APPENDIX 1: Interest Rate Forecasts 2022 - 2024

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table provides Link's latest central view.

Market Rates

	Equities				Currencies			Commodities		Risk Indicators	
	FTSE 100	DOW	NIKKEI	STX 600	£/$	€/£	€/$	Brent	Gold	VIX	MOVE
Level	7,361.63	31,790.87	28,061.03	419.81	1.1690	1.1640	1.0043	100.01	1,725.11	26.21	127.69
Change	-0.88%	-0.96%	-0.48%	-0.67%	-0.45%	-0.64%	0.18%	-5.50%	-0.75%	0.00%	-1.88%

Interest Rates

O/n	1w	1m	3m	6m	9m	12m	24m	36m
1.55	1.70	1.90	2.30	2.85	3.40	3.60	4.20	4.00

SONIA & 2022/23 Average Term Reference Rates

SONIA	1m	3m	6m	12m
1.6904	1.2223	1.4956	1.8650	2.3205

Compounded SONIA (backward-looking)

1m	3m	6m	12m
1.5975	1.2872	1.0032	0.5699
02/08/2022	01/06/2022	02/03/2022	01/09/2021

PWLB (Includes Certainty Rate)

1y	5y	10y	25y	50y
3.54	3.51	3.56	3.87	3.54

Interest Rate Forecasts

Bank Rate	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Link	2.25%	2.50%	2.75%	2.75%	2.75%	2.50%	2.50%	2.25%
Cap Econ	2.00%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	2.80%	3.00%	3.10%	3.10%	3.00%	3.00%	2.90%	2.90%
Cap Econ	3.30%	3.40%	3.30%	3.30%	3.20%	3.20%	3.10%	3.10%
10Y PWLB RATE								
Link	3.00%	3.20%	3.30%	3.30%	3.20%	3.10%	3.10%	3.00%
Cap Econ	3.30%	3.30%	3.30%	3.20%	3.10%	3.10%	3.10%	3.10%
25Y PWLB RATE								
Link	3.40%	3.50%	3.50%	3.50%	3.50%	3.40%	3.40%	3.30%
Cap Econ	3.60%	3.50%	3.40%	3.40%	3.40%	3.30%	3.30%	3.30%
50Y PWLB RATE								
Link	3.10%	3.20%	3.20%	3.20%	3.20%	3.10%	3.10%	3.00%
Cap Econ	3.50%	3.40%	3.40%	3.30%	3.30%	3.30%	3.30%	3.30%

APPENDIX 2: Extract from Credit Worthiness Policy

(Linked to Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management)

Annual Investment Strategy:

The key requirements of both the CIPFA Code of Practice on Treasury Management in the Public Services and MHCLG's Investment Guidance are to set an annual investment strategy, as part of its annual Treasury Management 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 Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year; and
- 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.

Specified investments: These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, 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:

1. 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;
2. Supranational bonds of less than one year's duration;
3. A local authority, housing association, parish council or community council;
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating (AAA) by a credit rating agency; and
5. A body that is considered of a high credit quality (such as a bank or building society).

Within these bodies, and in accordance with the Code, the Council has set additional criteria to define the time and amount of monies which will be invested in these bodies, as shown in the table further below.

Non-Specified Investments: These are any investments which do not meet the specified investment criteria, and include certificates of deposit issued by banks or building societies, fixed deposits with building societies that do not meet the basic secruity requirements of specified investments, corporate bonds, and property funds. Provision has been made in the Strategy to invest in a limited number of lower rated building societies within the restrictions set out, certifcates of deposit with both banks and building societies, and pooled asset funds (should the relevant opportunity arise). The Council will seek guidance on the status of any pooled fund or collective investment scheme it may consider using, and appropriate due diligence will also be undertaken before investment of this type is undertaken.

The Council applies the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

These factors are weighted and combined with an overlay of CDS spreads. The end product is a series of ratings (colour coded) to indicate the relative creditworthiness of counterparties. These ratings are used by the Council to determine the suggested duration for investments.

The Link Group creditworthiness service uses a wider array of information other than just primary ratings. Futhermore, by using a risk weighted scoring system, it does not give undue precedence to just one agency's ratings.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£20m	1 year
UK Government Treasury bills	UK sovereign rating	£60m	6 months
Money Market Funds - CNAV	AAA	£30m	Liquid
Money Market Funds - LVNAV	AAA	£30m	Liquid
Money Market Funds - VNAV	AAA	£30m	Liquid
Local authorities	N/A	£10m	1 year
Term deposits with banks and building societies	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m Not for use**	Up to 5 years Up to 2 years Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use**
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£40m £25m £20m £15m Not for use**	Up to 1 year Up to 1 year Up to 6 Months Up to 100 days Not for use**

Term deposits or CDs with building societies on Link's counterparty list rated 'No colour'	BBB-	£10m	Up to 3 months
Call accounts and notice accounts	Yellow* Purple Blue Orange Red Green No Colour	£30m £25m £40m £25m £20m £15m Not for use	Liquid
Pooled asset funds		£50m	At least 5 years

*for UK Government debt, or its equivalent, Constant Net Asset Value (CNAV) money market funds and collateralised deposits where the collateral is UK Government debt.

**except for those building societies rated BBB- or higher as set out elsewhere in the table.

The monitoring of investment counterparties: The credit rating of counterparties will be monitored regularly, on at least a weekly basis. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and the impact of those changes are assessed promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest upon maturity. Any counterparty failing to meet the criteria will be removed from the lending list immediately, and if required new counterparties which meet the criteria will be added to the list. Any fixed term investment held at the time of the downgrade will be left to mature as such investments cannot be broken mid-term.

Sole reliance will not be placed on the use of this external service. In addition, the Council will make use of market data and information on any external support for banks to help support its decision-making process.

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

APPENDIX 3: Benchmarking Extract

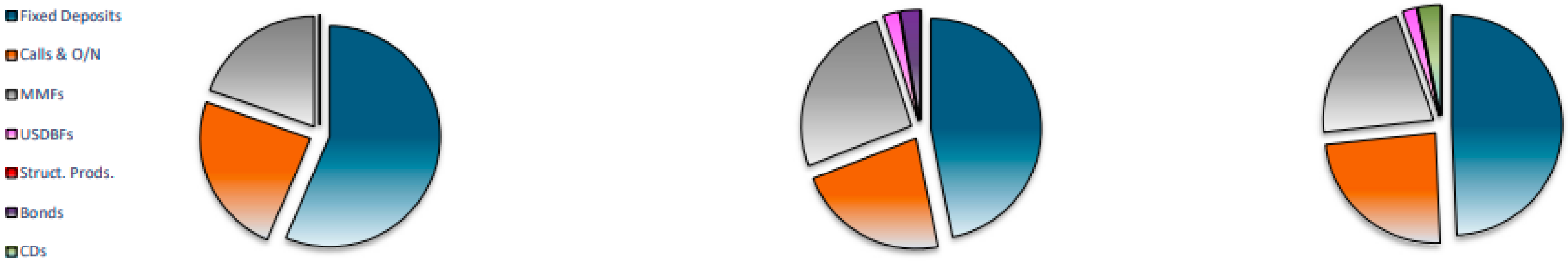
The following three pages present an extract, with glossary, of the Council's treasury benchmarking report as at 30 June 2022.

London Borough Of Lewisham

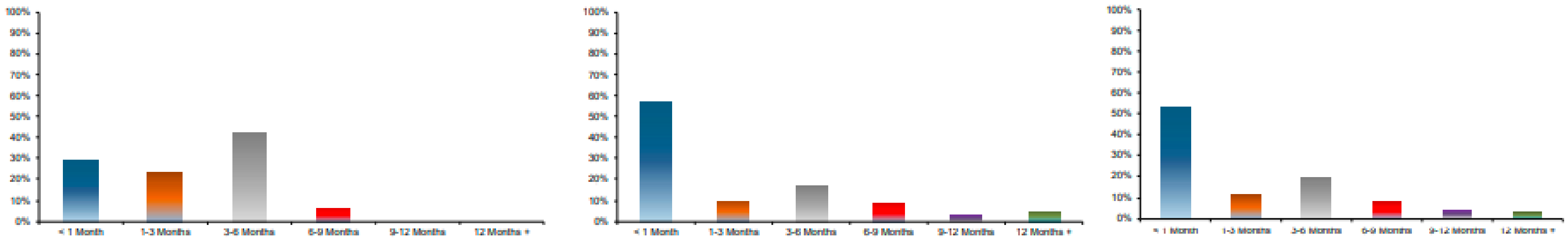
Summary Sheet

	London Borough Of Lewisham	Benchmarking Gtoup 2 (15)	London (21)
		Basic Portfolio Characteristics	
WARoR	0.15%	0.35%	0.31%
WAM	90	89	88
WATT	150	215	192
WA Credit Risk	3.74	2.50	2.68
Model WARoR	0.21%	0.32%	0.29%
Difference	-0.06%	0.02%	0.03%
Model Band	0.15% - 0.26%	0.27% - 0.38%	0.24% - 0.34%
Performance	Below	Inline	Inline

Asset Breakdown



Maturity Profiles



London Borough Of Lewisham

Peer Comparison

	London Borough Of Lewisham	Benchmarking Gtoup 2 (15)		London (21)		Population Average (214)	
Basic Characteristics							
Principal	£377,164,000	£207,307,152		£192,320,632		£86,863,321	
WARoR	0.15%	0.35%		0.31%		0.21%	
WAM	90	89		88		69	
WATT	150	215		192		130	
WA Credit Risk	3.74	2.50		2.68		2.95	
Portfolio Breakdown							
Fixed Deposits	56.47%	46.80%	14	49.29%	19	38.98%	173
Calls & O/N	23.86%	22.30%	12	23.96%	17	35.34%	186
MMFs	19.66%	25.75%	13	21.35%	15	23.12%	146
USDBFs	0.00%	2.29%	2	2.06%	2	1.27%	15
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.13%	2
Bonds	0.00%	2.86%	1	0.00%	0	0.22%	3
CDs	0.00%	0.00%	0	3.34%	1	0.95%	14
Institution Breakdown							
Banks	72.91%	38.03%	15	43.34%	20	45.93%	199
Building Socs.	5.30%	2.76%	5	2.12%	6	4.28%	53
Government	2.12%	29.71%	11	29.13%	15	24.68%	134
MMFs	19.66%	25.75%	13	21.35%	14	23.12%	146
USDBFs	0.00%	2.29%	2	2.06%	2	1.27%	15
MLDBs	0.00%	0.00%	0	0.00%	0	0.00%	0
Other	0.00%	1.47%	2	2.00%	3	0.72%	14
Domestic/Foreign Exposure							
Domestic	55.15%	67.93%	15	71.18%	21	73.02%	207
Foreign	25.19%	4.04%	6	5.41%	9	2.59%	34
MMFs	19.66%	25.75%	13	21.35%	14	23.12%	146
USDBFs	0.00%	2.29%	2	2.06%	2	1.27%	15
Maturity Structure							
< 1 Month	28.94%	56.64%		53.14%		58.10%	
1-3 Months	22.54%	9.80%		11.81%		13.39%	
3-6 Months	41.89%	16.82%		19.20%		18.48%	
6-9 Months	6.63%	8.96%		8.36%		4.72%	
9-12 Months	0.00%	2.80%		3.93%		3.12%	
12 Months +	0.00%	4.97%		3.55%		2.19%	

Definitions

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR.
MPC		The Monitory Policy Committee of the Bank of England sets and announces policy eight times a year (roughly once every six weeks). The MPC has nine individual members. Before they decide what action to take, they hold several meetings to look at how the economy is working.
CPI		The Consumer Price Index (CPI) is a measure of the average change overtime in the prices paid by urban consumers for a market basket of consumer goods and services.

APPENDIX 4: Economic Update from Link Asset Services

UK Economy

1.2. The Bank of England's MPC hiked Bank Rate for a sixth consecutive meeting in August, hiking Bank Rate by 50bps to 1.75% – the largest singlemeeting rise since 1995. The decision to hike interest rates was supported by all nine members of the MPC, and the commitment to act 'forcefully' signalling the possibility of further action was retained. However, one member – Silvana Tenreyro – preferred a 25bps increase.

1.3. The increase came amid growing concerns about upside risks for inflation, with the headline CPI rate now forecast to rise above 13% yoy in Q4 of this year. In terms of forecasts, the Bank expects the economy to contract for five successive quarters, from Q4 2022, with GDP predicted to fall by 1.5% in 2023, following a revised GDP growth projection of 3.5% for this year, down from 3.75% previously. In addition to the increase in Bank Rate, the MPC also provided guidance on the next stage of its quantitative tightening strategy.

1.4. The MPC said that it is "provisionally minded" to commence gilt sales of £10bn per quarter from the end of September subject to a confirmatory vote at the September meeting. Finally, the Minutes once again confirmed that "the MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term", it seems that further interest rate increases are likely over the coming months. Markets think the same, although pricing has been somewhat volatile in recent sessions. The latest shift has seen hike expectations' push higher on the back of employment and inflation figures, with markets still forecasting the heavy-lifting to come near term.

1.5. Pricing currently shows expectations of Bank Rate firming at 2.25% for September, then hitting 2.75% by November and a further 50bps move in December, which would take Bank Rate to 3.25% by the close of the year. For 2023, the latest positions shows a shift to 3.5% in February, followed by a further 25bps hike in March and then little change thereafter through to August's meeting. The table below includes Link's forecast, which has now been updated following the August MPC meeting.

1.6. On the investment front, many banks still require investments of out to one month before providing the full extent of recent Bank Rate hikes, with their offerings reflecting their lack of appetite for yet more short-term, liquid cash. Further along the maturity spectrum, actual increases and market expectations are more fully priced in for the year ahead.

Housing

1.7. House prices increased by 7.8% year-on-year in June, down from 12.8% the previous month. House price growth was strongest in the East of England where prices increased by 9.7% year-on-year and the lowest annual growth was in North East, where prices increased by 3.6%.

USA Economy

1.8. Mortgage applications fell 2.3% in the week ending August 12th, dragged down by a 5.4% drop in the refinancing index and a 0.8% decrease in the purchase one. Retail sales unexpectedly stalled in July, disappointing markets that expected a 0.1% increase as inflation eased slightly but remained high. Later in the session the Fed minutes of their August meeting provided little clear insight as to whether the Committee was erring more towards another 75bps move in September or a more modest 50bps move.

1.9. On the one hand they suggested that officials were getting more concerned over tightening policy too far over the coming months, while they also stated that "declines in the prices of oil and some other commodities could not be relied on" to deliver sustained lower price pressures and that there were little signs to date that inflation pressures were subsiding. Analysts noted that the meeting was held before last week's weaker than expected inflation print, however, the minutes, while a little dovish in places, did not indicate that the tightening cycle was coming to a close anytime soon.

Eurozone Economy

1.10. The number of employed persons in the Eurozone rose by 0.3% quarter on quarter in the three months leading to June, easing from the 0.6% rise in the previous period and slightly below market expectations of a 0.4% growth, preliminary estimates showed.

1.11. Meanwhile, the Eurozone quarterly economic growth was revised lower to 0.6% in Q2 from a preliminary estimate of 0.7%, and following a 0.5% rise in Q1. It is still the strongest performance in three quarters, prompted by the easing of covid restrictions and the summer tourism season in southern countries.

China Economy

1.1 After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. Policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth.

1.2 China’s economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2021. However, the pace of economic growth will fall back after this initial surge of recovery from the pandemic. China is also now struggling to contain the spread of the Delta variant through sharp local lockdowns which will damage economic growth. These are also questions as to how effective Chinese vaccines are proving.

Asia Pacific

1.3 Japanese trade figures showed that the deficit hit a record high in July, although forecasters expect this to ease in coming months as supply issues and commodity prices continue to ease. Imports continue to be dominated by energy-related goods, which accounted for 24.6% of the 47.2% year-on-year gain.

1.4 While the bulk of the outsized gains reflects higher commodity prices, volumes were also seen as rising in July. Meanwhile, exports registered a more limited slowing compared to June than markets had anticipated, with a rebound in car exports supporting overall gains.

Global Growth Prospects

1.5 Having last cut its loan rates in January, the People's Bank of China surprised markets with fresh cuts to both its 7 day and 1 year rate to record lows. The moves have been made in response to weakening economic progress, with data showing industrial production falling from 3.9% y/y to 3.8% in July, while retail sales dropped from 3.1% y/y to 2.7%.

1.6 Chinese wholesale and consumer prices also both came in below market expectations in July, with annual returns of 4.2% and 2.9% respectively. The consumer price reading was however the highest since July 2020, primarily driven by rising pork prices, reflecting production cuts and rising demand.

Gilt Yields/PWLB Rates

1.7 Higher than expected inflation weighed on gilts, which were also affected by a sell-off in other major bond markets. By the close, yields were near-25bps higher at the short end of the curve, with gains closer to 10bps further along the maturity spectrum.

1.8 The current PWLB rates are set as margins over gilt yields as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As the interest forecast table for PWLB certainty rates, (gilts plus 80bps), above shows, there will be more upward movement in PWLB rates over the next two years as the Bank of England raises the Bank Rate to try and combat inflation.

Creditworthiness

1.9 Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the beginning of the war in Ukraine. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are slowing, there have been some instances of previous lowering of Outlooks being reversed.

Debt Rescheduling

1.10 Debt rescheduling opportunities have been very limited in the current economic climate and with the high premiums charged by PWLB and the market loans. No debt rescheduling has therefore been undertaken to date in the current financial year.

APPENDIX 5: Approved Countries for Investment

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also have banks operating in sterling markets which have credit ratings of green or above in the Link Group creditworthiness service.

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- USA

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

APPENDIX 6: Requirement of the CIPFA Treasury Management Code of Practice

Treasury Management Scheme of Delegation

(i) Full Council

- budget consideration and approval;
- approval of annual Treasury Management Strategy;
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement.

(ii) Public Accounts Committee

- receiving and reviewing reports on treasury management policies, practices and activities.

The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer has responsibility for:

- recommending treasury management policies for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- approval of the division of responsibilities;
- approving the organisation's treasury management practices;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by an authority; and
- ensuring that the authority has adequate expertise, either in-house or externally, to carry out the above.