WITHAM FOURTH DISTRICT INTERNAL DRAINAGE BOARD

INVESTMENT POLICY

1. OUTLINE INVESTMENT STRATEGY

Preparation

This Strategy sets out the Board's policies for the prudent management of its investments and for giving priority, firstly, to the security of those investments and, secondly, to their liquidity. It identifies the procedures for monitoring, assessing and mitigating the risk of loss of invested sums and ensures that such sums are readily accessible for expenditure whenever needed.

Approval

This Strategy will be approved by the Risk and Governance committee and then taken to the Board for full Board approval.

Timing

The Board recommends that an investment Strategy ("the initial Strategy") should be prepared and approved before the start of a financial year.

The initial Strategy may be replaced by another Strategy ("the revised Strategy") at any time during the year, on one or more occasions, subject to the same process of approval. The initial Strategy should specify circumstances in which a revised Strategy is to be prepared, but a revised Strategy may be prepared in other circumstances, if at any time it is considered appropriate.

Publication

The Board recommends that the initial Strategy and any revised Strategy should, when approved, be made available on the Board's website.

Objectives

A prudent investment policy should have two objectives: achieving first of all security, (protecting the capital sum from loss) and then liquidity, (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives. However, the Board should not ignore such potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities. This widely-recognised investment policy is sometimes more informally and memorably expressed as follows:

Security - Liquidity –Yield (in that order).

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2. INVESTMENT SECURITY

Specified investments

An investment is a specified investment if all of the following apply:

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

(b) the investment can be either a short term or a long-term investment

(c) the making of the investment is not defined as capital expenditure

(d) the investment is made with a body or in an investment scheme of “high credit” quality (see paragraph below)

The Board recommends that this Policy should define high credit quality, and where this definition refers to credit ratings, the criteria set out in Appendix A are relevant.

The Board consider that any other type of investments are unsuitable investments for the Board.

3. INVESTMENT RISK

Risk assessment

The Board recommends that this Policy states the Board’s approach to assessing the risk of loss of investments, making clear in particular:

(a) to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies (see Appendix A);

(b) where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and

(c) what other sources of information on credit risk are used, additional to or instead of credit ratings.

Treasury management advisers

The Board recommends that the Chief Executive should seek the opinion of advisers offering information, advice or assistance relating to investment, where appropriate. The Chief Executive should monitor and ensure the on-going quality of any such service.

Investment training

The Board does not consider that any specific treasury management training is necessary as long as the Chief Executive holds an accounting qualification (ACA, ACCA, CIPFA etc).

4. INVESTMENT LIQUIDITY

The Board recommends that this Policy sets out procedures for determining the maximum periods for which funds may prudently be committed. This is to ensure that the Board has properly assessed the risk of not having immediate access to some of its funds. This would normally be done using a monthly predictive cash flow model.

An investment should be regarded as commencing on the date the commitment to invest is entered into, rather than the date on which the funds are paid over to the counterparty.

The Board recommends that:

- The Total of any investments in an institution should not exceed £500,000
- This does not include Lloyds TSB, the Board's normal day to day bankers
- The Chairman and Vice-Chairman have delegated powers to approve transfers
- Transfers of funds are authorised by two signatories, in common with other financial transactions
- The Board is informed of the investments held and the interest rate earned at every full Board meeting.
- Any investments maturing are to be brought to the attention of the Board Meeting prior to maturity for review and a decision made regarding any re-investment.

Appendix A

A credit rating agency is one of the following three companies:

Standard and Poor's; (S&P)
Moody's Investors Service Ltd;
Fitch Ratings Ltd.

Credit ratings are constantly changing and should therefore be checked at the following times:

- Ahead of any investment or re-investment by the Board
- Whenever market information indicates that a financial institution has an affected rating

The Board should not invest in any financial institution that has an S&P rating less than "A"

Credit ratings should not be seen as the only means of assessing creditworthiness but for the straightforward cash investments made by the Board, are deemed appropriate.