

LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

Treasury Meeting

Wednesday 7th November 2018

**The Gables, Falfield
To Follow Annual Board Meeting**

**Minutes of Treasury Management Sub-Committee Meeting
Of the Lower Severn (2005) Internal Drainage Board
Held Wednesday 5th September 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
Mr V Boscawen Smith & Williamson

2705.	<p>Apologies/Welcome There were no apologies. The Chairman welcomed Mr Boscawen to the meeting.</p>	
2706.	<p>Declaration of Member's Interest No interests were declared.</p>	
2707.	<p>Minutes of the Previous Meeting</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • The minutes of the 18th July 2018 meeting be approved as a true and accurate record. 	
2708.	<p>Matters arising from the minutes Referring to minute 2703 the AO updated the Sub-Committee. He had given notice to close the Lloyds 32-day notice account. Once funds had been transferred to the Lloyds current account this would be closed as well.</p> <p>As agreed sums up to £500,000 would be invested up to a maximum of £85,000 with challenger banks covered by the FSCS.</p> <p>He could report a list of suitable banks he intended to use:</p> <ul style="list-style-type: none"> • Virgin Money - instant access - 1% • Kent Alliance - instant access - 0.9% • Aldermore Bank – instant access 0.85% • Cambridge & Counties Bank - 31-day notice account 1.3% • Redwood Bank – 35-day notice - 1.35% • Hampshire Trust Bank 90 day notice 1.55% <p>The Committee noted these actions</p>	<p><u>Action 1</u> Email Sub-Committee once funds were deposited</p>
2709.	<p>Review of Current Portfolio Mr Boscawen reported to members that the value of current portfolio had delivered a 4.7% total return in 12 months, compared to the benchmark of 6.1%. The yield on the portfolio was 3.8%.</p> <p>He explained the comparison to the benchmark was distorted by the strong US market. Which is dominated by the performance of technology sector companies i.e. Amazon, Facebook and Google etc. This had no impact on the portfolio yield as they paid no dividend.</p>	
2710.	<p><u>Markets</u> Generally, the world economies were strong. There had been a concern that a trade war may overheat the markets and increase interest rates but Smith & Williamson predicted that rises in interest rates in the UK would be small and inflation would not rise significantly in the next year.</p>	

	<p>In general, the positive growth in US markets had had a positive effect on companies with exposure internationally. The fear of a trade war had mostly affected Asian emerging market economies.</p> <p>BREXIT Fears of a hard BREXIT had pushed sterling down. This did not help confidence in domestic businesses. The portfolio was quite well insulated against the effects of a no deal BREXIT due to the international business bias of the portfolio.</p>	
2711.	<p>Future Investment Strategy Mr Boscawen recommended that the Committee consider changing the following investments:</p> <ol style="list-style-type: none"> a) John Laing had been taken over recently by a consortium. Mr Boscawen recommended selling the holding and transfer funds to 3i Infrastructure. He said it 3i was not cheap but neither were other infrastructure investment funds. The investment would lock into an attractive yield and capital growth over the longer term. b) If income was not required by the Board in the short term a sensible strategy would be to invest in capital growth stocks, income would be sacrificed slightly. He suggested that the holding in Trojan be sold and transferred to Monks Investment Trust. Selling the holding in Trojan would drop the income by 3% i.e. £1,500 but produce a better capital return. <p>The AO was asked; what was the demand for income. He replied that there was time before the income was required.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • Based on the Smith and Williamson recommendations <ol style="list-style-type: none"> a) Holdings in John Laing be sold and funds invested in 3i Infrastructure b) Holdings in Trojan be sold and invested in Monks Investment Fund. 	
2712.	<p>Surplus of Income Cash on Investments The AO asked the Committee how they wanted to re-invest £10,000 surplus cash.</p> <p>It was resolved that:</p> <ul style="list-style-type: none"> • £10,000 surplus cash be re-invested in Monks Investment Fund. 	
2713.	<p>Investment Policy Mr Boscawen asked the Committee to affirm the Board's investment policy. The Board's Chairman and Vice-Chairman confirmed that the Board's objectives remained unchanged.</p> <p>Mr Boscawen left the meeting.</p>	
2714.	<p>Collective Investment Schemes Members noted the contents of the letter dated July 2018 from Smith & Williamson.</p>	
2715.	<p>Schedule of Increases in Investments The AO had produced a report to show the increase in investments since 31st March 2017 when the last tranche of investment had been placed with Smith & Williamson.</p> <p>The Chairman observed that the report used three different valuation dates and it was not easy to make the comparison with the MSCI world index.</p>	

	<p>The AO asked if the Committee would prefer the time frame in 12-month blocks or from a set point.</p> <p>Mr Nichols asked for 12-month and quarterly reports.</p> <p>The Chairman asked if the information could be displayed in a table for ease of comparison.</p>	
<p>2716.</p>	<p>Price and World Price Indices The indices were reported for CPI, CPIH and RPI. The Committee noted that the MSCI World Indices reported was 12.49% in July 2018 this was not comparable with the benchmark used in Smith & Williamson valuation.</p> <p>The Committee asked that in future reports the AO used the same MSCI world indices for mixed investments and the that the same date as requested in in the previous Minute no 2715.</p> <p>It was requested that the equity return element of the portfolio be analysed separately in future valuations produced by Smith & Williamson.</p> <p>The AO questioned if this information was useful to the Committee as the portfolio was set up to meet the requirements and responsibilities of a drainage authority taking professional advice, the Board were not looking to maximise the investment or income.</p> <p>The Committee confirmed that the additional information be requested from Smith & Williamson to help monitor the portfolios performance.</p>	<p><u>Action 2</u> AO used the MSCI mixed investment and for the same 12-month period as Minute 2715</p> <p><u>Action 3</u> Request additional information be included by Smith & Williamson in the future valuations</p>
<p>2717.</p>	<p>Capital Financing and Reserves Policy The AO had drafted a policy to address minute 2704. The policy explained why the Board held reserves above those required for working capital needs.</p> <p>Four earmarked reserves had been identified:</p> <ul style="list-style-type: none"> • Development (Commutated Sums) • Pump Replacement • Pension • Revaluation of land and buildings <p>And an unallocated reserve for income and expenditure.</p> <p>The reserves would be reviewed annually by the Treasury Sub-Committee and the Board prior to setting the rate.</p> <p>The balance sheet produced for F&GP Committee would require a slight presentation change once approved by the Board.</p> <p>It was resolved:</p> <ul style="list-style-type: none"> • That appendix A attached to these minutes be approved 	<p><u>Action 4</u> AO to verify the reserve was within the Financial Reg constraints</p> <p><u>Action 5</u> For approval by the Board</p>
	<p>The meeting closed at 11.15 am</p>	

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 (Committed 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.

COMMITTEE: Treasury Sub

MEETING DATE: 07.11.2018

REF: MD

REPORT BY: Accounts Officer

CASH DEPOSITS

Introduction

At the Treasury subcommittee meeting on 18 July 2018, the Accounts Officer was tasked with the following:

- **To close the Nat West; Hempsted Pond, Area Wide Charge accounts and the Lloyds; Commuted Sum 32-day notice deposit account.**

This has now been completed.

- **To invest in deposit accounts a total of £500,000; subject to:**
 - a. **Up to a maximum of £85,000 with institutions that are participants of the Financial Services Compensation Scheme (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.**

This has not been completed.

Internal drainage boards are, for legal purposes, classified as a small local authority.

The Department for Communities and Local Government defines an authority as being a small authority if its income or expenditure doesn't exceed £6.5m per annum.

The FSCS state that a small local authority is protected by the FSCS. However upon further investigation of the FSCS rule book, they will only protect a small authority if its annual budget is up to 500 Euros.

This has been confirmed by the FSCS.

This means that any deposits placed by LSIDB will not be protected.

When placing cash with a challenger bank it was important that the cash would be protected, this is now not the case.

The cash is currently in the NatWest Direct Reserve Account.

Recommendations

That the subcommittee determine the next steps with regard to cash deposits.

Martin Dear

Accounts Officer

November 2018