CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
5th May 2023

CABINET EXECUTIVE
9th May 2023

REPORT AUTHOR:	**County Councillor David Thomas** **Portfolio Holder for Finance and Corporate Transformation**
REPORT TITLE:	**Treasury Management Quarter 3 Report**
REPORT FOR:	**Information**

1 Purpose

1.1 CIPFA's 2009 Treasury Management Bulletin suggested:
'In order to enshrine best practice, it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly.'

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above, this report is providing information on the activities for the quarter ending 31st December 2022.

2 Background

2.1 The Treasury Management Strategy approved by Full Council on 3rd March 2022 can be found here - Council (moderngov.co.uk)

3 Advice

3.1 Investments

3.2 The Authority's investment priorities within the Strategy are.

(a) the security of capital, then,
(b) the liquidity of its investments then
(c) the yield

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments. With interest rates for investments remaining lower than borrowing rates, the use of cash reserves as opposed to borrowing is prudent and cost-effective.

3.4 Short-term money market investment rates have continued to increase following the two increases to the Bank Rate in the last quarter. Due to the uncertainty around the short term cash requirements we have continued to hold any surplus funds in the council's deposit accounts. These funds have earned interest totalling £0.26 million for the first three quarters of this financial year.

3.5 Investment returns on inter-authority lending have increased in line with the increased interest rates. When looking at temporary investing, the Treasury team consider the bank fee to set up the arrangement, because of this cost some investments are not cost effective for very short periods of time. However, the Authority does not have sufficient certainty around its cashflow to lend for longer periods where the return is higher.

3.6 The Authority had no other investments on 31st December 2022.

3.7 Credit Rating Changes

3.8 There have been no credit rating changes relevant to this Authority's position during the last quarter.

3.9 The Authority's Capital Position

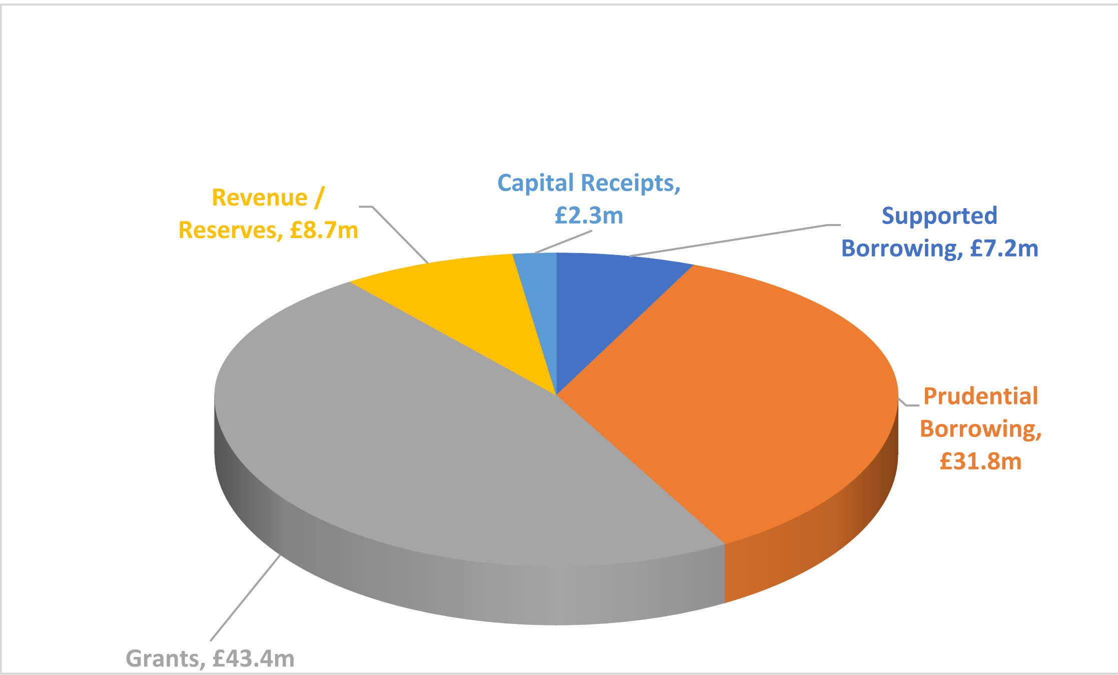
3.10 The 2022/23 Capital Programme was approved by Council on the 3rd March 2022. It included capital schemes totalling £133.88 million, of which £25.55 million related to the Housing Revenue Account (HRA). The revised programme at the 31st December 2022 is budgeted at £93.37 million following the successful award of additional grants and the reprofiling of budgets between financial years. Actual spend amounts to £41.08 million, representing 44% of the total budget.

3.11 Table 1 - Breakdown by service

Service	Original Budget	Virements Approved	Revised Budget	Actuals	Remaining Budget	
	£,000	£,000	£,000	£,000	£,000	%
Adult Services	712	439	1,151	36	1,115	97%
Childrens Services	0	1,111	1,111	695	416	37%
Education	27,868	481	28,349	10,319	18,030	64%
Highways Transport & Recycling	14,163	6,104	20,267	13,001	7,266	36%
Property, Planning & Public Protection	100	2,527	2,627	1,739	888	34%
Community Development	714	1,612	2,326	1,013	1,313	56%
Housing General Fund	1,748	1,159	2,907	197	2,710	93%
Economy & Digital Services	9,974	4,885	14,859	3,363	11,496	77%
Finance	53,047	(53,001)	46	0	46	100%
Total Capital	**108,326**	**(34,683)**	**73,643**	**30,363**	**43,280**	**59%**
Housing Revenue Account	25,550	(5,828)	19,722	10,714	9,008	46%
TOTAL	**133,876**	**(40,511)**	**93,365**	**41,077**	**52,288**	**56%**

3.12 Currently, 42%, £39.03 million, of the capital programme will be supported through borrowing, the interest cost for this is charged to the revenue account. Finance will be working with the services to ensure the profiling of budgets is accurate to effectively manage the borrowing.

3.13 Chart 1 – Capital Programme funding



3.14 Inflation continues to have a severe impact on the cost of schemes due to rising material and construction costs. It is unclear at this stage how this will impact the programme over the coming years. Services are aware of the impact and are mitigating these increases as far as possible but is likely that schemes will be reduced or paused. Any additional funding required is likely to be raised with further borrowing, this will increase costs on the revenue budget so must be minimised.

3.15 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.16 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure, the Council's cash position is managed to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

3.17 Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

3.18 Capital Financing Requirement (CFR)

£'m	Total	HRA	Council Fund
Opening Balance – 1st April 2022			
Original Estimates[1]	**430.33**	106.83	323.50
Actual Balance	**405.21**	101.44	303.77
Closing Balance – 31st March 2023			
Original Estimates[1]	**468.25**	118.62	349.63
Quarter 1 Estimate	**441.92**	113.44	328.48
Quarter 2 Estimate	**429.58**	107.06	322.52
Quarter 3 Estimate	**428.00**	106.09	321.91
Closing Balance – 31st March 2024			
Original Estimates[1]	**502.47**	137.78	364.69
Quarter 1 Estimate	**465.79**	126.50	339.29
Quarter 2 Estimate	**453.83**	122.33	331.50
Quarter 3 Estimate	**445.44**	113.42	332.02
Closing Balance – 31st March 2025			
Original Estimates[1]	**535.78**	156.87	373.91
Quarter 1 Estimate	**484.81**	139.44	345.37
Quarter 2 Estimate	**477.47**	139.23	338.24
Quarter 3 Estimate	**466.11**	124.46	341.65

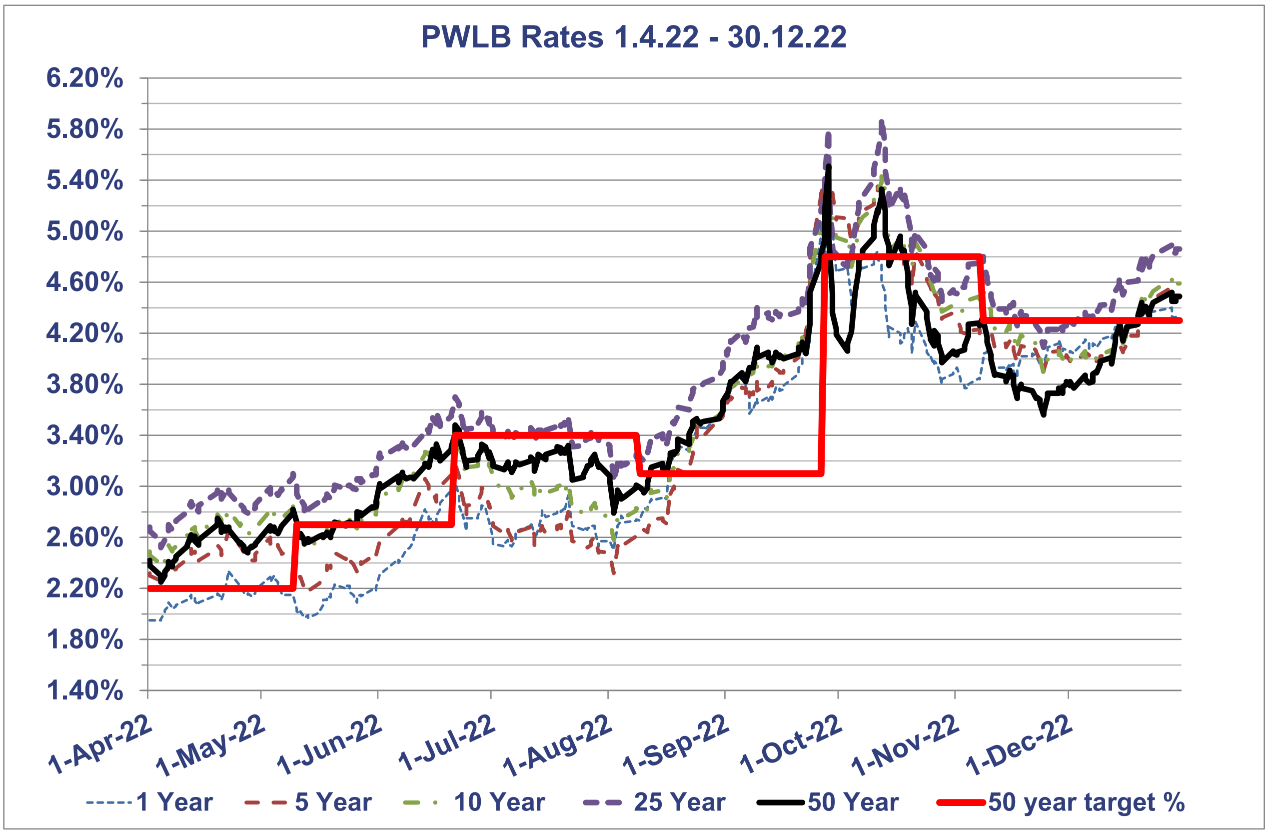
[1] Original estimate included in the Treasury Management Strategy approved by Full Council on 3rd March 2022 (excluding GCRE).

3.19 Borrowing / Re-scheduling

3.20 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

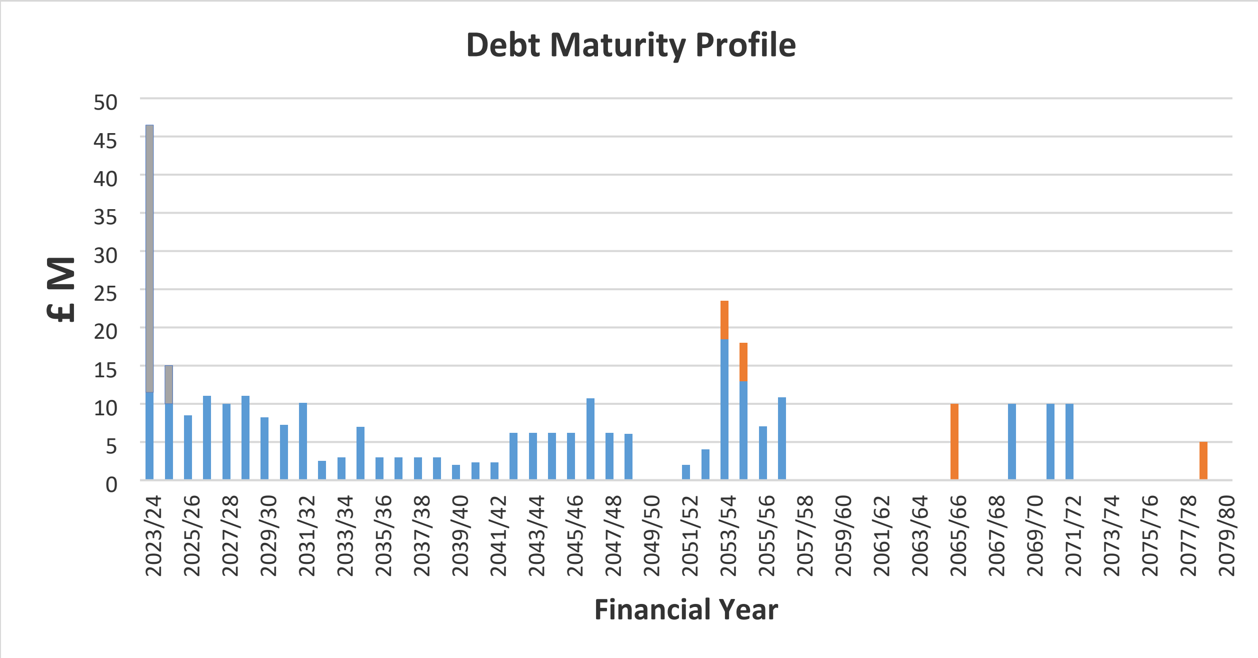
3.21 The finance team have been working with council's treasury advisors to investigate if it would be beneficial to refinance any of the existing loans. With the increase in gilt rates the opportunity was taken to redeem two of the Commerzbank LOBO's (totalling £10 million). Whilst there is a slight increase in costs for 2022/23 and 2023/24 it is anticipated that this will give a discounted saving, currently estimated at £0.90 million over the period of these loans. The finance team will monitor the markets for further debt rescheduling opportunities.

3.22 The chart below shows the changes in PLWB interest rates since the start of the financial year. PWLB borrowing rates are based on the Gilts market. Rates have fallen since the last report but remain significantly higher than at the start of the year.



3.23 A prohibition is still in place to deny access to borrowing from the Public Works Loan Board (PWLB) for any local authority which had purchase of assets for yield in its three year capital programme. There are currently no schemes for yield in the Capital Programme. With the significant amounts of borrowing in the future Capital Programme, the inability to access PWLB borrowing will need to be a major consideration for any future purchases of assets for yield. The additional income these assets generate must be sufficient to cover the increased borrowing costs, as borrowing sources other than the PWLB are likely to be more expensive.

3.24 Debt Maturity Profile



Key Blue = PWLB; Grey = Inter Authority Borrowing; Orange = Market Loans

3.25 £5.01 million PWLB borrowing has been repaid during the last quarter together with the early LOBO redemption mentioned earlier. As PWLB rates have remained relatively high, £20 million was borrowed from other local authorities over a 12 month term. With the uncertain economic position and significantly higher interest rates, these loans were for a shorter term borrowing (less than 1 year). As outlined by Link later in this report, it is anticipated that borrowing rates will fall over the next few years, so we need to ensure that the council isn't locked into higher rate borrowing for long periods, to allow flexibility to take advantage should rates drop.

3.26 A further £1.50 million PWLB is due to be repaid before the end of a financial year. This will need to be replaced with some short term borrowing to absorb this repayment alongside the commitments in the capital programme.

3.27 With the changes to the MRP policy and the delayed requirement to borrow, the revenue budget set aside to cover these costs is projected to be underutilised in this financial year, however as demonstrated in the tables later in the report, these costs are likely to increase year on year.

3.29 PWLB Loans Rescheduling

3.30 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. Existing borrowing rates remain lower than current rates, therefore no debt rescheduling has been undertaken to date in the current financial year.

3.31 Financing Costs to Net Revenue Stream

3.32 This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the Councils net revenue budget (net revenue stream). The estimates of financing costs include current commitments and the proposals in the capital programme.

£'m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
From the approved Treasury Management and Capital Strategy 2022/23			
Financing Costs	11.29	12.17	12.85
Net Revenue Stream	302.33	314.29	324.37
%	3.7%	3.9%	4.0%
Quarter 3 estimates			
Financing Costs	11.35	13.66	14.49
Net Revenue Stream	302.33	326.54	338.53
%	3.8%	4.2%	4.3%

3.33 The table above shows the capital financing costs and the change between those disclosed in the 2022/23 Treasury Management and Capital Strategy, with financing costs now increasing due to rising interest rates we estimate that the ratio will increase slightly to 3.8% of the council's net revenue budget. The latest estimates assume that further borrowing will be required before the end of the financial year. The amount will depend on the cash position of the council and the interest rates available so this figure may change before the end of the financial year. There is sufficient budget to cover these costs in this financial year, future years increases have been factored into the proposed 2023/24 budget.

3.34 The change has been caused by two factors.

1. The reduced borrowing requirement to support the capital programme in 2021/22 and future years. This has been the result of reprofiling of budgets into future years. This has allowed the council to defer the date that it expected to take out additional borrowing, reducing the current interest costs, however this borrowing will still be required in the future.

2. The provisional settlement for 2023/24 has been received from Welsh Government which has increased the Net Revenue Stream for 2023/24 and 2024/25. Increased interest rates have significantly increased the Financing Costs in future years.

3.35 Prudential Indicators

3.36 All Treasury Management Prudential Indicators were complied with in the quarter ending 31st December 2022.

3.37 Economic Background and Forecasts

3.38 The forecast of interest rates by the Authority's advisor at the 19th December 2022 are shown below. The rates have fluctuated over the last few months but are expected to reduce slightly over the next few years. The current higher rates will increase the cost of borrowing over the next few years. The revised Medium Term Financial Strategy has been updated to take account of these changes.

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

3.39 The economic background provided by our treasury advisers; Link Group at the 31st December 2022 is attached at Appendix A. It should be noted that this was provided at the end of the quarter and certain factors may have changed since then.

3.40 Sundry Debt

3.41 The prompt collection of debt and encouraging payment as soon as possible helps the Councils cashflow position, reducing the need for short term borrowing.

3.42 The following table outlines the Council's outstanding sundry debt at the 19th January 2023 of £18.19 million, up from £15.77 million last quarter. This does not include Council Tax arrears.

Service	Current Debt (30 days or less)	Aged Debt (31 to 60 days)	Aged Debt (61 - 90 days)	Aged Debt (Over 90 days)	Total Aged Debt	Change from previous quarter
Adult Services [2]	**849,484**	4,600,198	195,753	7,035,729	**11,831,679**	2,064,919
Children's Services	**9,951**	0	489	212,473	**212,962**	42,716
Corporate, Legal & Democratic Services	**16,226**	6,700	0	460	**7,160**	6,039
Digital Services	**34,985**	204,835	13,701	33,331	**251,867**	220,911
Finance	**55,418**	10,911	75,772	478,285	**564,968**	70,495
Highways, Transport & Recycling	**354,072**	438,309	86,384	530,565	**1,055,258**	249,377
Housing	**119,467**	97,973	3,432	845,229	**946,634**	-42,445
Leisure	**6,468**	1,327	1,052	45,502	**47,881**	1,734
Other	**20,082**	5,835	6,039	60,602	**72,475**	-17,530
Property, Planning & Public Protection	**430,036**	57,134	121,682	606,220	**785,037**	34,906
Schools	**85,306**	833	576	247,698	**249,107**	-1,187
Workforce and OD	**84,016**	12,552	24,646	66,503	**103,701**	-26,307
Total	**2,065,509**	**5,436,607**	**529,527**	**10,162,597**	**16,128,730**	**2,603,629**

[2] There is a further £1.05 million outstanding debt with the local health board that sits outside this figure.

3.43 The £2.07 million shown in the current debt column relates to invoices that are less than 30 days old, overdue debt is classed as overdue when it is above 30 days after the invoice date.

3.44 The total debt represents 25% of the annual generated income (excluding Council Tax and NNDR), if you exclude the current debt (less than 30 days old) this falls to 22% up from 18% last quarter.

3.45 There is a significant level of aged debt (over 30 days old) which has increased by £2.60 million since the last quarter. The majority of that increase relates to Powys Teaching Health Board debt mainly within Social Care.

3.46 The table in 3.42 shows that around two thirds of the over three month debt is adult social care debt. This is more difficult to collect as Welsh Government will not allow bailiff action on residential care fees and court action only as a last resort. This debt relates to a high proportion of elderly and vulnerable customers, and often deferred charges are placed on their properties, which requires waiting for houses to be sold and estates to be realised which is often a lengthy process. It is recommended that a "deep dive" piece of work is to be undertaken on the adult social care debt and reported back to Cabinet.

3.47 The table below shows the key performance indicators since the start of the financial year.

	PtHB Debt £'000	Non PtHB Debt £'000	Total Debt £'000	Deferred Charge Secured £'000	Payments Received £'000	Debt Written-off [3] £'000	Collection Rate
April	£3,750	£10,360	£14,110	£492	£4,662	£7	31%
May	£3,490	£10,180	£13,670	£513	£2,362	£2	39%
June	£5,920	£9,450	£15,370	£512	£2,991	£4	51%
July	£3,510	£9,550	£13,060	£455	£4,916	£0	61%
August	£3,470	£9,540	£13,010	£454	£2,452	£0	64%
September	£6,760	£10,730	£17,490	£454	£3,010	£2	54%
October	£5,340	£10,800	£16,140	£428	£5,834	£14	69%
November	£4,980	£10,540	£15,520	£428	£3,140	£0	75%
December	£8,170	£10,970	£19,140	£427	£3,235	£0	73%

[3] Debt is written off in line with the council's debt policy.

3.48 The debt recovery team have recently been able to recruit into their vacant posts, one member has already started with another post back out to recruitment. However, it will take some time for the team to be fully operational.

3.49 Redesign works in the team have identified the need for ICT improvements around systems and process; improved intelligence and the reduction of failure demand coming into the service. Along with an increase in the size of the team itself these will yield improvements in the ability of the team to collect debt for the Council in the future.

That rollout process is held until the team complete recruitment to current posts and if possible, will look to rollout in Q4 of 2022/23 or Q1 of 2023/24

3.50 Appendix C shows how the debt profile has changed since the start of the financial year.

3.51 Council Tax and NNDR Collection

3.52 The in-year collection rates at the end of December 2022 (Quarter 3) for Council tax and NNDR are shown below.

Council Tax	80.75% (0.48% down compared to same point during 2021/22)
NNDR	83.00% (3.26% down compared to same point during 2021/22)

3.53 £3.25 million of Council Tax and £0.48 million NNDR remains uncollected from previous financial years. Collection of monies during the ongoing cost of living crisis is challenging, however robust procedures are in place to pursue all monies owed to the Council, both for the current year and previous final years.

3.54 VAT

3.55 The Technical Section of Finance act as the authority's VAT section. VAT can pose a risk to the authority hence this report includes VAT information.

3.56 The monthly VAT returns were submitted within the required deadlines during this quarter.

3.57 Key Performance Indicators - The VAT KPI's for 2022/23 are attached at Appendix B.

4. Resource Implications

a. N/A

5. Legal implications

5.1 N/A

6. Data Protection

6.1 N/A

7. Comment from local member(s)

7.1 N/A

8. Impact Assessment

8.1 N/A

9. Recommendation

9.1 This report has been provided for information and there are no decisions required. It is recommended that this report be accepted and that a "deep dive" piece of work is to be undertaken on the adult social care debt and reported back to Cabinet.

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Appendix A

1. Economics update – Provided by Link Group on the 31st December 2022

- The third quarter of 2022/23 saw:
  - A 0.5% m/m rise in GDP in October, mostly driven by the reversal of bank holiday effects;
  - Signs of economic activity losing momentum as households increased their savings;
  - CPI inflation fall to 10.7% in November after peaking at 11.1% in October;
  - A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October;
  - Interest rates rise by 125bps over Q4 2022, taking Bank Rate to 3.50%;
  - Reduced volatility in UK financial markets but a waning in global risk appetite.
- GDP fell by 0.3% q/q in Q3 2022 (ending 30th September), which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen's funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October and explained at least 0.3 percentage points (ppts) of the 0.5% m/m rise. Accordingly, if GDP were to avoid falls of more than 0.2% m/m in November and December, then GDP over Q4 as a whole could avoid a contraction, which would prevent a recession in 2022.
- However, at 49.0 in December, the flash composite activity PMI stayed below the "boom-bust" level of 50 and pointed to a small 0.1% q/q contraction in GDP in Q4. Consumer confidence was -42 in December and stayed close to its record low of -49 in September. Strike action could be another small drag and may mean that GDP is 0.0% to 0.5% lower than otherwise in December. GDP is projected to contract marginally in Q4 by around 0.1% q/q.
- Meanwhile, the 0.4% m/m fall in retail sales volumes in November only reversed some of the 0.9% m/m rise in October. That left sales volumes 4.5% below their level at the start of the year. Indeed, the rise in the household saving rate from 6.7% in Q2 to 9.0% in Q3 implied that higher interest rates are encouraging households to save more. And a larger-than-usual £6.2bn rise in cash in household bank accounts in October may imply households have started to increase their precautionary savings.
- There were signs that the labour market was loosening gradually going into the final quarter of 2022. Although employment in the three months to October rose by 27,000, the fall in the composite PMI employment balance in December took it into contractionary territory and suggests that labour demand will cool. Meanwhile, labour supply improved as inactivity fell by 76,000 in the three months to October. That helped drive a rise in the unemployment rate from 3.6% in September to 3.7% in October. The number of job vacancies in November fell for the sixth consecutive month and were 18% below their peak in May.
- Crucially, though, wage growth remained resilient. Average earnings growth, excluding bonuses, grew by 0.7% m/m in October, above the 2022 monthly average of 0.5% m/m. That drove the 3myy rate up to 6.2%, well above the rates of 3-3.5% consistent with inflation at its 2% target. Wage growth is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.
- CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.
- Domestic inflation pressures also eased in Q4. The 0.2% m/m rise in core CPI inflation in November was the smallest monthly gain since August 2020 and drove a fall in core CPI inflation from 6.5% in October to 6.3% in November. Services CPI inflation was stable at 6.3% in November despite

the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November suggests that inflation may become less persistent.

- The Chancellor's Autumn Statement on 17th November succeeded in restoring the government's fiscal credibility in the eyes of the financial markets without deepening the recession. The total fiscal consolidation package of £54.9bn (1.8% of GDP) in 2027/28 made the outlook for fiscal policy much tighter than at the beginning of Q4. The package was heavily backloaded, with net handouts of £3.8bn (0.15% of GDP) in 2023/24 and £0.3bn (0.01% of GDP) in 2024/25, and most of the tightening kicking in after 2024/25. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500. At the same time, Chancellor Hunt loosened the fiscal rules by requiring debt as a percentage of GDP to be falling in five years' time, rather than three. The Office of Budget Responsibility (OBR) estimated that the Chancellor will meet this new rule with a slim £9.2bn (0.3% of GDP) to spare.

- With fiscal policy now doing much less to fan domestic inflation pressures, we think Bank Rate will peak at 4.50%, or at least close to that figure. Despite stepping up the pace of policy tightening to a 75-basis point (bps) rate hike in November, taking Bank Rate from 2.25% to 3.00%, the MPC's communication was dovish. The MPC pushed back heavily against market rate expectations, which at the time were for Bank Rate to peak at 5.25%. The Bank's new forecasts predicted a deeper and longer recession than the analyst consensus, of eight quarters and with a peak-to-trough fall in real GDP of 2.9%.

- The Bank sounded dovish again in December when it slowed the pace of tightening with a 50bps rate rise, from 3.00% to 3.50%. Two members, Dhingra and Tenreyro, voted to leave rates unchanged, judging that the current level of Bank Rate was sufficient to bring inflation back to target. That said, the rest of the MPC appeared to suggest that further rate hikes would be necessary. We expect that the majority of the MPC will need to see stronger signs that activity is slowing, the labour market is loosening, and wage growth is slowing before stopping rate rises. As such, we expect that the MPC will deliver three further rate hikes in February, March and May, taking Bank Rate to a peak of 4.50% but with the pace of increase reducing to 25bps in March and May.

- Gilt yields have fallen sharply since their highs following the "mini-budget" on 23rd September as government fiscal credibility has been largely restored with the resignation of Truss-Kwarteng and the fiscal consolidation package announced at the Autumn Statement on 17th November. Indeed, the 10-year yield fell from a peak of 4.55% to about 3.60% now, while the 30-year yield fell from 5.10% to 3.90%. Admittedly, yields rose by around 50bps in December, partially on the back of a global rise in yields. But if we are right in thinking Bank Rate will fall back in 2024 and 2025 then gilt yields will probably fall over the next two years, with the 10-year yield slipping from around 3.60% now to 3.30% by the end of 2023 and to 2.80% by the end of 2024.

- Lower volatility in gilt markets in Q4 meant that the Bank of England was able to stop its purchases of long-term gilts for financial stability reasons as planned on 14th October. It was also able to begin active gilt sales in November, albeit with a focus on shorter dated gilts. So far quantitative tightening has had little influence on short-term money markets. But as it is still an experiment, the risk of a widespread tightening in financial conditions remains.

- The restoration of fiscal credibility boosted the pound and the FTSE 100 early in Q4. While much of the benefit passed in the first half of Q4, sterling continued to rally against a softer dollar. Our colleagues at Capital Economics do not think that the global recession is fully priced into markets, and so expect a further fall in risk appetite to boost safe haven demand for the dollar and weigh on the pound. They are expecting the pound to fall from $1.19 now to $1.10 in mid-2023, before climbing to $1.15 by the end of 2023 as the prospect of lower interest rates and a recovery in global economic growth buoys equity prices.

- Through December, the rally in the FTSE 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively dovish tone of the Bank of England, compared to the Federal Reserve and the ECB meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December, while the S&P 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

MPC meetings 3rd November and 15th December 2022

- On 3rd November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.
- Nonetheless, the UK government appears more settled now, with Rishi Sunak as Prime Minister, and Jeremy Hunt as Chancellor. Having said that, a multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 425 basis points in 2022 and is expected to increase rates further in 2023. Similarly, the ECB has also started to tighten monetary policy, albeit from an ultra-low starting point, as have all the major central banks apart from Japan (although the BoJ has "tightened" its policy by widening the accepted yield levels for 10yr JGBs, from 0.25% to 0.5% on 20th December). Arguably, though, it is US monetary policies that are having the greatest impact on global bond markets.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

2. Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast, made on 19th December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

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

Link Group Interest Rate View	08.11.22												
	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	4.30	4.30	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	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our central forecast for interest rates was most recently updated on 19th December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

- Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – 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 looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). 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.

- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.

- In the upcoming months, our 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.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.

- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly and pull gilt yields up higher than currently forecast.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Appendix B

VAT - Key Performance Indicators

Creditor Invoices

VAT return for	No of high value Creditor invoices checked	No of Creditor invoices highlighted as requiring "proper" document for VAT recovery	% of creditor invoices checked requiring "proper" document for VAT recovery
Apr-22	269	3	1.12%
May-22	294	8	2.72%
Jun-22	247	4	1.62%
Jul-22	262	5	1.91%
Aug-22	230	4	1.74%
Sep-22	253	2	0.79%
Oct-22	311	4	1.29%
Nov-22	305	1	0.33%
Dec-22	263	1	0.38%
Jan-23			
Feb-23			
Mar-23			

Income Management Entries

VAT return for	No of entries checked by formula per the ledger account code used	No of entries needing follow up check (but not necessarily incorrect).	% of entries needing follow up check
Apr-22	857	0	0.00%
May-22	955	2	0.21%
Jun-22	1,080	0	0.00%
Jul-22	925	0	0.00%
Aug-22	1,077	2	0.19%
Sep-22	989	0	0.00%
Oct-22	953	1	0.10%
Nov-22	1,086	0	0.00%
Dec-22	925	3	0.32%
Jan-23			
Feb-23			
Mar-23			

Debtor Invoices

VAT return for	No of Debtor invoices checked	No of checked debtor invoices with incorrect VAT code used	% of debtor invoices with incorrect VAT code
Apr-22	81	0	0.00%
May-22	73	0	0.00%
Jun-22	84	0	0.00%
Jul-22	93	0	0.00%
Aug-22	96	0	0.00%
Sep-22	120	0	0.00%
Oct-22	137	2	1.46%
Nov-22	120	0	0.00%
Dec-22	118	0	0.00%
Jan-23			
Feb-23			
Mar-23			

Note: Debtors VAT checking is carried out by Finance via a work process prior to the invoice being raised hence the improvement in errors compared to previous years

Purchase Cards

VAT return for	No of transactions for which paperwork requested for checking	Resolvable errors discovered	Value of VAT potentially claimable but recharged to budget due to non- response	No of transactions where VAT claimed incorrectly	% of transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-22	155	22	£2,668.91	14	9.03%	£380.22
May-22	142	14	£2,159.74	25	17.61%	£196.73
Jun-22	141	15	£2,048.25	18	12.77%	£1,005.40
Jul-22	148	10	£883.67	21	14.19%	£1,244.60
Aug-22	116	27	£1,011.58	4	3.45%	£141.44
Sep-22	164	24	£2,402.72	27	16.46%	£1,329.19
Oct-22	158	9	£1,279.49	26	16.46%	£2,455.08
Nov-22	121	11	£1,274.16	1	0.83%	£25.87
Dec-22	78	1	£171.28	10	12.82%	£1,968.75
Jan-23						
Feb-23						
Mar-23						

Chargebacks to service areas

The upload of appropriate documents to the BSM (Barclaycard Spend Management purchase card system) to enable VAT recovery was made mandatory in September 2017 as a result of the lack of response from service areas/establishments to provide documents when requested. Where no document has been uploaded, any VAT amount input against the transaction is charged to the service area as there is no evidence to support the vat recovery.

Any other VAT errors that come to light as a result of the various checks are also charged to the relevant service areas.

Budget holders are able to see this clearly as chargebacks are coded to account code EX400600 and the activity code used alongside this gives the reason why this chargeback has occurred.

The total amount charged back to service areas in 2022/23 is £58,318 to date (excluding the VAT recovered relating to 2021/22). The breakdown of this is as follows:

Potentially correctable errors

Reason	Amount £
Not a tax invoice	29,027.87
Powys County Council is not the named customer	30.86
VAT registration not shown on invoice	13.80
No invoice uploaded to purchase card system	20,471.05
Invoice(s) do not match payment	1,377.55
No evidence to back recovery	0
No Signed Authenticated Receipt [3]	(85,130.20)
Total	**(34,209.07)**

[3] This relates to VAT recovered from the last financial year.

Other errors

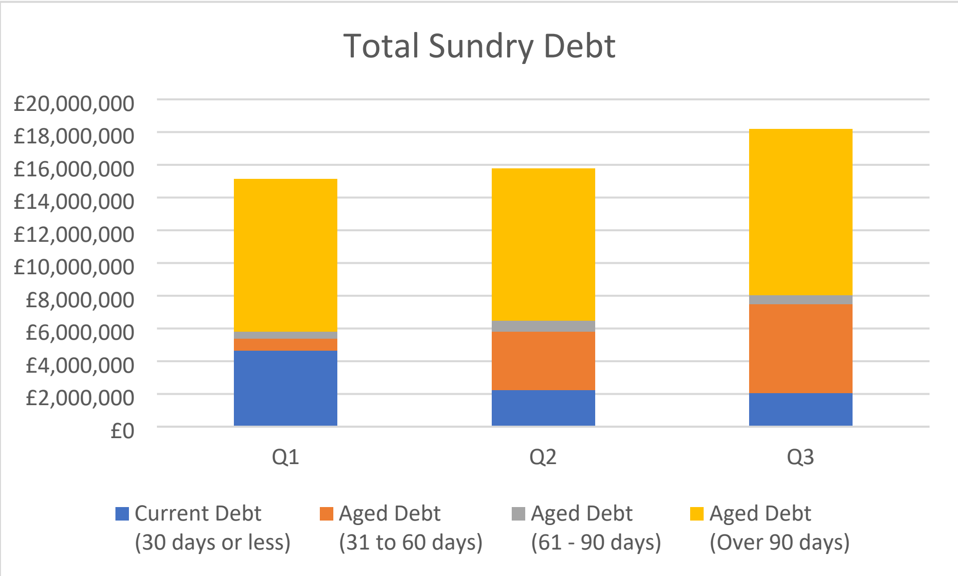
Reason	Amount £
Non-domestic VAT	751.67
No tax on invoice	2,131.83
Supply not to Powys County Council	316.13
Over-accounting for VAT	4,071.37
Internal payments	126.00
VAT mismatch on refund	76.06
Total	**7,473.06**

A breakdown by service is shown on the following page.

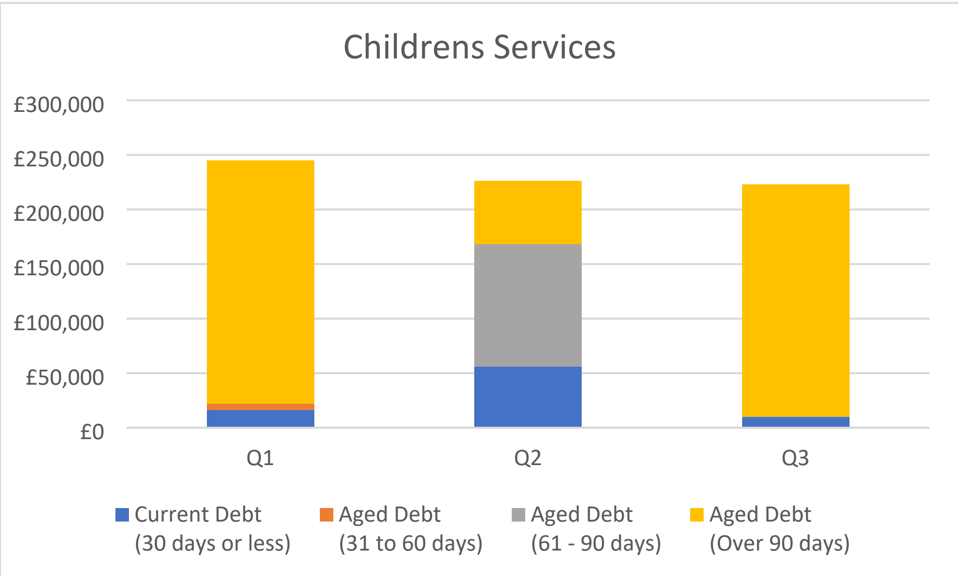
Service	Not a tax invoice	PCC not the named customer	VAT reg. not shown on invoice	No invoice uploaded to BSM	Inv(s). do not match payment	No signed auth. receipt	Foreign VAT	No tax on invoice	Supply not to PCC	Over-accounting for VAT	PCC internal payment	VAT mismatch on refund
Schools Delegated	4,196.47		13.80	10,503.27	1,004.00		284.89	1,528.25		3,434.11	126.00	9.67
Schools Service	407.25			-56.75			12.00	17.86		15.53		9.16
Adults				2.17				43.18				9.84
Childrens	234.64			1,493.79	1.88			26.75		134.02		
Commissioning	804.04			699.93				4.45		3.16		
Highways, Transport & Recycling	2,085.70			938.59								
Community Development	1,081.95			347.84	308.34		36.00	1.53		3.19		
Property, Planning & Public Protection	8,318.67			51.89						630.56		
Housing General Fund	532.23	30.86		3,746.82	63.33			509.81	302.53	397.55		
Housing Revenue Account	1,892.06			432.57								10.72
Finance				317.29								36.67
Corporate Activities				474.44			1.43			(1,813.32)		
Workforce & Organisational Development	760.00			116.80						1,266.57		
Economy & Digital Services	13.45						400.68					
Transformation & Communications				821.74			16.67		13.60			
Legal And Democratic				22.36								
Schools	1,177.78					(85,130.20)						
Childrens	244.03											
Highways, Transport & Recycling	5,864.80			52.52								
Housing Revenue Account	1,414.80			1.50								
Property, Planning & Public Protection				504.28								
Total	**29,027.87**	**30.86**	**13.80**	**20,471.05**	**1,377.55**	**(85,130.20)**	**751.67**	**2,131.83**	**316.13**	**4,071.37**	**126.00**	**76.06**

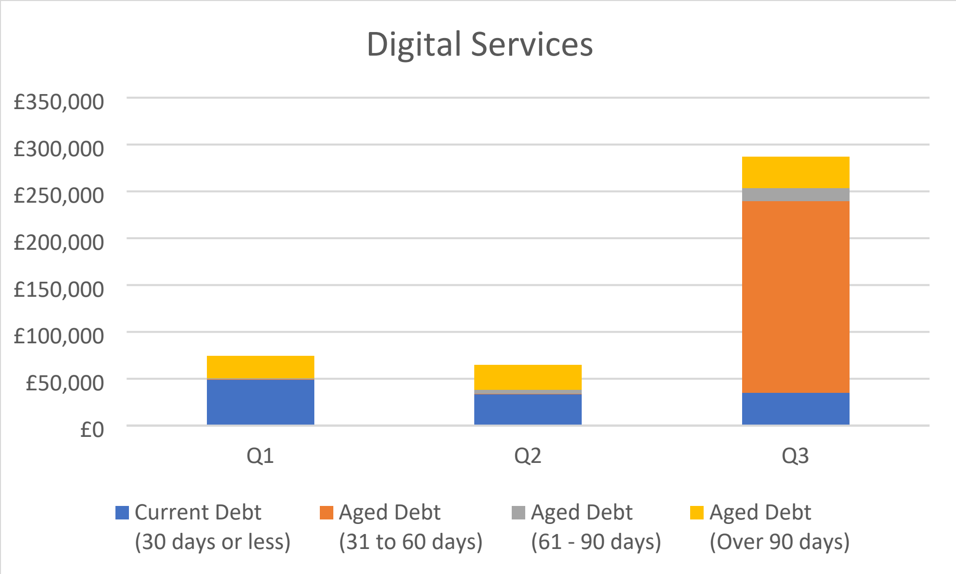
Appendix C

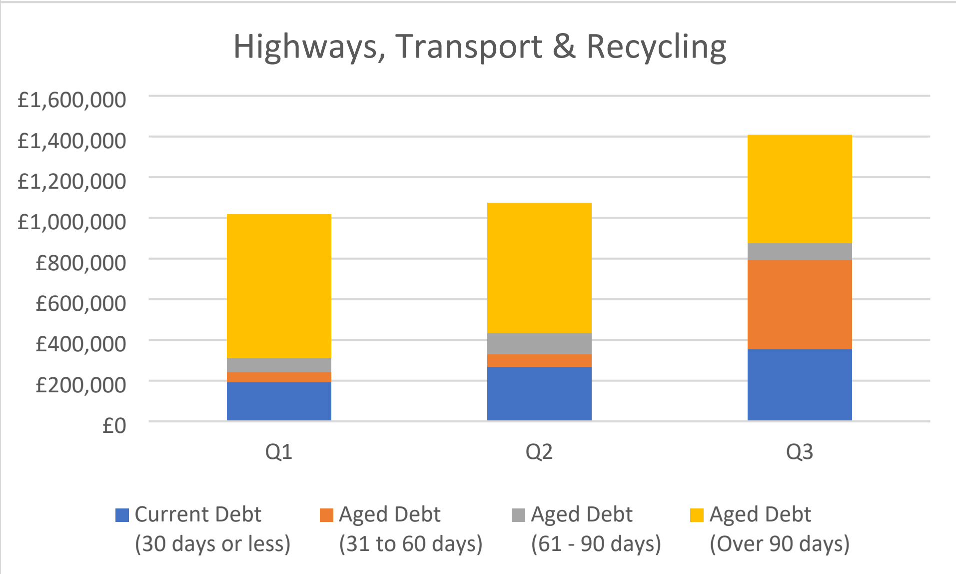
Total Sundry Debt

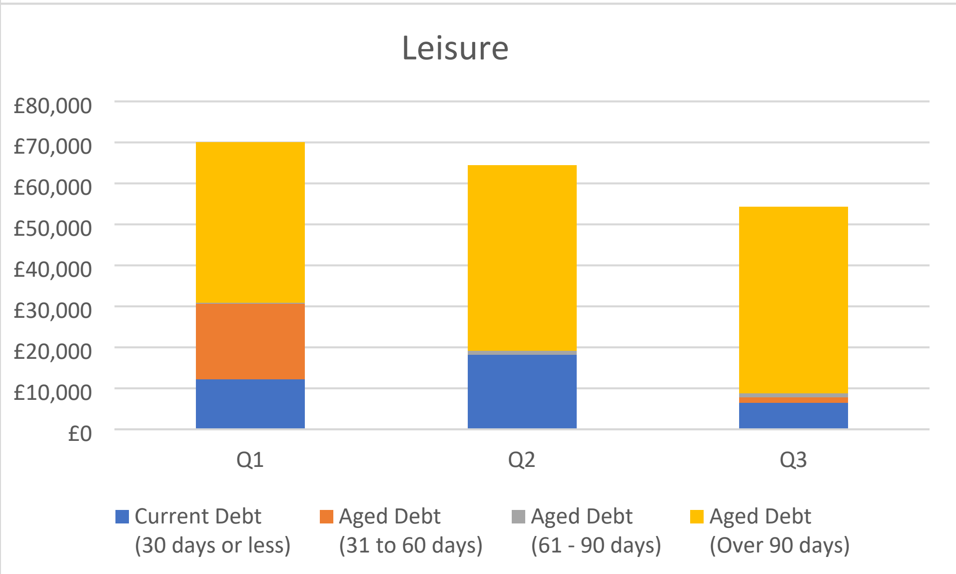


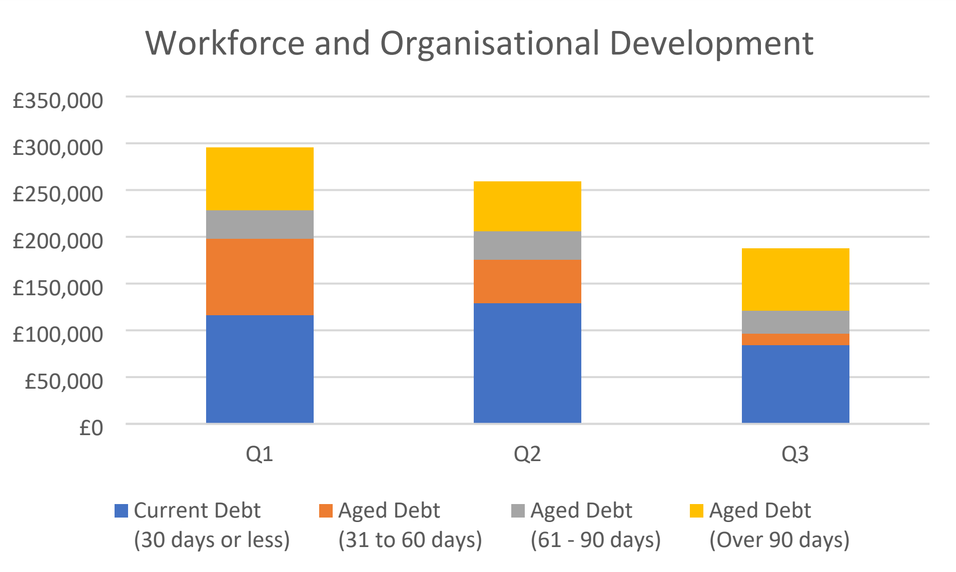
Sundry Debt by Service Area

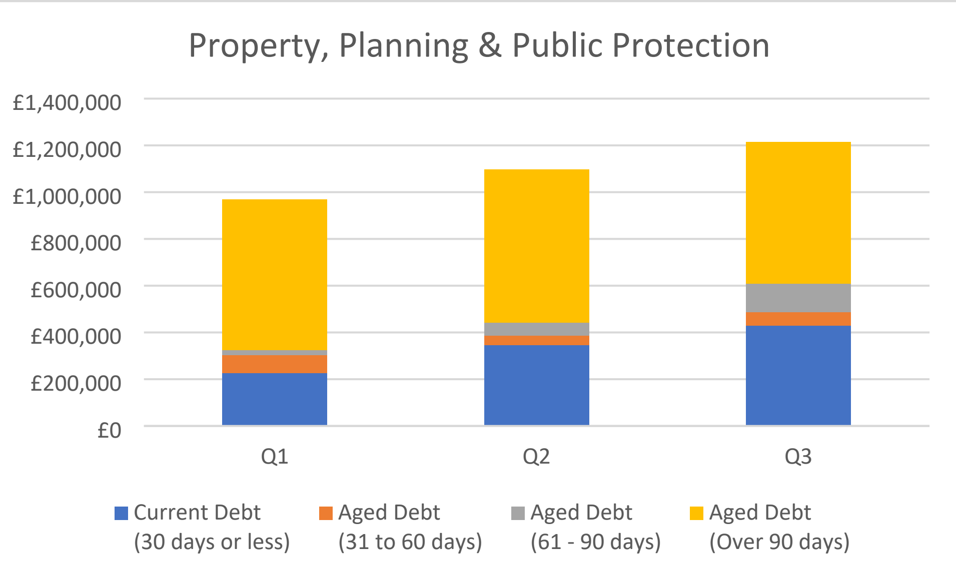


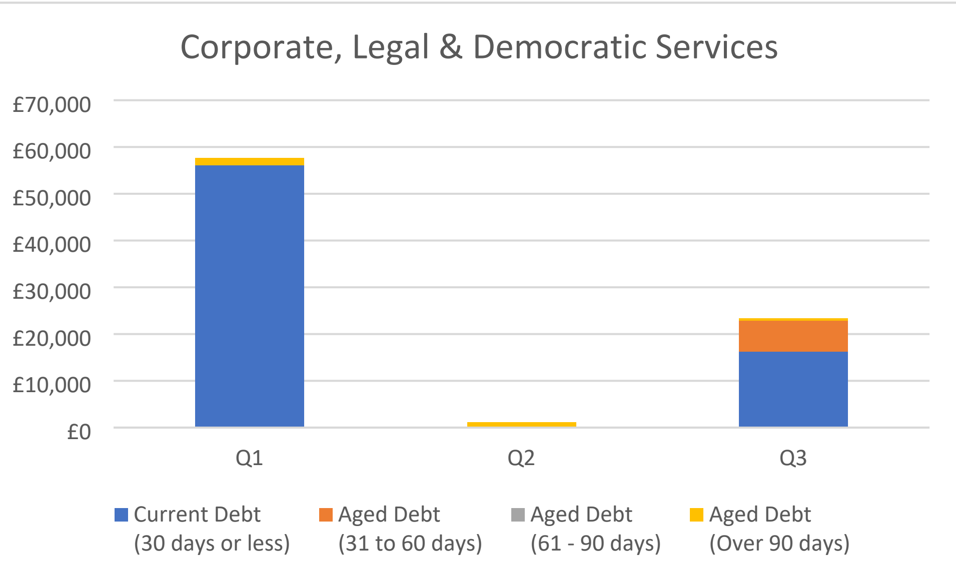

Digital Services
£350,000
£300,000
£250,000
£200,000
£150,000
£100,000
£50,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)

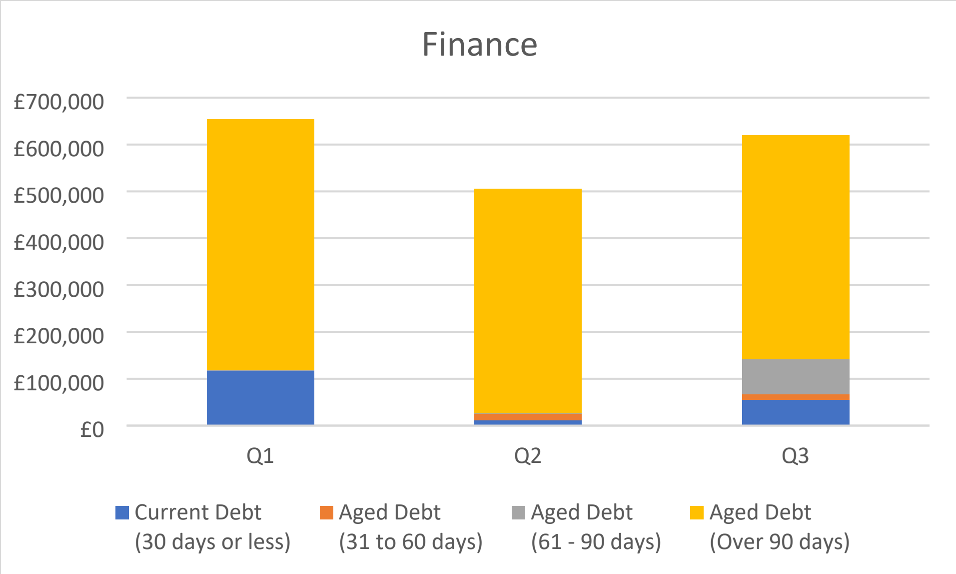

Highways, Transport & Recycling
£1,600,000
£1,400,000
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)

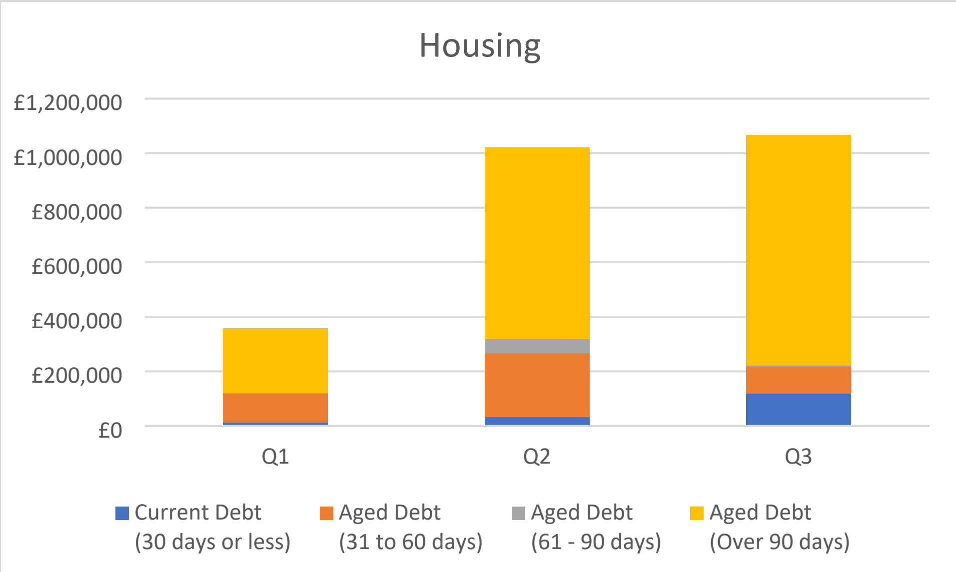

Leisure
£80,000
£70,000
£60,000
£50,000
£40,000
£30,000
£20,000
£10,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)

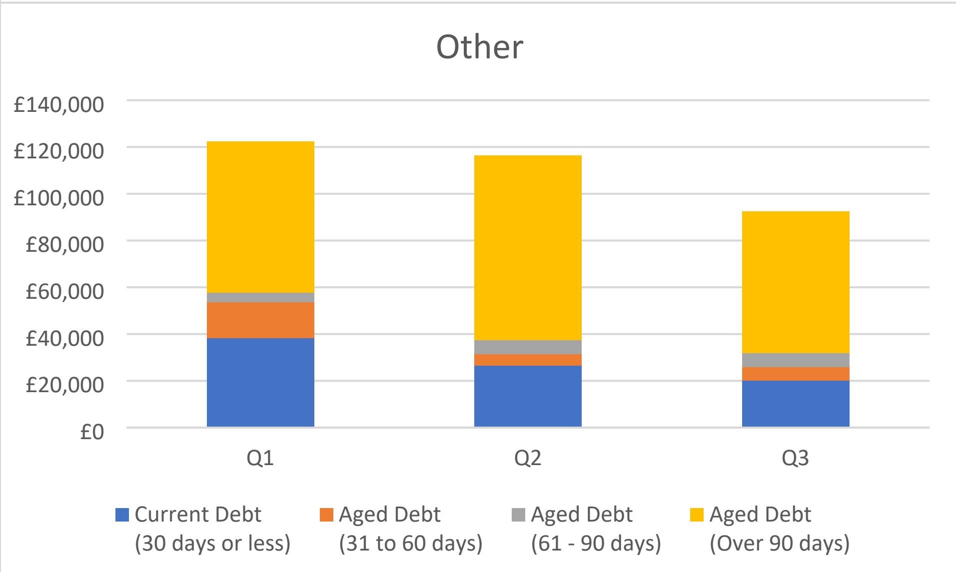

Workforce and Organisational Development
£350,000
£300,000
£250,000
£200,000
£150,000
£100,000
£50,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)

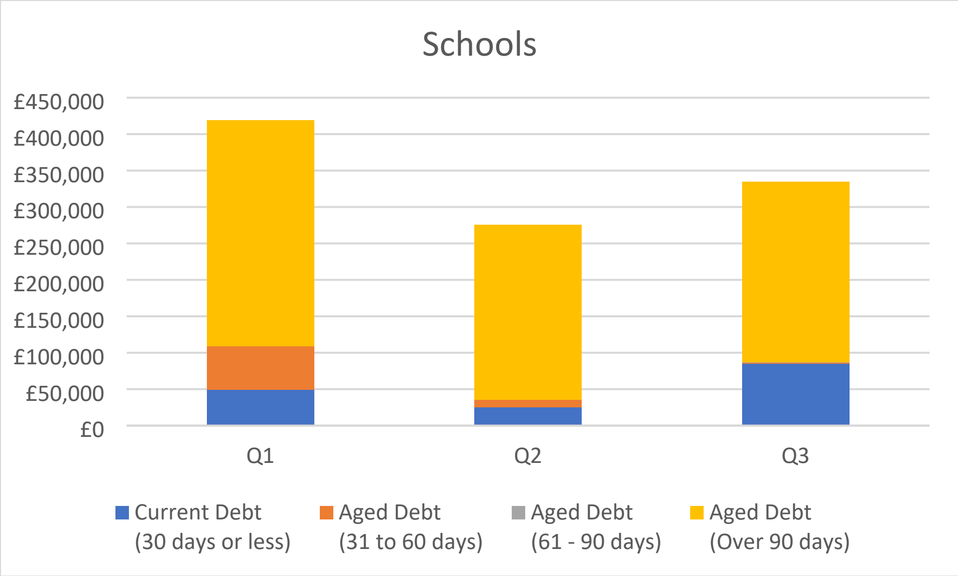

Property, Planning & Public Protection
£1,400,000
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)

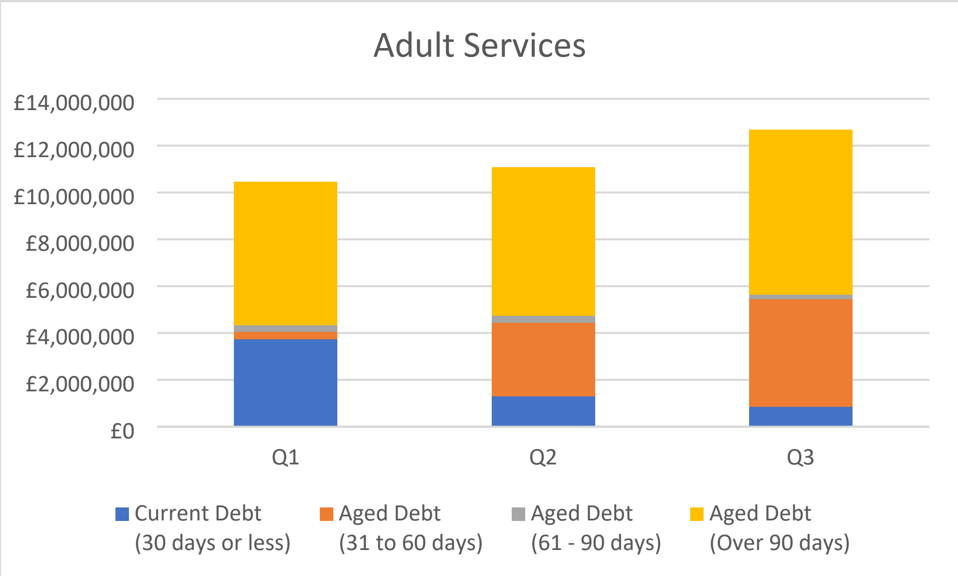

Corporate, Legal & Democratic Services
£70,000
£60,000
£50,000
£40,000
£30,000
£20,000
£10,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)


Finance
£700,000
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)


Housing
£1,200,000
£1,000,000
£800,000
£600,000
£400,000
£200,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)


Other
£140,000
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)


Schools
£450,000
£400,000
£350,000
£300,000
£250,000
£200,000
£150,000
£100,000
£50,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)


Adult Services
£14,000,000
£12,000,000
£10,000,000
£8,000,000
£6,000,000
£4,000,000
£2,000,000
£0
Q1
Q2
Q3
Current Debt (30 days or less)
Aged Debt (31 to 60 days)
Aged Debt (61 - 90 days)
Aged Debt (Over 90 days)