

WITHAM AND HUMBER DRAINAGE BOARDS

*Four independent statutory Land Drainage and Flood Control Authorities working in partnership.
Witham House, J1 The Point, Weaver Road, Lincoln LN6 3QN Tel: 01522 697123*



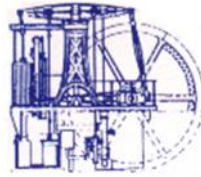
Witham First District IDB

www.witham-1st-idb.gov.uk



Upper Witham IDB

www.upperwitham-idb.gov.uk



Witham Third District IDB

www.witham3idb.gov.uk



North East Lindsey IDB

www.northeastlindsey-idb.org.uk

Treasury Management (Investment and Borrowing) Policy

Approved:

North East Lindsey IDB 14th November 2017

Upper Witham IDB 20th November 2017

Witham First DIDB 21st November 2017

Witham Third DIDB 21st November 2017

To be Reviewed by November 2020

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1 Introduction

- 1.1 The Boards are required to set a balanced budget annually, which broadly means that cash raised within the year correlates to the cash expended in that year. Part of the overall treasury management function is to manage those cash flows adequately to ensure cash is available when needed. Surplus funds may arise through unbudgeted income such as Developer Contributions, better values achieved on the sale of assets or additional income from grants, contributions and recharges. When these surplus funds are aggregated up they need to be invested in low risk counter parties, ensuring adequate liquidity rather than investment returns.
- 1.2 The second key element of treasury management is 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 borrowed to fund larger capital spend items such as a new pumping station or depot. When this occurs, any borrowing will be considered in terms of affordability of repayments which is predicated on the length of the loan and the interest rate payable.
- 1.3 This Treasury Management (Investments & Borrowing) Strategy will comply with the relevant sections of the Local Government Act 2003, Department of Communities and Local Government (formerly Office of the Deputy Prime Minister) Guidance on Local Government Investments 2004 and the Chartered Institute of Public Finance Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
- 1.4 CIPFA defines treasury management as:
'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 1.5 This guidance takes account of Section 15 (1)(a) of the Local Government Act 2003.

2 Objectives

- 2.1 The key objectives are to ensure the Boards have sufficient day to day cash flow to meet their obligations, to diversify risk by spreading surplus cash across a sufficient number of counterparties and, if required, to borrow in the most prudent way.
- 2.2 Other objectives include:
 - 2.2.1 Maintaining bank balances at optimum operational amounts.
 - 2.2.2 Investing 'core cash' rather than holding in current accounts.
 - 2.2.3 Protecting the amount (capital) invested.
 - 2.2.4 Maintaining liquidity.
 - 2.2.5 Considering various funding options for capital purchases (eg leasing, borrowing, funding from reserves (cash), etc).

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- 2.3 With Treasury Management there is not necessarily a right or wrong answer. It is about using the information available at the time to evaluate the risk and rewards, acting responsibly with public funds and not chasing high investment returns. The investment priorities are security first, liquidity second and then rate of return.

3 Cash Flow Management

- 3.1 Monitoring the day to day cash flow is a key Treasury Management function and should take account of the likely cash flows in the weeks/months ahead to ensure bank balances are maintained at a level to meet the expenditure requirements, but not at a too high level that it poses a risk of loss through, say, an internet banking breach.
- 3.2 The inflows and outflows of the 4 Boards' income and expenditure is fairly predictable, especially in terms of wages/salary payments, EA IDB precept payments, income through special levies, joint services recharges, etc. These can all be estimated throughout the year.
- 3.3 The Finance & Ratings Officers monitor the cash flows on a weekly basis to ensure any surplus funds are not held in the current account and that sufficient funds are available to meet forthcoming expenditure.

Core cash

- 3.4 Core cash is that cash which is not required to meet day to day cash flows. It normally broadly corresponds to the amounts held in reserves. As this is not likely to be required on a regular basis (i.e. some resources from the Plant and Machinery Reserve may be used to purchase a large piece of equipment) then this amount can be invested so long as sufficient liquidity is maintained for emergencies.

4 Banking and Merchant Services

- 4.1 Each Board will retain its own bank account(s) to receive income and from which to pay its expenditure. These accounts will provide a range of facilities including online/electronic banking, debit card on the main current account, various payment methods to include BACS, direct debit, cheque, etc, and various receipting options (BACS, over counter, via post office, etc). These will be market tested periodically (minimum every 5 years) to ensure ongoing value for money. The next market testing will take place in 2018/19.

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4.2 The current providers of banking services to the Boards are:

Board	Bank	Accounts
North East Lindsey IDB	Barclays Bank plc	Receipts Payments
Upper Witham IDB	Lloyds	Current Account Transfer Account
Witham 1 st DIDB	Natwest	Current Account
Witham 3 rd DIDB	Natwest	Current Account

4.3 In the current climate the role of the 'local branch' is diminishing and the Boards are experiencing this with the closure of local branches traditionally used. Therefore, the ability to operate the accounts with minimum reliance on a local branch is important so the strategy is to move as many receipts and payments to electronic methods as is practicable.

4.4 Previous accounts held by the Boards have been closed in order to reduce the risk of identity fraud and continuing use of the accounts by ratepayers to pay rates into.

Overdrafts

4.5 Overdraft facilities are not in place on any of the Boards' accounts and will not be put in place without the Boards' prior approval.

Purchasing Cards

4.6 Purchasing cards (similar to credit cards) will be utilised for making on line purchases and for payments over the phone. These cards are mainly used for small scale purchases and are limited (capped) to £5,000 per Board.

Notice Accounts

4.7 Notice accounts will be used by the Boards in order to achieve some interest on surplus balances but maintaining liquidity. These accounts are usually based on 'instant' access or a required number of days notice to withdraw the funds (eg 30 day, 60 day, 90 day notice periods, etc). These accounts will only be opened with banks and building societies incorporated in the UK and protected by the Financial Services Compensation Scheme (FSCS). It should be noted though that the FSCS protection of currently £85,000 per institution may not be applicable to the Boards as they are not classed as 'smaller public bodies' (turnover <€500,000).

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4.8 Deposit accounts are currently held with:

Board	Counterparty	Account Type	Interest Rate Nov17
North East Lindsey IDB	Barclays Bank plc	General Deposit	0.19%
		Developer Contributions	0.19%
Upper Witham IDB	Nationwide Building Society	Instant Access	0.40%
		95 Day Notice	0.55%
Witham 1 st DIDB	Nationwide Building Society	Instant Access	0.40%
Witham 3 rd DIDB	Nationwide Building Society	Instant Access	0.40%
		95 Day Notice	0.55%

4.9 These balances and counterparties will be reviewed to seek alternatives in order to spread the risk of having too many funds with any one counterparty.

Merchant Services

4.10 Merchant processing services enables a business to accept a transaction payment through a secure (encrypted) channel using the customer's credit card or debit card. Upper Witham, Witham First District and Witham Third District IDBs commenced taking card payments in 2014 via the Worldpay network. This has proven successful in terms of improving collection rates and meeting customer expectations that they should be able to pay by card. However, it is not a cheap method due to the monthly 'standing' charges incurred and with most transactions taking place in the first 4 months of the financial year. The strategy is therefore to market test the charges during 2017/18 and to include North East Lindsey IDB within this exercise, with a view to having all 4 Boards with this facility of taking card payments from April 2018.

5 Investment Strategy

5.1 The Boards will diversify their core cash funds in order to spread the risk of bank failure and only make investments that protect the initial amount invested. In the current financial climate many high street banks are not taking deposits or, if they do, offer very low interest rates in order to deter the investor.

5.2 Similarly, as the Boards do not have significant amounts to invest, the number of counter parties available to the Boards is very limited. Normally, an investment strategy would include a number of criteria including credit ratings, however these are usually based on historical data. Other factors also need to be taken into account such as current press coverage, share prices of the institutions, and any other relevant information which may be available. Therefore, this investment strategy is simplified to reflect the likely investments available to the Boards.

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Specified Investments

- 5.3 Specified investments are to be sterling denominated and with maturities up to a maximum of one year. These investments should offer high security and high liquidity. The counter parties will usually have some form of backing via the UK Government either as public bodies or as institutions (banks and building societies) incorporated in the UK and protected by the Financial Services Compensation Scheme (FSCS). It should be noted though that the FSCS protection of currently £85,000 per institution may not be applicable to the Boards as they are not classed as 'smaller public bodies' (turnover <€500,000). If forward deposits are made, the forward period plus the deal period should not exceed one year in aggregate.
- 5.4 This strategy therefore restricts specified investments to:

Debt Management Agency Deposit Facility <365 days maturity*	UK Government backed, available to 'other authorities in England who can issue a precept or levy'.
Term Deposits <365 days – local authorities (including other Internal Drainage Boards)	UK Government bodies
Term deposits <365 days with banks and building societies.	Only those incorporated in the UK and protected by the Financial Services Compensation Scheme (FSCS)**.

*DMADF - The minimum deal size will depend on the length of maturity of the deposit; there will be no maximum deal sizes. Minimum deal size Maturity £1,000,000 up to and including 7 days, £500,000 8 to 14 days, £250,000 15 days to 6 months

**The current list of banks and building societies meeting this criteria is attached at Appendix 1.

Non Specified Investments

- 5.5 These are investments which do not meet the Specified Investment criteria (either in terms of duration or credit criteria). Due to the higher risk associated with these investments, no investment will be made in these without a resolution of the Board stating otherwise and will be restricted to:

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Debt Management Agency Deposit Facility >365 days maturity	UK Government backed, available to other authorities in England who can issue a precept or levy.
Term Deposits >365 days – local authorities (including other Internal Drainage Boards)	UK Government bodies
Term deposits >365 days with banks and building societies.	Only those incorporated in the UK and protected by the Financial Services Compensation Scheme (FSCS).

6 Borrowing Strategy

- 6.1 If required the Boards will borrow funds to procure or deliver items of a capital nature. The Boards should not need to borrow to meet day to day cash flow requirements and as such do not have overdraft facilities on their bank accounts. If, however, short term funds were required (i.e. less than 365 days and not spanning a year end) then this would be facilitated between the 4 Boards, subject to Chairmen approval.
- 6.2 In order to borrow funds, authorisation must be sought from the Board in advance of borrowing and also from the Minister [Secretary of State] as follows:

Section 55 Land Drainage Act 1991

- 1) *Subject to the following provisions an internal drainage boards may borrow, on the security of their property and income:-*
 - a) *For the purpose of defraying any costs, charges or expenses incurred by them in the execution of this Act; or*
 - b) *For the purpose of discharging any loan contracted by them under this Act or any provision re-enacted, whether directly or indirectly, by this Act.*
- 2) *The council of a county or London borough and the Common Council of the City of London may borrow for the purposes of this Act.*
- 3) *The consent of the relevant Minister shall be required for any borrowing by an internal drainage board under this section other than a borrowing for the purpose of discharging any loan previously contracted.*
- 4) *Money borrowed by an internal drainage board under this section may be borrowed for such period not exceeding fifty years as the board, with the consent of the relevant Minister, may in each case determine.*
- 5) *Where the drainage board for an internal drainage district borrow any sums in respect of which they have determined that some part only of that district shall be liable, the money borrowed shall be repayable only out of rates levied on, or special levies issued or contributions received in respect of, that part of the drainage district.*

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- 6) *The provisions of the Commissioners Clauses Act 1847 as to mortgages shall be incorporated with the provisions of this section so far as it relates to borrowing for an internal drainage board.*
- 7) *Where the owner of any land comprised within any internal drainage district is authorised to invest money on real security, he shall, unless the instrument authorising the investment provides to the contrary, have power to invest money on a first mortgage of the drainage rates leviable by the drainage board for that district.*
- 8) *The reference in subsection (1) above to an internal drainage board borrowing on the security of their property or income is a reference to their borrowing on the security of any property vested in the board or on the security of-*
 - a) *any rates to be levied by the board under this Act.*
 - b) *any special levies to be issued by the board in accordance with regulations under section 75 of the Local Government Finance Act 1988; or*
 - c) *any contributions to be paid to the board under this Act.*

6.3 Borrowing will be undertaken from the following institutions

Debt Management Office – Public Works Loans Board*	UK Government backed, available to Internal Drainage Boards.
Local Authorities (including other Internal Drainage Boards)	UK Government bodies

*The Public Works Loan Board (PWLB) is a statutory body operating within the DMO and is responsible for lending money to local authorities and other prescribed bodies, as well as for collecting the repayments.

- 6.4 Any borrowing will be on a fixed rate basis and an evaluation as to whether Annuity, Equal Instalments of Principal (EIP) or Maturity loans will be taken will be presented to the Board for approval ahead of any loans being taken out.
- 6.5 Where it is mutually beneficial, one Board may look to another Board to provide loan financing to meet capital expenditure, with the loaning Board utilising its core cash as a long-term investment.

7 Reporting

- 7.1 Each Board receives a position statement on bank balances and investments as part of the Board's financial performance report. Further, as part of the Statement of Accounts and year end reporting, the position on bank balances and any loans outstanding is also reported to the Boards and is information in the public domain.

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8 Training

- 8.1 It is important that the staff and members dealing with treasury management issues are adequately trained. Therefore, periodic training will take place for both staff and members to ensure sufficient skills are maintained. The Internal Auditor will also be able to assist in this area.

9 Review

- 9.1 This policy will be reviewed at least triennially, the next review therefore being scheduled for November 2020.

Prepared by:

Steve Larter CPFA

Finance Consultant

25th October 2017

Version 2