CYNGOR SIR *POWYS* COUNTY COUNCIL.

GOVERNANCE AND AUDIT COMMITTEE
5 March 2025

CABINET EXECUTIVE
25 March 2025

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 2024.

2 Background

2.1 The Capital and Treasury Management Strategy (CTMS) approved by Full Council on 22nd February 2024 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 reduced slightly following the 0.25% reduction in the Bank Rate in November. Due to the uncertainty around the short term cash requirements, we have continued to hold the majority of surplus funds in the council's deposit accounts. These funds have earned interest totalling £0.69 million since the start of the financial year.

3.5 Investment returns on inter-authority short term lending are slightly above the council's deposit accounts rates. There have not been sufficient funds to lend long or short term, so no lending has taken place in the last quarter.

3.6 The Authority had no investments on 31st December 2024.

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 2024/25 Capital Programme was approved by Council on the 22nd February 2024. It included capital schemes totalling £102.50 million, of which £37.57 million related to the Housing Revenue Account (HRA). The programme has been updated following the reprofiling of projects and additional grants received from Welsh Government. The revised programme at the 31st December 2024 is budgeted at £86.44 million following the successful award of additional grants and the reprofiling of budgets between financial years. Actual spend amounts to £46.86 million, representing 54% of the total budget.

3.11 Table 1 - Breakdown by service

£'000	Original Budget	Virements Approved	Revised Budget	Actuals	Remaining Budget £	Remaining Budget %	Commitments
Education	12,612	855	13,467	8,527	4,940	36.7%	3,307
Highways Transport & Recycling	16,984	(1,395)	15,589	12,551	3,038	19.5%	3,595
Economy and Climate	21,573	6,067	27,640	7,824	19,816	71.7%	13,695
Planning and Regulatory Services	355	1,027	1,382	426	956	69.2%	502
Housing General Fund	1,748	655	2,403	1,239	1,164	48.4%	440
Community Wellbeing	1,033	823	1,856	787	1,069	57.6%	409
Adult Services	245	1,066	1,311	397	914	69.7%	47
Unallocated	9,718	(9,441)	277	0	277	100.0%	0
Digital Services	666	109	775	211	564	72.8%	121
Sub Total	**64,934**	**(234)**	**64,700**	**31,970**	**32,730**	**50.6%**	**22,116**
Housing Revenue Account	37,566	(15,821)	21,745	14,887	6,858	31.5%	7,566
TOTAL	**102,500**	**(16,055)**	**86,445**	**46,857**	**39,588**	**45.8%**	**29,682**

3.12 Currently 29%, £24.12 million, of the capital expenditure is budgeted to be financed by borrowing, the interest cost for this is charged to the revenue account. This has reduced significantly since the start of the year as grant funding is received and schemes are reprofiled. Capital receipts will be drawn from the cumulative balance mainly accumulated over previous years,

3.13 Table 2 – Capital Programme funding

£'000	Supported Borrowing	Prudential Borrowing	Grants	Revenue Contribution	Capital Receipts	Total
Capital	4,687	10,090	43,907	2,833	3,186	**64,703**
HRA	0	9,346	7,498	3,900	1,000	**21,744**
Total	**4,687**	**19,436**	**51,405**	**6,733**	**4,186**	**86,447**

3.14 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.

3.15 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.

3.16 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.

3.17 Capital Financing Requirement (CFR)

The table below shows the impact of the reprofiling of schemes included in the capital programme into future years, with the CFR reducing in this financial year, delaying the increase until future years.

3.18 Table 3 – Capital Financing Requirement (CFR)

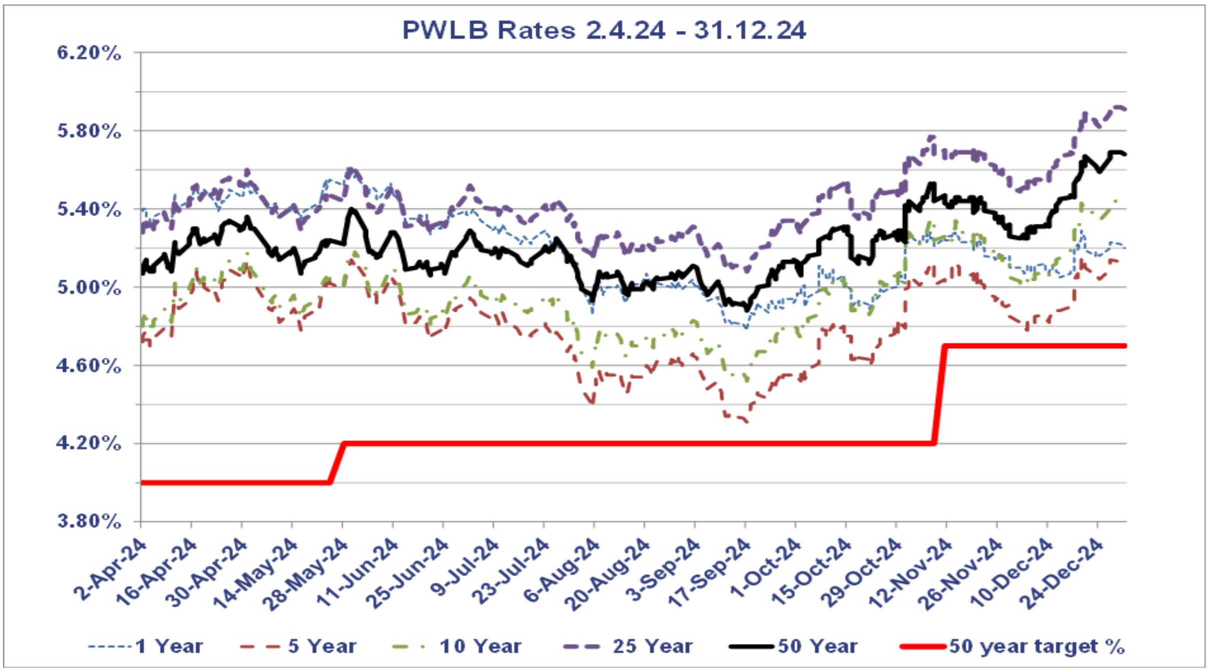
£'m	Total	HRA	Council Fund
Opening Balance – 1st April 2024			
Original Estimates[1]	**446,690**	111,760	334,930
Actual Balance	**431,450**	109,250	322,200
Closing Balance – 31st March 2025			
Original Estimates[1]	**489,270**	135,480	353,790
Quarter 1 Estimate	**485,070**	137,170	347,900
Quarter 2 Estimate	**447,445**	110,799	336,646
Quarter 3 Estimate	**451.040**	117.350	333.690
Closing Balance – 31st March 2026			
Original Estimates[1]	**522,760**	162,880	359,880
Quarter 1 Estimate	**518,470**	164,500	353,970
Quarter 2 Estimate	**476,790**	124,095	352,695
Quarter 3 Estimate	**476.070**	135.520	340.550
Closing Balance – 31st March 2027			
Original Estimates[1]	**554,050**	171,050	383,000
Quarter 1 Estimate	**552,680**	175,620	377,060
Quarter 2 Estimate	**530,266**	153,263	377,003
Quarter 3 Estimate	**526.860**	168.940	357.920

[1] Original estimate included in the CTMS approved by Full Council on 22nd February 2024.

3.19 Borrowing / Re-scheduling

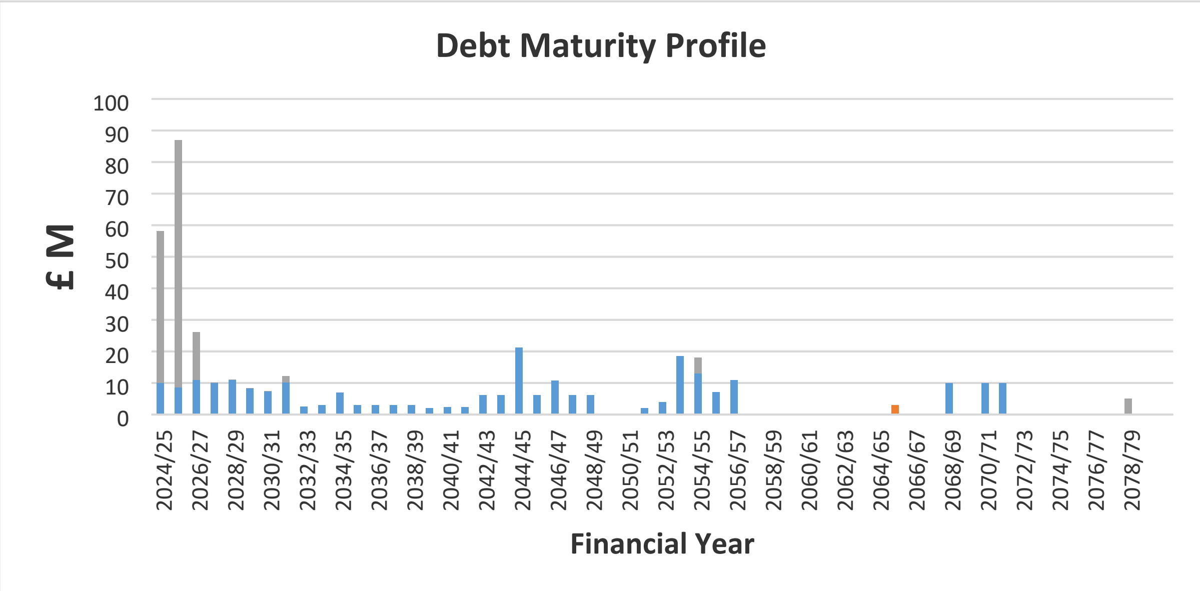
3.20 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

3.21 The chart below shows the changes in PWLB interest rates since the start of the April 2024. PWLB borrowing rates are based on the Gilts market.



3.22 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. This does not apply to schemes where the primary aim relates to service delivery or regeneration.

3.23 Debt Maturity Profile



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

3.24 £3.3 million PWLB and £35 million short term borrowing was repaid during the last quarter. With the uncertain economic position and 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.

3.25 £55 million short term borrowing has been taken out in the last quarter to cover the borrowing that was repaid since the start of the year, to meet the commitments in the capital programme and to cover some of the borrowing that's maturing in the next quarter.

3.26 A further £1.5 million PWLB and £3 million short term borrowing is due to be repaid in the next quarter. This borrowing will need to be replaced with some short term borrowing to absorb this repayment alongside the commitments in the capital programme.

3.27 Financing Costs to Net Revenue Stream

3.28 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.

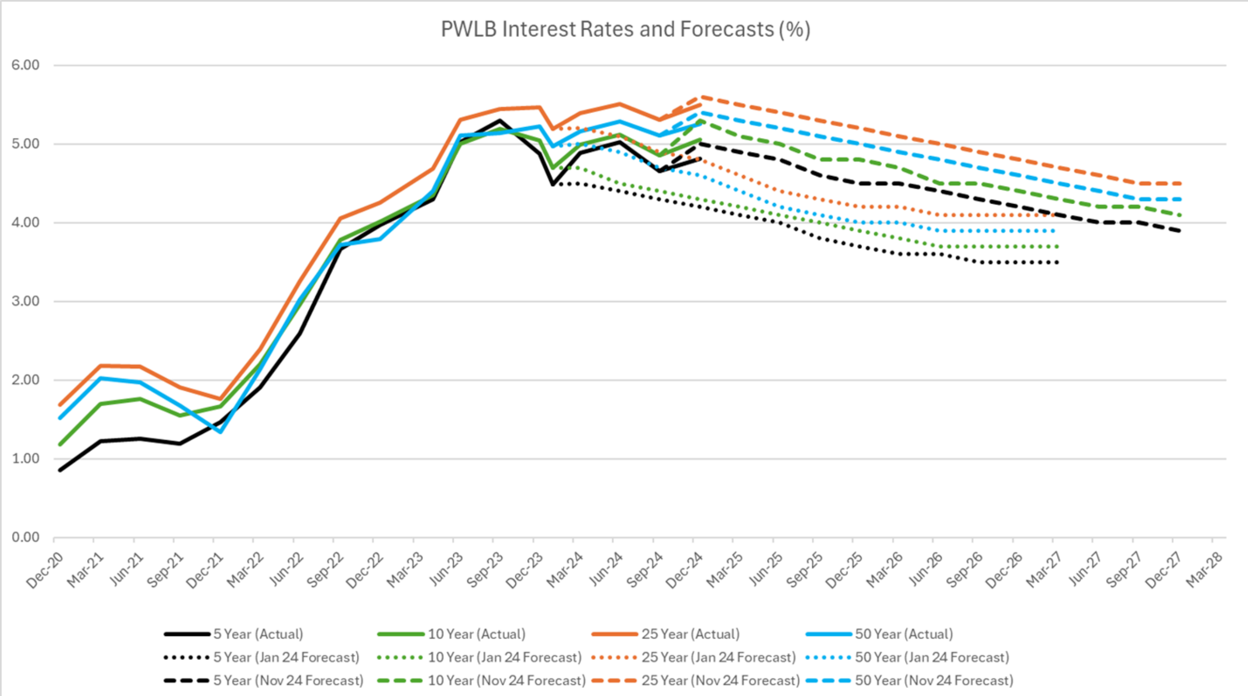
3.29 Table 4 – Financing Costs to Net Revenue Stream

£'m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
From the approved CTMS 2024/25			
Financing Costs	12.90	13.39	12.33
Net Revenue Stream	340.73	341.68	343.03
%	*3.8%*	*3.9%*	*3.6%*
Quarter 1 estimates			
Financing Costs	13.53	14.90	12.57
Net Revenue Stream	340.73	341.68	343.03
%	*4.0%*	*4.4%*	*3.7%*
Quarter 2 estimates			
Financing Costs	13.30	14.87	14.88
Net Revenue Stream	340.73	341.68	343.03
%	*3.9%*	*4.4%*	*4.3%*
Quarter 3 estimates			
Financing Costs	13.78	14.55	16.99
Net Revenue Stream	341.63	365.78	343.03
%	*4.0%*	*4.0%*	*5.0%*

3.30 The table above shows the capital financing costs and the change between those disclosed in the 2024/25 Treasury Management and Capital Strategy. As can be seen in the above table there has been an increase in the estimated financing costs since the original estimate. The major impact is on the 2025/26 and 2026/27 budgets as the rates are not falling in line with the original interest rate forecasts. The interest rate forecast provided by the Council's Treasury Advisors which was included in the 2024/25 Capital and Treasury Management Strategy and formed the basis of the interest forecast for 2024/25 borrowing rates were expected to fall to around 4.20% for five year PWLB borrowing by December 2024. To be prudent, the forecast we undertook assumed 4.5% as the interest rate at December 2024.

3.31 As interest costs remain high, the aim has been to continue to replace debt as it matures with one year debt so when it matures, it will be replaced at a lower rate rather than the Council being tied into the higher rates for a much longer period. The rates for one year borrowing taken out in September/October 2023 were 5.85% to 5.90%, whereas in September/October 2024 the rates are lower 4.80% to 5.05%. However, this is still substantially higher than the 4.50% used in the interest forecast. With over £55 million debt maturing during 2024/25, with the interest rates being around 0.50% higher than expected, this is costing an extra £275,000. The latest interest rates are still volatile with the five year PWLB rates being around 5.25% at the end of December 2024, this is substantially higher than the original estimates. Rates are currently around 5.30% to 5.50% for one year borrowing from other local authorities.

3.32 The chart below shows the changes in PWLB interest rates since December 2020 together with future forecasts when the original estimates were set (January 2024) and the latest forecasts (November 2024)



3.33 The Council has benefited from being under borrowed by around £103 million at the end of 2023/24 as it had used it cash balances and reserves instead of taking out debt to fund previous capital expenditure. This has saved the Council a significant amount on interest costs over the last few years. The Council's revenue budget is under significant pressures, the most recent update for quarter 3 being a small underspend but that is based on additional funding from Welsh Government, using specific reserves to support services and draw down on the £3m Risk Budget. The most recent cashflow forecast also assumes that the council will continue reduce its under-borrowed position by £20 million per year, from £103 million in 2023/24 to a position of £50 million by the end of 2026/27. To address the shortfall in the borrowing budget an additional £2.6m has been requested through the 2025-26 budget plans. In addition, the Council is proposing not to agree to any new schemes that require additional borrowing next year.

3.34 Prudential Indicators

3.35 All Treasury Management Prudential Indicators were complied with in the quarter ending 31st December 2024.

3.36 Economic Background and Forecasts

3.37 The latest forecast of interest rates by the Authority's advisor at the 11th November 2024 is shown below. Rates have increased over the last few months and remain higher than expected (as mentioned earlier in this report). However, rates 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 will provide an updated forecast during Q4 which will be included in the next report.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

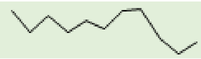
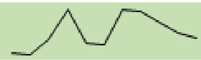
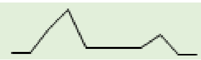
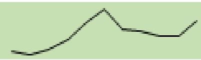
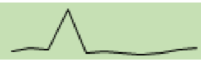
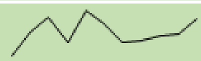
3.38 The economic background provided by our treasury advisers; Link Group at the 31st December 2024 is attached at Appendix A.

3.39 Sundry Debt

3.40 The prompt collection of debt and encouraging payment as soon as possible helps the Council's cashflow position, reducing the need for short term borrowing.

3.41 The following table outlines the Council's outstanding sundry debt at the 6th January 2025 of £15.57 million, up from £13.21 million, last quarter. This does not include Council Tax arrears.

3.42 <u>Table 5 – Sundry Debt at the 6th January 2025</u>

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	Trend Since Q1 2022/23
Adult Services	**797,771**	645,810	668,023	9,218,204	**10,532,037**	2,017,732	
Childrens Services	**12,530**	92,322	7,921	46,590	**146,832**	28,923	
Corporate, Legal & Democratic Services	**550**	0	0	7,859	**7,859**	(1,767)	
Economy & Digital Services	**156,730**	1,367	511	9,470	**11,349**	1,115	
Finance	**8,325**	14,794	133,885	755,290	**903,970**	175,561	
Highways, Transport & Recycling	**336,138**	289,725	147,705	1,251,836	**1,689,266**	66,830	
Housing	**45,578**	33,962	53,471	896,371	**983,804**	31,555	
Community Wellbeing	**1,250**	0	0	49,883	**49,883**	(39,577)	
Other	**31,257**	15,896	5,666	61,796	**83,358**	4,809	
Planning and Regulatory Services	**610,848**	56,445	28,941	721,019	**806,405**	28,881	
Schools	**10,652**	42,458	28,917	213,835	**285,210**	28,945	
Workforce & Organisation Development	**105,774**	24,539	9,370	33,820	**67,728**	10,047	
Total	**2,117,404**	**1,217,319**	**1,084,408**	**13,265,972**	**15,567,699**	**2,353,053**	

3.43 The £2.12 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 22% of the annual generated income (excluding Council Tax and NNDR), if you exclude the current debt (less than 30 days old) this falls to 19%.

3.45 The level of aged debt (over 30 days old) has increased by £2.35 million since the last quarter.

3.46 The Debt Working Group has continued to introduce measures to address the level of debt with a number of activities in the last quarter:

- Finance Dashboard training given to Heads of Service and Senior Managers to encourage ownership and chasing of debt in their services. The dashboard's information includes compliance information and can be filtered into detailed service debt, which can be used to take action to address the debt, or stop services being provided where possible. Services have been asked to review the oldest aged debt first and given advice on payment options and write-off procedures.

- An additional Debt Recovery Officer to focus specifically on Social Care debt

- Additional capacity within our Transactional Finance team to start to chase small debts

- An aged-debt dashboard has been developed for use by the Debt Recovery Team and Transactional Finance team to sub-divide the aged debt and target action at key areas

- A new finance system will be in place from April 2026, it is important we housekeep our balance sheet to only transfer over appropriate balances and transactions. This includes outstanding debt. Analysis has started to review what is in the debt system including aged credit notes, aged credit balances, anomalies such as rounding balances that could be closed off etc.

3.47 The table in 3.41 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. There is a specific workstream on the aged adult social care debt within the Debt Working Group.

3.48 Table 6 - Sundry Debt Key Performance Indicators

£'m	PtHB Debt	Non PtHB Debt	Total Debt	Deferred Charge Secured	Payments Received	Debt Written-off [3]	Collection Rate
April	0.148	14.612	14.760	0.029	8.630	0.000	59%
May	1.180	13.780	14.960	0.658	3.312	0.000	51%
June	0.986	13.814	14.800	0.658	2.926	0.000	54%
July	1.031	14.274	15.305	0.731	3.578	0.011	61%
August	0.958	14.458	15.416	0.678	4.710	0.000	65%
September	5.210	14.560	19.770	0.677	3.022	0.008	65%
October	3.890	13.750	17.640	0.653	6.349	0.503	68%
November	3.980	15.570	19.550	0.653	4.540	0.000	71%
December	2.722	15.118	17.840	0.653	4.398	0.040	71%

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

3.49 Council Tax and NNDR Collection

3.50 The in-year collection rates at the end of December 2024 (Quarter 3) for Council tax and NNDR are shown below.

Council Tax 79.92% (0.53% down compared to same point during 2023/24)
NNDR 84.96% (1.08% down compared to same point during 2023/24)

3.51 £4.84 million of Council Tax and £0.65 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. We are in the process of recruiting two visiting officers as well as a new listing officer which should help identify properties that are subject to full council tax and improve collection rates. Recently, the team have reviewed, redesigned and brought in a dedicated phone line so customers' debt is dealt with in one place e.g. council tax and sundry debt taken by same operative (which has helped with cross skilling the team). We are also in process of creating capacity to move housing benefit queries into the Awards team thus freeing Recovery officers to work on sundry debt activity and we are streamlining process to improve deferred charge recovery.

3.52 VAT

3.53 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.

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

3.55 Key Performance Indicators - The VAT KPI's for 2024/25 are attached at Appendix B.

4. Resource Implications

4.1 Not applicable.

5. Legal implications

5.1 Not applicable.

6. Climate Change & Nature Implications

6.1 Not applicable.

7. Data Protection

7.1 Not applicable.

8. Comment from local member(s)

8.1 Not applicable.

9. Impact Assessment

9.1 Not applicable.

10. Recommendation

10.1 This report has been provided for information and there are no decisions required.

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Appendix A – Update provided by Link Group on the 31st December 2024

The third quarter of 2024/25 (October to December) saw

- GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
- The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- CPI inflation increase to 2.6% in November;
- Core CPI inflation increase from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
- 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

- The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

- This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

- After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

- December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

- CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

- Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

- The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

- The MPC again stated that “a gradual approach” to rate cuts “remains appropriate” and that policy will “remain restrictive for sufficiently long”.

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. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

The latest forecast, updated on 11th November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30th October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government’s policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank’s Quarterly Monetary Policy Reports (February, May, August and November). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Moreover, Donald Trump's victory in the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance (£200bn+ for each of the next few years). As noted at the Link November Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- 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.

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-24	308	1	0.3%
May-24	281	0	0.0%
Jun-24	257	1	0.4%
Jul-24	363	1	0.3%
Aug-24	233	0	0.0%
Sep-24	268	2	0.7%
Oct-24	324	2	0.6%
Nov-24	282	3	1.1%
Dec-24	245	0	0.0%

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-24	342	0	0.0%
May-24	359	2	0.6%
Jun-24	379	0	0.0%
Jul-24	421	32[4]	7.6%
Aug-24	403	0	0.0%
Sep-24	349	2	0.6%
Oct-24	306	0	0.0%
Nov-24	426	0	0.0%
Dec-24	335	1	0.3%

[4] This relates to one transaction that was split over 32 finance codes.

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-24	159	0	0.0%
May-24	117	0	0.0%
Jun-24	134	0	0.0%
Jul-24	128	0	0.0%
Aug-24	109	0	0.0%
Sep-24	120	1	0.8%
Oct-24	153	0	0.0%
Nov-24	160	0	0.0%
Dec-24	107	0	0.0%

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	Total Purchase Card Input VAT	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	% of value potentially claimable	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	% of value incorrectly claimed	Value of VAT un-evidenced	% of value un-evidenced
Apr-24	£116,212	100	5	£554.63	0.5%	12	12.0%	£265.13	0.2%	£1,010.75	0.9%
May-24	£103,213	102	11	£1,503.14	1.5%	11	10.8%	£580.68	0.6%	£1,477.62	1.4%
Jun-24	£81,567	106	14	£923.12	1.1%	15	14.2%	£263.13	0.3%	£665.34	0.8%
Jul-24	£238,996	118	6	£656.54	0.3%	27	22.9%	£2,267.87	0.9%	£958.76	0.4%
Aug-24	£124,770	78	5	£647.16	0.5%	29	37.2%	£1,327.46	1.1%	£604.91	0.5%
Sep-24	£134,903	117	9	£1,494.59	1.1%	16	13.7%	£2,389.02	1.8%	£2,386.65	1.8%
Oct-24	£127,646	105	11	£2,406.91	1.9%	11	10.5%	£822.47	0.6%	£1,775.95	1.4%
Nov-24	£129,867	85	7	£1,083.25	0.8%	14	16.5%	£776.56	0.6%	£619.47	0.5%
Dec-24	£114,909	97	9	£1,057.47	0.9%	12	12.4%	£50.01	0.0%	£1,292.06	1.1%

The table above has been expanded to show the amount of purchase card input VAT reclaimed in each month compared to the amounts claimed incorrectly/unevidenced.

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.

Chargebacks to service areas

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 amount charged back to service areas is £121,094. The breakdown of this is as follows:

Potentially correctable errors

Reason	Amount £
Not a tax invoice	23,652
Powys County Council is not the named customer	2,600
VAT registration not shown on invoice	209
No invoice uploaded to purchase card system	11,386
Invoice(s) do not match payment	1,157
Total	**39,004**

Other errors

Reason	Amount £
Non-domestic VAT	244
No tax on invoice	3,946
Supply not to Powys County Council	63,694
Over-accounting for VAT	1,985
Internal payments	285
Write Off Older Than 4.5 Yrs	3
Error On Actual Tax	44
VAT mismatch on refund	334
Invalid VAT Registration	336
Discovered Recoverable Vat	(467)
Standard Rated Supply	11,686
Total	**82,090**

A breakdown by service is shown below. Where the VAT error is “Supply not to PCC”, this relates to expenditure where the council is not the end user so is unable to reclaim the VAT, examples of this relate to General Elections (Legal) and Resettlement (Housing) spend. In these cases, the full amount is recovered from the relevant funding body.

Service	Not A Tax Invoice	PCC Not The Named Customer	VAT Reg Not Shown On Invoice	No Invoice Uploaded To BSM	Invoice Does Not Match Payment	Foreign VAT	No Tax On Invoice	Supply Not To PCC	Over-accounting For VAT	PCC Internal Payment	Write Off Older Than 4.5 Yrs	BSM Error On Actual Tax	VAT Mis-match On Refund	Invalid VAT Reg	Dis-covered Re-coverable Vat	Standard Rated Supply
Revenue	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Schools Delegated Budgets	1,594			5,179	948	224	2,012	4,026	2,292	158		44	4	336		11,686
Schools Improvement + Learning	1,101			281			1		14							
Community Wellbeing	1,334			(4)					220							
Adult Services				15					31							
Children's Services	21,265			565	35		157		772				(17)			
Highways Transport Recycling				383			28			127	3					
Economy And Climate				13			250									
Planning And Regulatory	2,728			1,969	174			4,280					45			
General Fund Housing	68			1,030			748	3,874								
Housing Revenue Account	1,861		209	998			190		338				301			
Finance				176		20	357									
Digital Services				1												
Corporate Activities				59					(1,682)						(467)	
Business Intelligence & Governance				10				169								
Legal				313				51,345								
Capital	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Community Wellbeing				5			1									
Children's Services				28												
Highways Transport Recycling	(6,299)			292			203									
Economy And Climate		2,600														
Housing Revenue Account				72												
Total	**23,652**	**2,600**	**209**	**11,386**	**1,157**	**244**	**3,946**	**63,694**	**1,985**	**285**	**3**	**44**	**334**	**336**	**(467)**	**11,686**