

Treasury Management Policy



A group of four independent statutory Land Drainage, water levels and Flood Risk Management Authorities working collectively under a partnership agreement in accordance with section 11(5) of the Land Drainage Act (1991).

Four Independent Boards:

- *Witham First District Internal Drainage Boards*
- *Witham Third District Internal Drainage Boards*
- *Upper Witham Internal Drainage Boards*
- *North East Lindsey Internal Drainage Boards*

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Policy Owner: Director of Finance and Governance (RFO)

Author supporting review: Risk Manager

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1.0 - Introduction

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.

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.

This Treasury Management (Investments & Borrowing) Strategy will comply with the relevant sections of the Local Government Act 2003, Ministry of Housing, Communities & Local Government (Previously DLUHC) 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.

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.

This guidance takes account of Section 15 (1)(a) of the Local Government Act 2003.

1.1 – Equality, Diversity and Inclusion:

This Policy document is written to meet the requirements of financial Legislation within England.

It does not discriminate against persons based on age, disability, family status, gender reassignment, race, religion or belief, sex or sexual orientation, as defined as protected characteristics within the Equalities Act 2010. It is applied to meet the laws within England at the time of writing.

2.0 – Treasure Management Policy

2.1 – Objectives

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.

Other objectives include:

- Maintaining bank balances at optimum operational amounts.
- Investing ‘core cash’ rather than holding in current accounts.
- Protecting the amount (capital) invested.
- Maintaining liquidity.
- Considering various funding options for capital purchases (e.g., leasing, borrowing, funding from reserves (cash), etc.).

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.

2.2 – Cash flow management

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.

The inflows and outflows of the 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.

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.

2.2.1 – Core Cash

Core cash is that cash which is not required to meet day to day cash flows. It normally 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.

2.3 – Banking and Merchant Services

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.

2.3.1 – Current providers of banking services to the Boards

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

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.

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.

2.3.2 – Overdrafts

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

2.3.4 – Notice Accounts

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).

2.3.5 – Deposit accounts are currently held with

Board	Counterparty	Account Type	Interest Rate Nov 2024
North East Lindsey IDB	Barclays Bank plc	General Deposit	1.51%
	Nationwide Building Society	Developer Contributions	1.51%
		Instant Access	2.05%
Upper Witham IDB	Nationwide Building Society	Instant Access	2.05%
		95 Day Notice	4.15%
Witham 1st DIDB	Nationwide Building Society	Instant Access	2.05%
Witham 3rd DIDB	Nationwide Building Society	Instant Access	2.05%
		95 Day Notice	4.15%

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.

2.3.6 – Merchant Services

Merchant processing services enable 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 and North East Lindsey from 2018 via the Worldpay network following a market test. 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. This was expanded in 2021 with card payments now accepted via the Boards' websites.

The Boards market tested their Merchant Service provider in March 2024 and now use Square for receiving its card transactions. This contract does not have monthly fees just a % rate per transaction which is proving much more cost effective for the Boards due to the uneven cycle of receipts throughout the year (ie more in May/June much fewer in other months).

2.4 – Investment Strategy

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. Similarly, as the Boards do not usually have significant amounts to invest, except when grant receipts are available, 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.

2.4.1 – Specified Investments

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 in 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 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’ (<€500,000). If forward deposits are made, the forward period plus the deal period should not exceed one year in aggregate.

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)**.
Money Market Funds (MMFs) <i>Collective investment schemes as defined in SI 2004 No 534. Since early 2019 there are 3 structural options for MMFs, CNAV (Constant Net Asset Value) LVNAV (Low Volatility Net Asset Value) and VNAV (Variable Net Asset Value). These funds do not have any maturity date.</i>	

*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 as Appendix 1.

Money Market Funds – The Boards can invest in The Public Sector Deposit Fund (PSDF) operated by Churches, Charities and Local Authorities (CCLA) to help manage its day to day cash flows. CCLA is a mutually owned firm of investment managers, owned by LAMIT (Local Authorities Mutual Investment Trust), the Church of England (Central Board of Finance) Investment Fund and the Charities (COIF) Investment Fund. They have 35,000+ clients and manage £14bn+ of cash and investments. The Local Government Association (LGA) invited them to develop the Fund in collaboration with the sector, as a result of the Icelandic banking crisis. It was launched in May 2011. The PSDF is a “Qualifying Money Market Fund” (QMMF) which is classed as a “low volatility net asset value” (LVNAV) short term money market fund. The fund is managed with the priorities of security, liquidity and

yield. The fund is not covered by the FSCS, but it has a AAmmf credit rating by Fitch (highest possible rating). The Fund has strong governance with an Advisory Board made up of representatives of the LGA, CIPFA and treasury specialists from the sector, including representatives of the London Borough of Waltham Forest and the Greater London Authority. The Fund is managed on a very conservative basis (beyond the requirements of AAmmf rating), only using plain cash products and instruments with well rated (minimum F1 short term) banks: call, term and certificates of deposit. There is no exposure to the stock market, derivatives, other funds, asset backed securities, etc.

2.4.3 – Non Specified Investments

These are investments which do not meet the Specified Investment Criteria (either in terms of duration or credit criteria). Due to 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:

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).

2.5 – Borrowing Strategy

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 Boards, subject to Chair approval.

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:

2.5.1 - 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.*
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.*

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.*

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 and presented to the Board for approval ahead of any loans being taken out.

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.

2.6 – Reporting

Each Board receives a position statement on bank balances, investments and borrowing 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, investments and any loans outstanding is also reported to the Boards and is information in the public domain.

2.7 – Training

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.

3.0 – Treasury Management Policy Statement

The Board recognise the importance of legal compliance, and best practise in relation to Treasury Management.

The Board achieve robust Treasury Management by:

- Ensuring that the policy is available to all staff.
- Following the financial regulations in place at the time.
- Amend and review processes as / if regulations change.
- Ensure an open, transparent rules for finance are followed.

4.0 - Glossary / Definitions

Word/ term	Definition
CIPFA	Chartered institute of Public Finance Accountancy
PWLB	Public Works Loan Board
EIP	Equal Instalments of Principal

5.0 – Legislation & other partner organisation documents

- Local Government Act 2003
- Ministry of Housing, Communities & Local Government (Previously DLUHC)
- Guidance on Local Government Investments 2004
- Chartered Institute of Public Finance Accountancy
- The Equalities Act 2010

- Local Policy in line with ADA Lincolnshire Branch White Book.

6.0 – Roles and Responsibilities

6.1 Arrangements for roles and reporting lines

The arrangements and organisational responsibilities for implementing the policy are detailed in this section.

6.1.1 – Board Members

- Review and approve the Treasury Policy
- Support the Chief Executive Officer and Director of Finance and Governance to meet the requirements of the Policy.
- Engage with the CEO and SMT where required for authorisation requests.

6.1.2 – Chief Executive Officer (CEO) will be responsible for:

- ensuring financial advice is provided to the Board on all aspects of its activities, including the strategic planning and policy making process.
- Working to ensure the best financial outcomes and management of finances.

6.1.3 – Director of Finance & Governance will be responsible for:

- Supporting the Chief Executive for financial activities undertaken by the Board or contracted out under the supervision of the Board.
- for the proper financial administration of the Board.
- Providing information, guidance and advise to the CEO and Board for decision making.

7.0 - Document review:

Version	Date	Reviewed by	Changes	Approved by/ date
1.00	July 2021	Director of Finance & Governance (RFO)	Review and update	JSC 2021
2.00	November 2024	Director of Finance & Governance (RFO)& Risk Manager	Periodic Review and new template	JSC December 2024

This policy is due for review at 5 yearly intervals, unless a review is required before e.g. change to management, process or anything which may affect the contents of this policy.

8.0 - Supporting documents and forms (Annex)

ANNEX 1 – Monetary Financial Institutions (FFI) - current list of banks and building societies who have permission to accept deposits in the UK..

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Last updated: 09 September 2024		
Source: PRA		
UK		
UKIN		
Al Rayan Bank Plc	Hinckley & Rugby Building Society	PCF Bank Limited
Aldermore Bank Plc	HSBC Bank Plc	Penrith Building Society
Allica Bank Ltd	HSBC Innovation Bank Ltd	Principality Building Society
Arbuthnot Latham & Co Limited	HSBC Private Bank (UK) Ltd	Progressive Building Society
Atom Bank Plc	HSBC Trust Company (UK) Ltd	Rathbone Investment Management Ltd
Bank of Scotland Plc	HSBC UK Bank Plc	Recognise Bank
Barclays Bank Plc	Investec Bank Plc	Redwood Bank Ltd
Barclays Bank UK Plc	Julian Hodge Bank Limited	Reliance Bank Ltd
Bath Investment & Building Society	Kingdom Bank Ltd	Saffron Building Society
Beverley Building Society	Kroo Bank Ltd	Sainsbury's Bank Plc
Birmingham Bank Limited	Leeds Building Society	Schroder & Co Ltd
Brown Shipley & Co Ltd	Leek United Building Society	Scottish Building Society
Buckinghamshire Building Society	Lloyds Bank Corporate Markets Plc	Secure Trust Bank Plc
C Hoare & Co	Lloyds Bank Plc	Shawbrook Bank Ltd
CAF Bank Ltd	Loughborough Building Society	Skipton Building Society
Cambridge & Counties Bank Ltd	Manchester Building Society	Standard Chartered Bank
Cambridge Building Society	Market Harborough Building Society	Starling Bank Ltd
Charter Court Financial Services Ltd	Marks and Spencer Financial Services Plc	Suffolk Building Society
Castle Trust Capital PLC	Marsden Building Society	Swansea Building Society
Chetwood Financial Limited	Melton Mowbray Building Society	Tandem Bank Ltd
Clearbank Ltd	Methodist Chapel Aid Ltd	Teachers' Building Society
Close Brothers Ltd	Metro Bank Plc	Tesco Personal Finance
Clydesdale Bank Plc	Monmouthshire Building Society	The Bank of London Group Limited
Coutts & Co	Monument Bank Limited	The Charity Bank Ltd
Coventry Building Society	Monzo Bank Ltd	The Chorley & District Building Society
Crown Agents Bank Ltd	National Counties Building Society	The Co-operative Bank Plc
Cumberland Building Society	National Westminster Bank Plc	The Mansfield Building Society
Darlington Building Society	Nationwide Building Society	The Royal Bank of Scotland International Ltd
DF Capital Bank Limited	NatWest Markets N.V.	The Royal Bank of Scotland Plc
Dudley Building Society	NatWest Markets Plc	The Stafford Railway Building Society
Earl Shilton Building Society	Nedbank Private Wealth Ltd	Tipton and Coseley Building Society
Ecology Building Society	Newbury Building Society	Unity Trust Bank Plc
Furness Building Society	Newcastle Building Society	Vanquis Bank Ltd
GB Bank Limited	Nottingham Building Society	Vernon Building Society
Griffin Bank Ltd	OakNorth Bank PLC	Weatherbys Bank Ltd
Hampden & Co Plc	Oxbury Bank PLC	Wesleyan Bank Ltd
Hampshire Trust Bank Plc	OneSavings Bank Plc	West Bromwich Building Society
Hanley Economic Building Society	Paragon Bank Plc	Yorkshire Building Society
Harpenden Building Society	Perenna Bank Plc	Zopa Bank Ltd