations Most private sector pensions

Lower Severn (2005) Internal Drainage Board

CAPITAL FINANCING AND RESERVES POLICY

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 (Commuted Sums)**
This reserve consists of sums received from developers to maintain agreed rhines, ditches and ponds in perpetuity within specified areas.
- **Pump Replacement**
This reserve is a provision to meet the costs of replacing the pumps at pumping stations to meet the 2009 Eel Regulations
- **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.