

UPPER MEDWAY INTERNAL DRAINAGE BOARD INVESTMENT POLICY

1 Investment policy

- 1.1 The Upper Medway Internal Drainage Board (Board) investment policy has regard to the DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. **The UMIDB's investment priorities will be security first, liquidity second, and then yield.**
- 1.2 In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Board applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings, held within a source of data with Fitch, Moody's and S&P.
- 1.3 Ratings are not the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment also takes account of information that reflects the opinion of the markets. To this end the Board engages with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings. (This would not apply if we remained with Handelsbanken).
- 1.4 Other information sources used includes the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.
- 1.5 Investment instruments identified for use are listed in **[Appendix 1]** under 'specified' and 'non-specified' investment categories. Counterparty limits are detailed in section 2 below.

2 Country, counterparty and group exposure limits

- 2.1 The UK Sovereign debt rating has been placed on Stable Outlook following a review by the three major rating agencies in April 2023. The minimum rating of A- for the UK.
- 2.2 The Board has determined that it will only use approved counterparties from the UK. The list will be amended in accordance with this policy should ratings change.

Country, Counterparty and Group exposure	Maximum Proportion of Portfolio
UK regulated institutions subject to UK Sovereign rating of A- or higher and the institution limits detailed below.	100%
Each UK nationalised bank rated Fitch BBB, F2 or higher (green excluding CDS using Link's credit methodology).	20%

- 2.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. Counterparty investments will be managed to ensure compliance with the limits at the start and end of each financial year when balances available for investment will be at a low point.

3 Cash flow and core fund investment

- 3.1 Funds available for investment are split between cash flow and core cash. Cash flow funds are generated from the collection of Agricultural Drainage Rates and Special Levies and other income streams. Funds are used during the financial year to meet payments to precept authorities and government (Environment Agency contributions) and to meet service delivery costs (staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Board's revenue and capital reserves and are generally available to invest for durations in excess of one year.

- 3.2 **Cash flow investments.** The average daily cash flow balance throughout 2024/25 is expected to be £1.4million with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash and government liquidity funds. Cash balances available for more than 3 months may be transferred to the core fund portfolio if a better overall return for the Board can be achieved by doing so.

- 3.3 In compiling the Board's estimates for 2024/25 a return on cash flow investments of 4.9% has been assumed.

- 3.4 The Board will avoid locking into longer term deals while investment rates continue at their current peak levels, as there is expected rate cuts in November 2024 and a further cut factored into May 2025, however this is fluid and can change and that other attractive rates are available with

counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by the Board.

- 3.5 In compiling the Board's estimates for 2024/25 a return on core fund investments of 4.9% has been assumed. Subject to the credit quality and exposure limits outlined in section 2, liquidity and yield will be achieved by investments using predominantly fixed term deposits

4 Year end investment report

- 4.1 At the end of the financial year, the Board will report on its investment activity as part of its End of Year Accounts and AGAR return.

Scheme of Delegation

Full Board

- Approval of Investment management policy.
- Approval of the Investment management outturn and mid-year reports.

Internal Audit

- Reviewing the annual Investment management and investment policy and making recommendations to the Board.
- Receive reports on Investment activity at regular intervals during the year and making recommendations to the Board.
- Reviewing Investment management policy, practices and procedures and making recommendations to the Board.

The Clerk/Responsible Finance Officer

- Recommending clauses, investment management policy/practices for approval,
- Reviewing the performance of the investment management function.
- Ensuring the adequacy of investment management resources and skills, and the effective division of responsibilities within the investment management function.
- The Clerk/Responsible Finance Officer report that due diligence has been carried out to support each investment decision and those decisions are in accordance with the risk appetite

Appendix 1 Credit and counterparty risk management (TMP1)

All specified Investments will be:

Sterling denominated.

Specified Investments (maturities up to 1 year):

Investment	Minimum Credit Criteria
Term deposits - UK nationalised banks	UK Sovereign A-
Term deposits – all other banks and building societies	UK Sovereign A-

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made. To ensure that the Board is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Appendix 2 Approved countries for investments

Each financial institution must meet the minimum credit criteria specified in the Investment Policy. Sovereign must be rated AA- or higher by each of the three rating agencies - Fitch, Moody's and Standard and Poor's.

AA- **UK**