

Capital Financing and Reserves

November 2026

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1. Executive Summary

1.1 The need for Board reserves is limited due to the few capital assets under the control of the Board. However, should there be a disaster, the Board does need to ensure it can financially respond without placing unreasonable or excessive burden on the levy.

1.2 Capital improvement work and asset replacement/refurbishment will be financed from a combination of public works loans (subject to a number of conditions), flood defence grant in aid, third party contributions from partners and/or other beneficiaries, the Board's Reserves and from today's ratepayer by way of drainage rates and special levies.

1.3 The Board will seek to collect surface water development contributions and commuted sums from developers and will aim to build up a Development Reserve (net of the expenditure incurred in collecting this income and regulating development) to part fund future improvement work.

1.4 The Board will aim to capitalise and depreciate new and refurbished assets, to spread the cost of capital expenditure over their estimated useful economic life, so as not to over burden today's ratepayer with the full capital cost, when economic benefits will clearly extend into the future.

2. Capital Financing: Capital Work

2.1 Capital work may be required to increase or sustain the productive capacity of agricultural land and to cope with the additional surface water that arises from the development of land over time, the costs of which are likely to be significant and can run over a number of financial years. Climate change is another important driver, which may lead to the need for improvement work. Capital work may also be required to deliver environmental improvements that have usually been brought about by the introduction of new legislation and/or regulation. Capital work may include the creation of additional on-line and off-line storage or increasing drainage capacity e.g. widening and/or deepening watercourses and building flood storage areas or building new and/or improving/refurbishing existing pumping stations.

2.2 The demand for capital improvement work may arise from development, environmental legislation, climate change and deficiencies identified through catchment modelling. Developers should contribute towards the additional costs and maintenance liabilities attributable to their developments where a lawful basis exists. The Board will seek flood defence grant in aid and other available grants for new burdens, but will not assume that legislative change creates an entitlement to full grant funding. Schemes must have an affordable funding plan before commitments are made.

2.3 Development may take place before capital improvement work is needed. The Board will seek proportionate surface water development contributions towards the additional drainage costs attributable to development, using its approved charging policy and only where supported by the applicable confirmed byelaws, statutory powers or a lawful agreement. The calculation and legal basis must be recorded, including any site-specific improvement costs and funding already secured for the same work, to avoid double recovery. Contributions are distinct from statutory consent application fees and do not replace the need for consent. The Board will periodically review its charging policy; legal advice must be obtained where the power to impose a charge or condition is uncertain.

2.4 Where SuDS are used as an alternative to directly discharging surface water into the drainage network at an un-attenuated rate (now the preferred option), the Board will seek a commuted sum from the developer if it decides to take on the future maintenance liability, and, may also charge a surface water development contribution if the volume/rate of water entering the network is greater as a result of the development.

2.5 The Board will apply for flood defence grant in aid where eligible and proportionate, individually or jointly with other Risk Management Authorities, and seek contributions from partners and beneficiaries. Applications, appraisal and approvals must follow the Environment Agency requirements and delegated approval arrangements applicable at the time. Grant funding must not be treated as secured until confirmed in writing, and expenditure must comply with the grant conditions, including any repayment obligations.

2.6 Drainage ratepayers and constituent billing authorities will aim to collectively contribute as much as possible each year towards the cost of the Board's capital improvement programme, when such a programme has been developed.

2.7 At some point in the future if/when the Board has built up sufficient headroom in its budget, drainage ratepayers and constituent billing authorities may also decide to collectively fund an annual refurbishment provision as part of the rates and levies, which will provide for the future replacement/refurbishment of the key components within existing structures (see section 6 below).

2.8 The Board will consider applying to the Public Works Loan Board for a loan to fund or part fund capital work when the following conditions are met:

- When the scheme will deliver a multitude of socio-economic benefits to a number of beneficiaries and a positive cost/benefit ratio arises, and

- The economic benefits of the scheme and the asset(s) arising therefrom are expected to extend well into the future for at least the term of the loan, and
- There is insufficient flood defence grant in aid or third-party contributions from partners and/or other beneficiaries available and there are insufficient Reserves held internally for that purpose, to collectively fully fund the work, and
- When permission to borrow money for this purpose has been given by the Secretary of State, as required by section 55(3) of the Land Drainage Act 1991, and
- The Board has approved the scheme and the borrowing by a recorded resolution, in accordance with its Scheme of Delegation, and the Responsible Financial Officer has demonstrated sufficient budget and cash-flow capacity to meet principal and interest throughout the loan term without unreasonable increases in drainage rates and special levies. Ministerial consent under section 55(3) of the Land Drainage Act 1991 must be obtained before borrowing where required; approval by a lender does not replace that consent.

2.9 The Board may consider borrowing to finance necessary improvements ahead of development only where all the conditions in section 2.8 are met. Future developer contributions or Community Infrastructure Levy allocations must not be assumed to be guaranteed. Any reliance on these receipts must be supported by lawful funding arrangements and a prudent assessment of timing and recoverability, with an affordable alternative repayment plan if development is delayed or contributions are not received.

2.10 The ability to access most sources of funding will therefore depend on the agreement of others. Hence the importance of maintaining adequate Reserves and of depreciating new, improved and refurbished assets over their estimated economic useful lives, so that the capital cost and the associated benefits are spread fairly over today's and tomorrow's ratepayer.

3. Capital Financing: Spreading the capital cost of new, improved and refurbished Fixed Assets

3.1 Where new pumping stations, first- and second-line sluices, water level control structures or other assets are created as part of any capital improvement scheme, the cost of creating these assets (net of any flood defence grant in aid or third party contributions) will be capitalised and depreciated thereafter in accordance with the Board's Financial Regulations and depreciation policy. These assets will be recorded in the Board's Register of Drainage Infrastructure and in the Fixed Assets Register.

3.2 Where borrowing finances improvement work, the loan term must not exceed the expected useful economic life of the assets financed and must comply with the borrowing consent. The budget must provide separately for principal repayments, interest and any planned reserve contributions. Depreciation is an accounting charge, not a cash reserve or loan repayment; its treatment must follow the applicable accounting framework and must not be determined solely by the debt repayment schedule.

3.3 Existing infrastructure assets whose historic cost is unknown must be recorded and valued on the basis required by the Practitioners' Guide applicable to the reporting year. The Responsible Financial Officer must document the valuation basis and distinguish statutory reporting values from insurance values and asset-management estimates. No blanket departure from UK GAAP is authorised by this policy; the accounting framework applicable to the Board takes precedence.

3.4 Where existing structures are substantially refurbished or replaced, the expenditure and any grant or third-party contribution must be recorded under the applicable proper practices and the Board's accounting policies. The Responsible Financial Officer will determine the appropriate capital and revenue treatment; asset recognition must not depend on whether sufficient budget headroom exists. Budget approval and an affordable financing plan are required before committing expenditure.

3.5 The cost of purchasing mobile plant will be capitalised and depreciated in accordance with the Board's Financial Regulations and depreciation policy.

3.6 Net profits on disposal of fixed and mobile plant may be transferred to a Plant Reserve at the end of every financial year as and when they arise, in accordance with the Board's Financial Regulations.

4. Capital Financing: Reserves

4.1 The Board should have adequate Reserves to protect drainage ratepayers and constituent billing authorities from significant increases in drainage rates and special levies that would otherwise be needed to fund or part fund future capital work, mobile plant procurement and when responding to/recovering from emergency events.

4.2 It is important that the Board is able to fund or part fund this type of work when it is needed without having to either pass on significant increases in drainage rates and special levies to drainage ratepayers and constituent billing authorities at the time or leave a legacy of crippling debt for future generations to cope with. However, it is equally important that the Board does not build up unacceptably high levels of Reserve to part fund capital expenditure that may not be needed imminently, at a time when significant cuts are being made to other public services and when the real value of reserves is being eroded by low interest rates and high inflation.

4.3 A balance therefore needs to be achieved when determining an appropriate level of Reserves: between being sufficiently robust financially and therefore able to fund or part fund future capital work and mobile plant procurement when it is needed without significantly increasing drainage rates and special levies at the time, and, taking on too much long term debt in an attempt to minimise what has previously been collected from drainage rate and council tax payers, in terms of Reserves.

4.4 Earmarked Reserves are held (or ring-fenced) for a specific purpose, which form a critical part of the capital financing strategy (for example, a Development Reserve and Plant Reserve). When the Board was constituted it started with nothing and had no Earmarked Reserves and no General Reserve. **The Board now has earmarked reserves and a General Reserve to which the minimum balance applies.**

4.5 Any Revaluation Reserve arising under the applicable accounting framework is an accounting reserve, not cash available to finance expenditure. It must be excluded when assessing usable reserves, emergency funding and available cash.

4.6 The Board will approve its reserve requirements annually on the advice of the Responsible Financial Officer, informed by its financial risk assessment, asset responsibilities, committed expenditure, emergency exposure and cash-flow forecast. ADA guidance is a benchmark, not a statutory minimum. The assessment must distinguish the uncommitted General Reserve from earmarked or externally restricted funds and non-cash accounting reserves, avoid double counting, and record the reasons for any departure from the benchmark. Any drawdown below the approved General Reserve target must be reported to the Board with a recovery plan.

5. Earmarked Reserves: Development Reserve

5.1 Surface water development contributions and commuted sums that have been received from developers, net of the expenditure incurred in collecting this income and regulating development, are usually held in a Development Reserve and can then be used to fund or part fund future capital improvement work and any additional maintenance liabilities that the Board may agree to take on arising from such developments.

5.2 Development contributions and commuted sums must be accounted for in accordance with the applicable proper practices and the terms of each receipt, including any conditions or repayment obligations. The Board will review the adequacy of the Development Reserve annually and authorise any transfer of available, unrestricted operating surpluses under the Financial Regulations and Scheme

of Delegation. Transfers between reserves are not additional income or expenditure and must be reported separately and transparently.

5.3 Commuted sums must be recorded in the Commuted Obligations Register with the relevant agreement, infrastructure, maintenance responsibilities, duration, funding assumptions and any restrictions on expenditure or repayment. The extent and duration of any binding maintenance duty arise from the applicable statutory provision or agreement, not simply from receiving money. The Board must approve any new liability after assessing whole-life costs and funding; maintenance under permissive statutory powers must be distinguished from contractual obligations.

5.4 Improvements to wearing components may be funded from the Plant Reserve where they fall within its approved purpose. The Development Reserve may contribute only where the expenditure is consistent with the purpose and terms of the relevant development contribution or commuted sum; restricted funds must not subsidise unrelated work.

5.5 It would be unreasonable to expect developers today to pre-fund the full cost of improvement works that are driven by development, when these improvements are also planned to cope with the additional surface water arising from future development and to deliver environmental enhancement and a degree of climate change proofing.

6. Earmarked Reserves: Plant Reserve

6.1 The Board has no fixed pumping stations within its control, therefore plant reserves are primarily for the purchase of larger tooling that allows the delivery of the maintenance works programme, or any other associated works deemed suitable.

6.2 Large tools and plant are to be added to the fixed asset list once purchased and brought into a lifecycle programme to assess need for replacement in the future. In some cases this may be exceeded as deemed appropriate by the Board or its officer.

6.3 Examples of Plant and Tooling that would be suitable under the Plant Reserve would be:

- Excavating equipment
- Tractors and other large self-transporting equipment for the purposes of maintenance of drainage infrastructure
- Chippers and pioneering equipment including implements, attachments, and chain saws.
- Larger hand tools such as bullhorn strimmers
- Any larger tooling that would negatively impact the small tools budget in a given year.

6.4 With the above considered, when existing structures are refurbished or partially refurbished, be they pumping stations, first/second line sluices or other water level control structures, the cost is likely to be significant. Hence the importance of having a Plant Reserve, which may be used to pay for the refurbishment or partial refurbishment of the wearing components within existing structures (net of any capital flood defence grant in aid and third party contributions from partners and/or other beneficiaries, which may be available at the time) to reduce the impact on drainage rates and special levies when relatively large sums are required to fund this work. Specifically, this Reserve should be able to fund the refurbishment/replacement or improvement of the following components:

- Pumping Stations: Pumps, Switchgear, Telemetry, Weed screen Cleaners, Fencing and Hand railing.
- First Line Tidal Sluices: Sluice Doors/Flap Valves, Switchgear, Telemetry, Fresh Water Sluice Doors, Steel Work Super Structures, Fencing and Hand railing.
- Second Line Sluices: Sluice Doors, Flap Valves/Penstocks, and Hand railing.
- Water Level Control Structures: Sluice Doors, Flap Valves/Penstocks, and Hand railing.

This Reserve is not intended to fund the refurbishment/replacement of the following components that wear out less frequently. Reliance will therefore be placed on securing flood defence grant in aid and/or public works loans at the time (subject to meeting the aforementioned conditions):

- Pumping Stations: Online Structures and Buildings.
- First Line Tidal Sluices: Piling, Buildings, Online Inlet Structures, Online Outfall Structures, Box Culvert Pipes or Insitu Concrete.
- Second Line Sluices: Piling, Online Inlet Structures, Online Outfall Structures, Box Culvert Pipes or Insitu Concrete.
- Water Level Control Structures: Piling, Online Inlet Structures, Online Outfall Structures, Box Culvert Pipes or Insitu Concrete.

6.5 The Board will determine an annual, cash-funded provision for plant replacement and any infrastructure refurbishment liabilities it has accepted, based on its asset replacement programme. Contributions to, transfers between and expenditure from the Plant Reserve must be authorised under the Financial Regulations and Scheme of Delegation and reported transparently. A depreciation charge alone does not create cash or an earmarked reserve; the Responsible Financial Officer must reconcile the accounting treatment, budget provision and funds actually available.

6.6 The adequacy of the Plant Reserve and annual contributions will be reviewed at least annually against an asset-by-asset replacement and refurbishment programme. The assessment must cover the assets and liabilities actually held or accepted by UMIDB, including mobile plant, and distinguish these from illustrative infrastructure categories listed above. It will consider condition, remaining useful life, estimated costs, inflation, delivery timing and only funding that can reasonably be relied upon. The Board will approve any funding shortfall and a plan to address it, without assuming that all future refurbishment costs must be held in cash immediately.

6.7 There is always going to be a difference (or deficit) between what is held in reserve and the present day total estimated refurbishment requirement, as it would be both unrealistic and unreasonable to expect the Board to hold all of the funds required to refurbish the wearing components within existing structures in reserve. This is because these assets will not all need refurbishing at the same time and the economic benefits of asset refurbishment will usually extend well into the future, so the cost should therefore be capitalised and depreciated over the asset's estimated economic useful life. Significant asset refurbishment will also usually include a degree of improvement, which should be more likely to attract flood defence grant in aid and other funding.

6.8 The Board will review the Plant Reserve against current plant holdings, approved replacement plans and any proposed adoption or re-adoption of water level control structures. Historic purchases do not establish the current reserve requirement. No new maintenance liability may be accepted without an approved assessment of its whole-life cost, legal responsibilities and funding.

7. General Reserve

7.1 The Board must retain the financial capacity to respond to emergencies and promptly undertake recovery or reinstatement work within its powers and responsibilities. IDBs are not designated Category 1 or Category 2 responders under Schedule 1 to the Civil Contingencies Act 2004. The Board will support the relevant responders and local resilience arrangements in accordance with its Emergency Plan; cooperation does not confer statutory responder status.

7.2 The extent of the Board's role and how it will respond in an emergency is set out in the Emergency Plan. Such responses and recovery operations will be financed, or part financed from the General Reserve, however it is envisaged that national funding will be provided to assist in the recovery phase following any significant emergency event, but there are no guarantees.

7.3 A General Reserve of at least 50% of annual net expenditure is a planning benchmark within this policy, not a statutory minimum. The Board will determine and minute its own risk-based target annually under section 4.6, taking account of emergency response and recovery, contingent liabilities, insurance and legacy issues. The approved General Reserve target is separate from earmarked and externally restricted funds and must be supported by adequate liquidity. The historic £350,000 provision noted below is subject to that annual assessment and is not evidence of the current balance.

7.4 If national funding is not provided to assist in the recovery phase following a significant emergency event, the Board may need to consider taking out a public works loan to fund the reinstatement work. If this situation ever arises the Board will apply for consent from the Secretary of State at the time to borrow the money to fund this work, as required by section 55(3) of the Land Drainage Act 1991.

7.5 The General Reserve of the Upper Medway Internal Drainage Board is as follows as of November 2026:

UMIDB - £350,000 – agreed deviation from ADA recommendation as decided by the Board at the meeting of November 2026 due to low capital asset liability.

8. Other Reserves

8.1 The Board maintains earmarked funds for approved projects or assets. These are distinct from the General Reserve target and must be supported by a reserve schedule showing each purpose, opening balance, authorised transfers, expenditure, closing balance and commitments. Officers may use these funds only within approved budgets and their delegated authority under the Financial Regulations and Scheme of Delegation. A budget allocation does not authorise expenditure outside the Board's legal powers or override grant or contractual restrictions.

- Plant
- Resilience Fund
- Ecology
- Surface Water Development Contribution

8.2 Any proposed surplus available for planned use must be assessed from reconciled usable reserves, after allowing for liabilities, commitments, restricted or earmarked funding and the approved General Reserve requirement. The bank balance alone is not a measure of free reserves. The Responsible Financial Officer will reconcile reserves to the accounts and cash-flow forecast before recommending any release.

8.3 Any planned reduction of uncommitted surplus reserves must be approved by the Board through its budget and medium-term financial plan, with regard to future liabilities, replacement programmes and financial risk. Funds will not be spent merely because they exceed a historic target.

8.4 The Board may approve transfers of uncommitted usable reserves where consistent with its legal powers, Financial Regulations and Scheme of Delegation. A Board decision cannot override an external restriction, grant condition or contractual maintenance obligation. Such restrictions must be checked before any transfer or change of purpose.

8.5 The policy records that UMIDB manages no pumping stations. References to pumping stations and similar infrastructure describe potential future liabilities and do not establish ownership or a duty to maintain them. If such assets are acquired or accepted in future, the Responsible Financial Officer must apply the Practitioners' Guide applicable to the reporting year and record the funding and valuation basis.

- Pumping station assets must be included in the Fixed Assets Register using the valuation basis required by the applicable proper practices. A nominal value of £1 may be used only where those practices permit it for the circumstances concerned; it is not a default valuation for purchased or newly constructed assets.

- The Responsible Financial Officer must retain evidence for the valuation adopted and ensure consistent reporting in the statutory accounts and AGAR. Any separate insurance or replacement-cost estimate must be clearly identified and must not be substituted for the required statutory reporting basis.

9. Governance, Transparency and Assurance

9.1 Before approving a major capital scheme, the Board will obtain proportionate investigations, an options appraisal and a whole-life business case demonstrating statutory powers, value for money, affordability and secured or realistically available funding. The appraisal must address land rights, consultation, climate resilience, environmental assessment and consents, and applicable duties under sections 61A and 61C of the Land Drainage Act 1991 and section 40 of the Natural Environment and Rural Communities Act 2006, as amended. Procurement must comply with the Procurement Act 2023 and Procurement Regulations 2024 where applicable, including relevant below-threshold and transparency requirements; procurements and contracts governed by the previous regime remain subject to the transitional and saving arrangements. The Financial Regulations and Scheme of Delegation apply, and conflicts of interest must be declared and managed.

9.2 Each year the Board receives the proposed works programs, as drafted by the Clerk/Engineer and the Works Manager.

9.3 The Board monitors delivery of the works programs and provides guidance and support to the Clerk/Engineer and Works Manager.

9.4 The Board's Clerk/Engineer is responsible for drafting the works programs, as set out in the Financial Regulations. The Board's Works Manager is responsible to the Clerk/Engineer for delivering and procuring the maintenance program, as set out in the Financial Regulations.

9.5 The Board will maintain a rolling five-year indicative financial forecast covering capital improvements, asset replacement and refurbishment, mobile plant, reserve movements and borrowing costs. It will show the effect on drainage rates and special levies after other anticipated funding, distinguish confirmed from uncertain income, and assess funding shortfalls and cash-flow risk. The Board will review and approve the forecast annually through the budget and rate-setting process.

9.6 Cash surpluses will be safeguarded and invested in accordance with the Board's adopted Investment Policy, Financial Regulations and applicable legal powers. Investment decisions must take account of security, liquidity and the timing of planned expenditure; an earmarked reserve does not necessarily require a separate bank account.

9.7 The Rate Budget, Works Programmes and Investment Policy will be published on the Board's website, subject to lawful exemptions for confidential information. Publication of the policy does not replace statutory publication, inspection and public rights requirements relating to the accounts and AGAR.

9.8 The Internal Auditor will periodically assess whether the Board has proper arrangements in place to secure economy, efficiency, and effectiveness in its use of resources. The Internal Auditor's Report is considered by the Board and published on its website every year.

9.9 Capital financing, reserve movements and borrowing will be recorded and reported in accordance with the Accounts and Audit Regulations 2015, as amended, and the proper practices applicable to the reporting year, including the Practitioners' Guide 2026/27 for the year ending 31 March 2027. The Responsible Financial Officer must reconcile any separate capitalisation, depreciation and revaluation records to statutory reporting and explain any differences; this policy does not authorise departures from proper practices. The Board will approve its annual governance and accounting statements and fulfil the applicable public inspection, publication and audit requirements. The independently appointed external auditor's report and certificate will be published as required; a limited assurance review is not a full audit opinion on all transactions or on the effectiveness of this policy.

10. Certification

The policy records Board approval on 12 November 2024. The November 2026 revisions require a recorded Board resolution before taking effect; the approval date and minute reference must be retained with the adopted policy. The policy will be reviewed annually and sooner where changes in legislation, proper practices or the Board's risks require it.

By Order of Upper Medway IDB

Certified by Mr O D Pantrey

November 2026

Amendments

November 2022 Amendments

- Page 3 Reworded 1.1 to reflect low liability regarding capital assets
- Removal of LMIDB references
- General formatting overhaul
- Minor wording changes to remove pluralisation and tidy up phrasing

November 2023 Amendments

- Page 9 – Rewriting of section 8 'Other Reserves' to better explain the use of earmarked funds

November 2025 Amendments

- Minor changes from Works Supervisor to Works Manager

November 2026 Amendments

- Sections 2 and 5 – Clarified the lawful basis and proportionality of developer contributions, protection of restricted funds and the assessment of commuted maintenance obligations; removed assumptions that grants or future development receipts are guaranteed.
- Sections 2 and 9 – Strengthened recorded Board approval, ministerial borrowing consent, affordability and alternative repayment planning.
- Sections 3, 6, 8 and 9 – Aligned accounting and asset valuation with the applicable smaller-authority proper practices, including the Practitioners' Guide 2026/27; distinguished depreciation and non-cash reserves from spendable funds.
- Section 6 – Clarified the scope of Plant Reserves to include all larger plant and tooling, including the need for inclusion on fixed asset registers and asset replacement cycles.
- Sections 4, 6, 7 and 8 – Introduced a documented annual risk-based reserve assessment, asset replacement funding review, reserve reconciliation and controlled drawdown and transfer arrangements; clarified that reserve benchmarks are not statutory minima.
- Section 7 – Corrected the description of emergency responsibilities: IDBs are not designated Category 1 or Category 2 responders under the Civil Contingencies Act 2004.
- Section 9 – Added applicable Procurement Act 2023 requirements and transitional arrangements, environmental and biodiversity duties, and a rolling five-year financing forecast; clarified statutory accounts, public rights and limited assurance requirements.