Audit, Risk & Assurance Committee

Date	24 January 2023
Report title	2023/24 Treasury Management Policy, Strategy and Practices.
Portfolio Lead	Cllr Bob Sleigh OBE
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Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

ARAC is recommended to:

1 Review and endorse the draft 2023/24 Treasury Management Policy Statement (TMPS) (Section 2 of this report) for onward approval by WMCA Board in February 2023.

2 Review and endorse the Draft 2023/24 Treasury Management Strategy (TMS) (Appendix 1) including the 2023/24 Investment Strategy and criteria for specified and non-specified investments (Appendix 2) for onward approval by WMCA Board in February 2023.

3 Note and agree the arrangements for ensuring Treasury Management Practices are adequately maintained (Section 4).

1. Purpose

1.1 WMCA as a public body is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) in discharging all its financial responsibilities. An updated Code (the 2021 edition) was published following consultation in December 2021. CIPFA indicated at the time that the Code would have a 'soft launch' meaning that authorities had until March 2023 to adopt the Code and implement its recommendations. This report and accompanying Treasury Management Practices are fully compliant with the updated Code.

1.2 The revised CIPFA Code requires WMCA to implement the following:

1.2.1 **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
1.2.2 **Long-term treasury investments** (including pooled funds) are to be classed as commercial investments unless justified by a business case
1.2.3 **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year
1.2.4 Amendment to the **knowledge and skills register for officers and members** involved in treasury management function – to be proportionate to the size and complexity of the treasury management conducted by each authority
1.2.5 **Reporting to members** is to be done quarterly, specifically the monitoring and performance against all forward-looking prudential indicators (including forecast debt and investments) The monitoring is not required to be taken Board but should, as a minimum be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.

1.3 In relation to Treasury Management, the Code states that an organisation should delegate responsibility for the implementation and regular monitoring of its Treasury Management Policies to an independent scrutiny function. At WMCA that function is carried out by Audit, Risk & Assurance Committee. Officers are subsequently obliged to operate within the Treasury Management Strategy parameters as set and monitored by the scrutiny function.

1.4 ARAC members last received an overview of the regulatory environment and WMCA's Treasury Management Practices by our external advisors, Link Group, in January 2022. A refreshed training session has been arranged to coincide with the publication of the 2023/24 Treasury Management Strategy.

1.5 The report sets out WMCA's Treasury Management Policy Statement (below) and Treasury Management Strategy (Appendix 1) for review and endorsement by ARAC prior to submission to WMCA Board in February 2023.

2 Treasury Management Policy Statement

2.1 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was revised in December 2021. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code recommends the creation and maintenance of:

- A Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and

- Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

2.2 The 2021 CIPFA Code recommends that authorities should:

- Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Policies and practices make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

- Acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

2.3 In order to achieve the above, the Authority will do the following:

- WMCA will create and maintain:

    - A Treasury Management Policy Statement, stating polices, objectives and approach to risk management of its treasury management activities.

    - Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

    - The contents of the policy statement and TMPs by following the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect the WMCA's particular circumstances.

- WMCA Board will receive, as a minimum, an Annual Treasury Management Strategy, a mid-year review and an annual outturn report after its close, in the form prescribed in its TMPs.

- WMCA delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Treasury Management Group (TMG), and for the execution and administration of treasury management decisions to the

Director of Finance, who will act in accordance with the WMCA's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

2.4 The draft 2023/24 Treasury Management Policy Statement is shown below for review and endorsement by ARAC.

2023 / 2024 Treasury Management Policy Statement

WMCA's Treasury Management Policy Statement defines the policies and objectives of its treasury management activities, as follows:

(1) Treasury management activities are defined as the management of the 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 pursuit of optimum performance consistent with those risks.

(2) WMCA regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their implications for WMCA, and any financial instruments entered into to manage these risks.

(3) WMCA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.

(4) The Authority's high level policies for borrowing, borrowing in advance and investments:

a. The Authority's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Authority transparency and control over its debt.

b. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

c. The Authority's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

3. WMCA 2023/24 Treasury Management Strategy

3.1 Following on from the Treasury Management Policy Statement above, the Treasury Management Strategy defines how the policy will be adhered to and provides a framework for WMCA treasury practitioners to operate within.

3.2 ARAC are requested to review and endorse the Draft 2023/24 Treasury Management Strategy which features as Appendix 1 to this report; for onward approval by WMCA Board in February 2023.

3.3 The table below summarises the principal changes between the current (2022/23) strategy and that for financial year 2023/24:

Topic	2023/24	2022/23
Limits to Borrowing Activities – Operational Boundary and Authorised Limit indicators	• Included within Treasury Management Strategy per best practice guidance	• n/a – previously included in Capital Strategy
Borrowing Strategy – Liability Benchmark	• Inclusion of Liability Benchmark per revised Code	• n/a
Investment Criteria – Banks/Building Societies sector limit	• Maximum 50% of portfolio	• Unlimited
Investment Criteria – Use of Non – UK Sovereigns (Financial Institutions)	• Minimum sovereign rating of AA- • Up to 25% of portfolio (maximum 15% AA+ or below)	• £5m per foreign country

4. Treasury Management Practices

4.1 Finally, recommendation 3 within this report requests that ARAC note and agree the arrangements for ensuring Treasury Management Practices (TMPs) are adequately maintained. The revised 2021 CIPFA Code recommends that authorities should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

4.2 WMCA maintain (TMPs) in line with the relevant guidance. These practices set out the manner in which the organisation will seek to achieve the policies and objectives and documents how it will manage and control those activities.

4.3 There are currently twelve individual practices which cover:

- Risk management;
- Performance measurement;
- Decision-making and analysis;
- Approved instruments, methods and techniques;
- Organisation, clarity and segregation of responsibilities and dealing;
- Reporting requirements and management information arrangements;
- Budgeting, accounting and audit arrangements;
- Cash and cash flow management;
- Money laundering;
- Training and qualifications;

- Use of external service providers;
- Corporate governance.

4.3 CIPFA's revised Code requires Authority's to address **Environmental, Social, and Governance (ESG)** issues within their treasury management policies and practices (TMP1). WMCA's ESG risk management policy document is included at Appendix 3 for reference.

4.4 Other schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling WMCA treasury functions (Treasury Management Operational Procedures).

4.5 ARAC are requested to note and agree the approach:

- Which delegates responsibility for the implementation and monitoring of its treasury management policies and practices to TMG (consisting of the WMCA Finance Director, the WMCA Head of Financial Planning, the WMCA Head of Major Funding, the Lead Treasury Accountant and other WMCA technical experts as required)
- Which delegates the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the WMCA's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

4.6 ARAC will receive independent assurance that the TMPs are fit for purpose and operating effectively from the annual Internal Audit of key financial systems. However, the actual TMPs are also available for ARAC review upon request.

APPENDIX 1

Treasury Management Strategy 2023/24

Introduction

Treasury management is the management of WMCA's cash flows, borrowing and investments, and the associated risks. WMCA has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to WMCA's prudent financial management.

Treasury risk management at WMCA is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires WMCA to approve a treasury management strategy before the start of each financial year.

This report fulfils WMCA's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The strategy for 2023/24 covers the following main areas:

- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- policy on borrowing in advance of need;
- the investment strategy and creditworthiness policy;
- the policy on use of external service providers; and
- treasury indicators which limit the treasury risk and activities of the Authority.

These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, and the CIPFA Treasury Management Code.

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The key function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with counterparties or instruments commensurate with the Authority's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the WMCA's capital plans. These capital plans provide a guide to the borrowing need of the authority, essentially the longer-term cash flow planning, to ensure that the authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Current Treasury Position

The overall treasury management portfolio as at 31st March 2022 and for the position as at 31st December 2022 are shown below for both borrowing and investments.

Table 1 Treasury Management Portfolio

	Actual	**Actual**	**Current**	**Current**
	Mar 22	**Mar 22**	**Dec 22**	**Dec 22**
Treasury Investments	**£m**	**%**	**£m**	**%**
Call Accounts - Banks	60.0	9.7	22.8	3.4
Local Authorities / Housing Associations	367.0	59.1	570.5	85.8
Banks / Financial Institutions	79.2	12.7	49.7	7.4
Debt Management Office / UK Gilts	50.0	8.0	4.9	0.8
Money Market Funds	60.0	9.7	11.5	1.7
Total Managed In House	**616.2**	**99.2**	**659.4**	**99.1**
Property Funds / REITs	5.2	0.8	5.3	0.9
Total Managed Externally	**5.2**	**0.8**	**5.3**	**0.9**
Total Treasury Investments	**621.4**	**100.0**	**664.7**	**100.0**
Treasury External Borrowing				
PWLB	432.0	94.6	488.4	91.7
Banks	20.0	4.4	19.8	3.7
Temporary Borrowing	0.0	0.0	20.0	3.7
Transferred Debt	4.7	1.0	4.7	0.9
Total External Borrowing	**456.7**	**100.0**	**532.9**	**100.0**
Net treasury investments/(borrowing)	**164.7**		**131.8**	

The Authority's central forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2: WMCA Gross External Debt vs. CFR

£M	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Opening External Debt	457	511	598	585	573	562
New Borrowing	65	100	-	-	-	-
Repayments	11	13	13	12	31	12
Forecast Closing External Debt	**511**	**598**	**585**	**573**	**562**	**550**
Capital Financing Requirement (CFR)	710	982	1,034	1,033	1,005	978
Under Borrowing	199	384	449	460	443	428

WMCA has an increasing CFR – rising from a forecast £710m at the end of 2022/23 to £1,034m at the end of 2024/25 - due to its capital programme, mostly driven by the delivery of the Investment Programme. The Authority is currently 'under borrowed,' meaning that internal cash-backed resources such as balances, reserves, and working capital (predominantly capital grants received in advance) can be deployed to offset external borrowing.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that WMCA's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that WMCA expects to comply with this recommendation during 2023/24 to 2025/26.

Limits to Borrowing Activities

The Operational Boundary - This is the limit beyond which external debt is not normally expected to exceed. This figure has been set to mirror the CFR – and therefore higher than the forecast debt levels in Table 2 - for risk mitigation in case interest rates rise faster than currently forecast.

Table 3 WMCA Operational Boundary

£M	2023/24	2024/25	2025/26	2026/27	2027/28
Operational Boundary	982	1,034	1,033	1,005	978

The Authorised Limit for external debt - This is a key prudential indicator and represents a control on the *maximum* level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Board. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority.

Table 4 WMCA Authorised Limit 2023/24 – 2027/28

£M	2023/24	2024/25	2025/26	2026/27	2027/28
Authorised Limit	1,032	1,084	1,083	1,055	1,028

<u>Prospects for Interest Rates</u>

WMCA has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 19th December 2022. PWLB forecasts are for certainty rates, 20 basis points below PWLB standard rates, to which WMCA has agreed access.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

The central forecast reflects a view that the Bank of England's Monetary Policy Committee (MPC) will be keen to demonstrate its anti-inflation credentials by delivering a succession of further rate increases in 2023. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.50%.

Further ahead it is anticipated that the MPC will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation is expected to peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

In addition to the above, the Bank's plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening) has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

Borrowing Strategy

As at 31 December 2022 WMCA currently holds £513m of long-term loans, an increase of £234m on the previous year. The forecast in table 2 shows that WMCA will borrow a further £100m in 2023/24. This is a fixed rate forward funding loan arranged in 2022 to unwind a proportion of WMCA's previous under borrowing and mitigate against interest rate increases. WMCA may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: WMCA's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should WMCA's long term plans change is a secondary objective.

Strategy: The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy - that is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then any further borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Additionally, WMCA will look to identify suitable forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period and may help to de-risk commercial borrowing models.

WMCA may also borrow using short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's lending facility (i.e., Public Works Loan Board)
- UK Infrastructure Bank
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension and insurance funds (except West Midlands Local Government Pension Fund)

- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Short-term and variable rate loans: These loans leave WMCA exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits set out in the treasury management indicators below. Consequently, financial derivatives may be used to manage this interest rate risk (see section below).

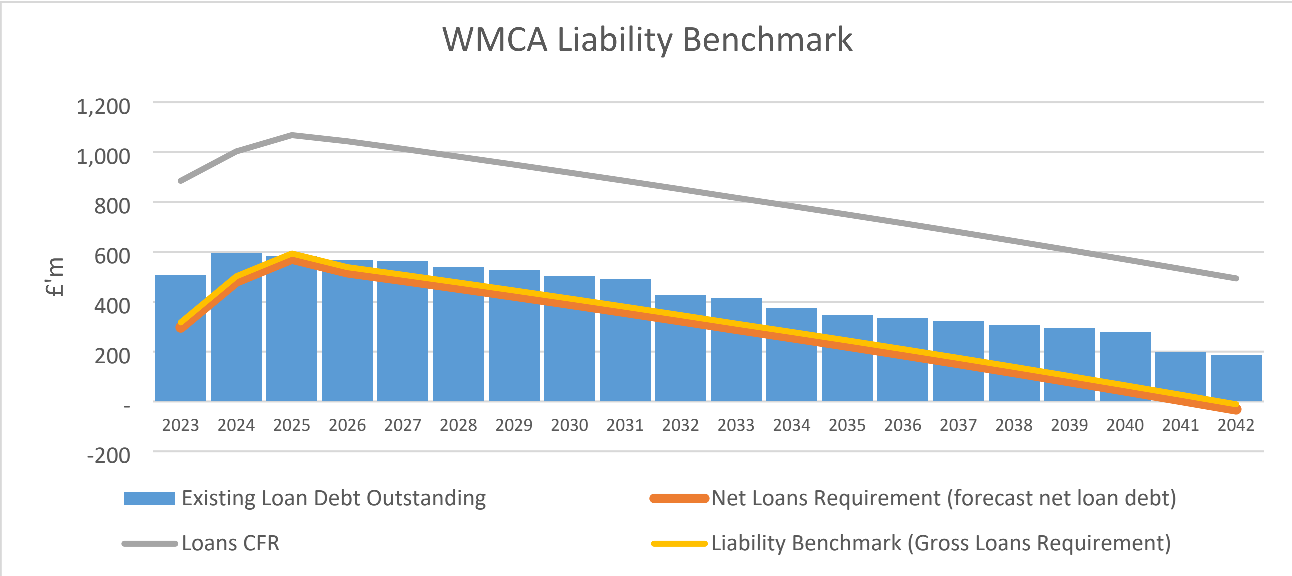
<u>Liability Benchmarking</u>

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. WMCA's benchmark (see below) includes measurements up to 2042 (20 years)

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on *<u>approved</u>* prudential borrowing and planned MRP. In practice this means that for WMCA our Loans CFR peaks after four years based on the timelines within WMCA's approved capital programme. This creates an anomaly given all other inputs are projected forward for 20 years+.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance. Short-term liquidity allowance means an adequate allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed. For WMCA this is set at £20m.

The outcome of the above produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. The chart below shows WMCA's revised benchmark for 2023/24 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. WMCA may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Policy on Borrowing in Advance of Need

WMCA will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Annual Investment Strategy

Investment policy – management of risk

The Department for Levelling Up Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Authority's investment policy has regard to the following: -

a) DLUHC's Guidance on Local Government Investments ("the Guidance")

b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")

c) CIPFA Treasury Management Guidance Notes 2021.

The Authority's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range of fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) Other information: ratings will not be 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 will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage 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.

c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. See Appendix 2.

> i. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

ii. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

e) The Authority has determined that it will limit the use of non-specified investments for periods in excess of one year to £25m.

f) Lending limits and transaction limits (amounts and maturity) for each counterparty and type of investment will be set through applying the matrix shown at Table 5.

g) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

h) This Authority has engaged external consultants, Link Group, to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

i) All investments will be denominated in sterling.

j) As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.)

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Board for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Table 5: Approved investment counterparties and limits

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	50 years	Unlimited[1]	Unlimited
Secured investments *	25 years	£20m	Unlimited
Banks and Building Societies (unsecured) *	13 months	£20m[1]	50% of portfolio
Registered providers (unsecured) *	5 years	£5m	£20m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other investments	5 years	£2m	£10m

<u>This table must be read in conjunction with the following notes.</u>

[1] Normal operating levels will not exceed £10m per counterparty but adequate headroom has been provided to accommodate potential peak cashflow requirements. The Combined Authority will look to keep an even spread of investments across counterparties to minimize exposure to defaults.

* **Minimum credit rating**: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than **A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Investments with the UK Government are *deemed* to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: WMCA may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed in than made insolvent, increasing the chance of WMCA maintaining operational continuity.

Investment Strategy

WMCA holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 WMCA's treasury average monthly investment balance has ranged between £690m and £813m. Levels are expected to fall in overall terms in 2023/24 but this is subject to the timing of government grant receipts and/or delays in capital expenditure profiling.

Objectives: The CIPFA Code requires WMCA to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. WMCA's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, WMCA will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy: Investments will be made with reference to WMCA core balances and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. Given that Bank Rate is forecast to rise partially during the first quarter of 2023/24 prior to falling later in the year consideration will be given to keeping most investments as short term and/or variable initially. The regular stream of maturing investments brought about by this 'laddering' approach should provide opportunities to consistently improve underlying yield whilst still allowing flexibility to adjust if and when market circumstances alter.

Investment returns expectations: Based on the current prospects for interest rates appraisal by Link Group and amended for risk appetite the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24	4.00%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Long term later years	2.80%

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on WMCA's "business model" for managing them. WMCA aims to achieve value from its internally managed treasury investments via a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by WMCA's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

• no new investments will be made;

• any existing investments that can be recalled or sold at no cost will be; and

• full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: WMCA understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, WMCA will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

Investment limits: In order that WMCA's reserves will not be put at significant risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 6: Additional Investment limits

	Cash Limit
Any group of pooled funds under the same management	£20m per manager

Non UK Sovereigns (AA- minimum)	Up to 25% of portfolio (maximum 15% AA+ or below)

Liquidity management: WMCA utilises short, medium-term, and long-term cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of WMCA being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to WMCA's medium-term financial plan and cash flow forecast.

Use of External Providers

£5m of WMCA funds is externally managed on a pooled basis by CCLA Local Authority Property Fund and Fundamentum Social Housing Real Estate Investment Trust (REIT)

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager(s). In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager(s). This includes:

- Monthly valuation updates and factsheets;
- Quarterly dividend statements;
- Annual reports / conference places; and
- Access to online fund reporting sites.

In addition to formal reports, the Authority also meets with representatives of the fund managers on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

Treasury Management Indicators

WMCA measures and manages its exposures to treasury management risks using the following indicators.

Security: WMCA has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit	A minus

Liquidity: WMCA has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£20m (min)

Maturity structure of borrowing: This mandatory indicator is set to control WMCA's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower limit
Under 12 months	75%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	70%	0%
10 years and above	70%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control WMCA's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2023/24	2025/26	2026/27
Limit on principal invested longer than a year	£25m	£25m	£25m

Related Matters

The CIPFA Code requires WMCA to include the following in its treasury management strategy.

Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

WMCA will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that WMCA is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, WMCA will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive

WMCA has retained professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of WMCA's treasury management activities, the Section 151 Officer considers this to be the most appropriate status.

Investment Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Group and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

As noted in the cover report (1.4) ARAC members receive an annual overview of the regulatory environment and WMCA's Treasury Management Practices with our treasury advisors, Link Group, to coincide with the publication of the Treasury Management Strategy.

Treasury Management Consultants

WMCA uses Link Group as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

APPENDIX 2

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the Code, the Director of Finance has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are for the Authority to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

STRATEGY GUIDELINES: The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.

- A body that is considered of a high credit quality (such as a bank or building society) This category covers bodies with a minimum Short-Term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

NON-SPECIFIED INVESTMENTS: Investments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Any investment not meeting the definition of a specified investment is classed as non-specified. Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups, and sectors. WMCA has determined that it will limit the maximum total exposure to non-specified investments as follows:

	Non-Specified Investment Category	**Limit (£ or %)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral Development Bank bonds** - These are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g., European Reconstruction and Development Bank etc). **(b) A financial institution that is guaranteed by the United Kingdom Government** The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£25m
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£25m
c.	**The Authority's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£20m
d.	Any **Bank or Building Society** that has a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year	£20m
e.	**Other fund**: The use of these instruments *can* be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	£5m

Appendix 3

Environmental, Social and Governance (ESG) Risk Management

WMCA ESG Policy

Key Message:

Environmental, Social and Governance (ESG) considerations are important considerations when selecting investment counterparties: however, Security of public funds, followed by Liquidity and then Yield remain our primary drivers in line with CIPFA Guidance.

WMCA treasury operation focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective ESG considerations are about understanding what ESG risks a counterparty is exposed to and what they may mean for the Authority's risk in choosing to make a particular investment.

In line with the Authority's declaration of a Climate Emergency, we will therefore aim to assess and monitor ESG factors when selecting investment options. Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:

We continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice.

As large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change and other ESG considerations are rightly an increasingly important and heavily scrutinised part of their overall business.

Recognising this, the Ratings Agencies (Moody's, Fitch, Standard and Poor's) existing headline ratings on our counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.

Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification. The Authority does not have any identified long-term surplus balances with which to consider specific 'impact' or 'sustainable' investments, so Supra-national counterparties who offer access to high-quality (typically AAA-rated) ESG exposure will continue to proportionately form part of our investment portfolio where bonds or other permitted structures matching our liquidity requirement can be sourced.