CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
24th November 2022

CABINET EXECUTIVE
13th December 2022

REPORT AUTHOR:	**County Councillor David Thomas** **Portfolio Holder for Finance and Corporate Transformation**
REPORT TITLE:	**Treasury Management Quarter 2 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 30th September 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 significantly 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 three increases to the Bank Rate in the last quarter. Due to the terms of the original GCRE repayable funding agreement and 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 £0.18 million for the first two quarters of this financial year

3.5 Investment returns on inter-authority lending have increased in line with the increased PWLB 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 A revised agreement with Welsh Government for the repayable funding the council originally received in March 2021 towards the Global Centre of Rail Excellence (GCRE) has been agreed and as part of this change, the council has repaid £15.60 million.

3.7 The Authority had no other investments on 30th September 2022.

3.8 Credit Rating Changes

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

3.10 The Authority's Capital Position

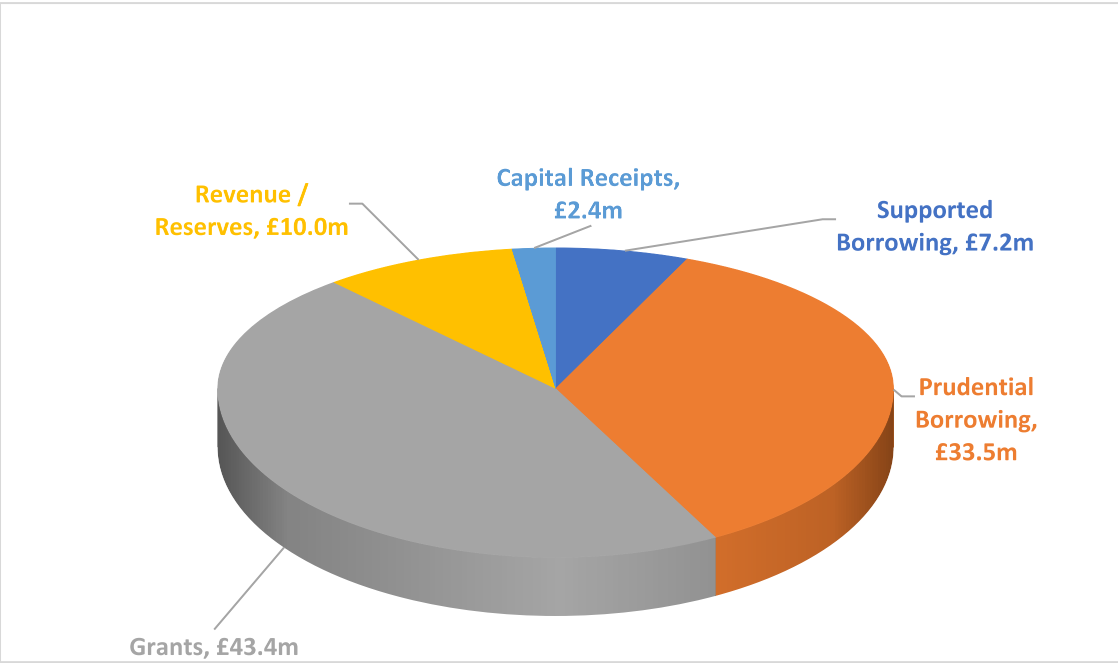
3.11 The 2022/23 Capital Programme was approved by Council on the 3rd March 2022. It included capital schemes totalling £133.88 million, of which £25.55 million related to the Housing Revenue Account (HRA). The revised programme at the 30th September 2022 is budgeted at £96.46 million following the successful award of additional grants and the reprofiling of budgets between financial years. Actual spend amounts to £24.37 million, representing 25% of the total budget.

3.12 Table 1 - Breakdown by service

Service	Original Budget	Virements Approved	Revised Budget	Actuals	Remaining Budget	
	£,000	£,000	£,000	£,000	£,000	%
Adult Services	712	339	1,051	-8	1,059	100%
Childrens Services	0	1,111	1,111	597	514	46%
Education	27,868	827	28,695	5,126	23,569	82%
Highways Transport & Recycling	14,163	6,298	20,461	8,383	12,078	59%
Property, Planning & Public Protection	100	2,427	2,527	1,514	1,013	40%
Housing & Community Development	2,462	3,052	5,514	-152	5,666	102%
Economy & Digital Services	9,974	4,944	14,918	1,756	13,162	88%
Corporate	53,047	(53,001)	46	0	46	100%
Total Capital	**108,326**	**(34,003)**	**74,323**	**17,216**	**57,107**	**77%**
Housing Revenue Account	25,550	(3,412	22,138	7,156	14,982	68%
TOTAL	**133,876**	**(37,415)**	**96,461**	**24,372**	**72,089**	**75%**

3.13 Currently, 42%, £40.66 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 requirement.

3.14 Chart 1 – Capital Programme funding



3.15 Inflation is having 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.

3.16 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.

3.17 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, 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.

3.18 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.

3.19 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
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
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

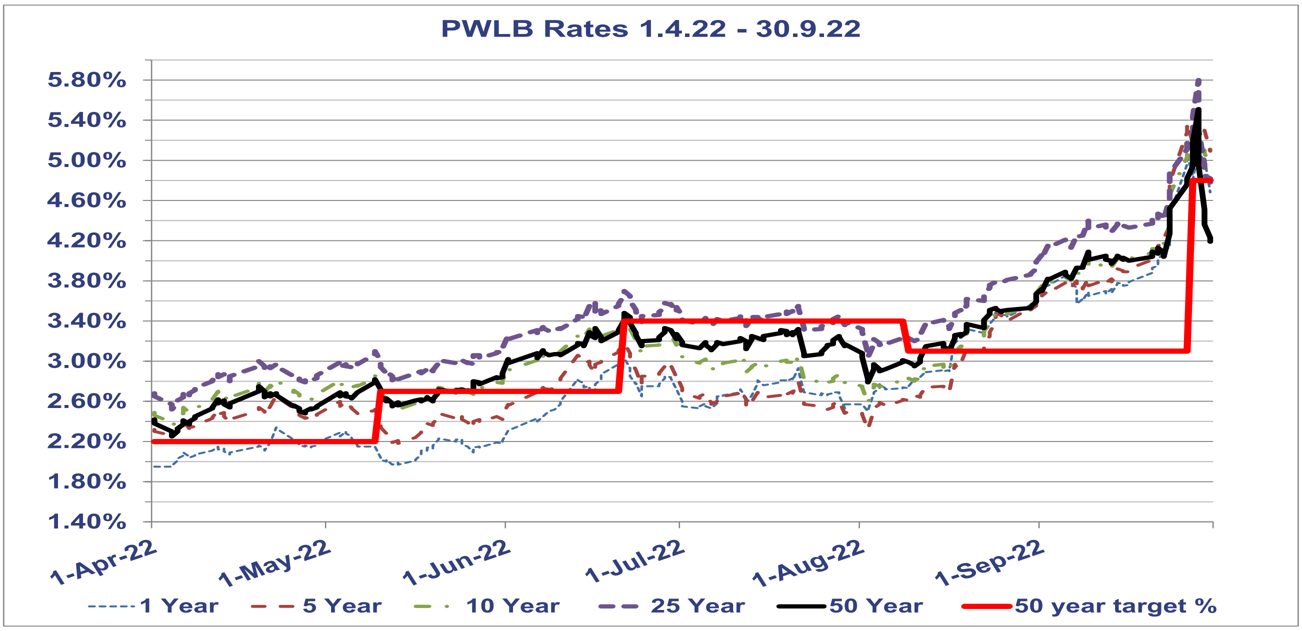
[1] Original estimate included in the Treasury Management Strategy approved by Full Council on 3rd March 2022 (excluding GCRE).

3.20 Borrowing / Re-scheduling

3.21 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.

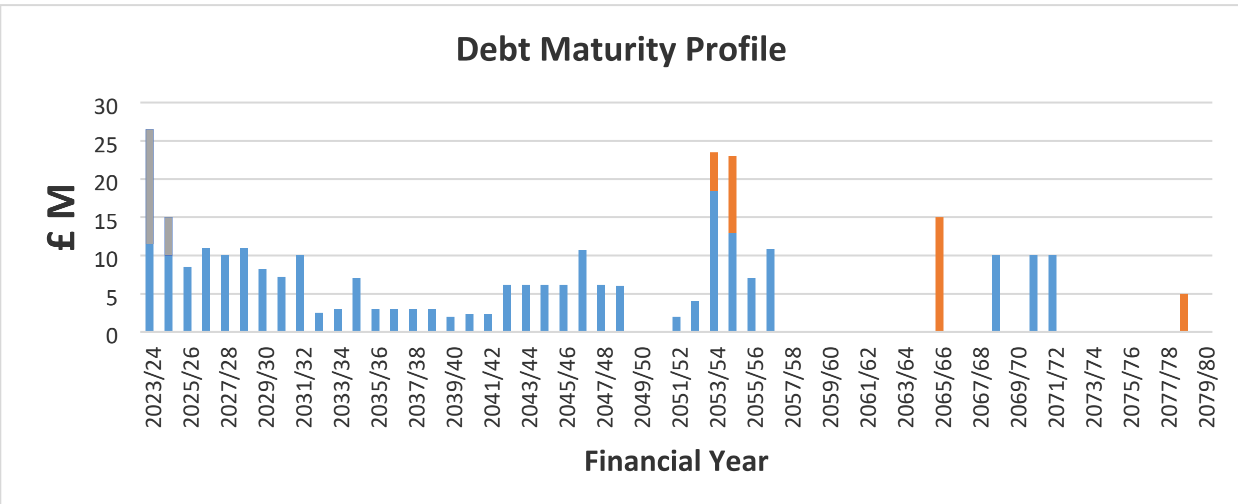
3.22 The finance team are currently working with council's treasury advisors to investigate if it would be beneficial to refinance any of the existing loans. With the increased gilts market, it may be advantageous to repay some of the LOBO (lenders options, borrowers' options) loans, officers have started this process and an update will be provided in the next report.

3.23 The chart below shows the increases in PLWB interest rates since the start of the financial year. PWLB borrowing rates are based on the Gilts market. Rates have steadily increased since the start of the financial year. A sharper increase has occurred since August, peaking at 5.8% for 25 year loans in September, an increase of just over 3% since the start of the year. Rates dropped slightly in the last few days of September.



3.24 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.

3.25 Debt Maturity Profile



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

3.26 £1.50 million PWLB and £5 million of borrowing from other local authorities has been repaid during the first quarter. A further £5 million was due to mature during this quarter but this borrowing has been extended for another 8 months. A further £5 million was borrowed from another local authority during the last quarter.

3.27 A further £5.01 million PWLB is due to be repaid in the third quarter. There will not be sufficient cash resources to absorb this repayment and the commitments in the capital programme. Additional borrowing will be required before the end of the financial year. With the uncertain economic position and significantly higher interest rates, the treasury team will look at shorter term borrowing (less than 1 year) to cover any requirements over the next few months. 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.

3.28 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 2 estimates			
Financing Costs	11.56	12.82	13.22
Net Revenue Stream	302.33	314.29	324.37
%	3.8%	4.1%	4.1%

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.

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 cost of borrowing has increased significantly and continue to increase, a margin is built into the forecast, but rates have increased well above this.

3.35 Prudential Indicators

3.36 All Treasury Management Prudential Indicators were complied with in the quarter ending 30th September 2022.

3.37 Economic Background and Forecasts

3.38 The forecast of interest rates by the Authority's advisor at the 27th September 2022 are shown below. The rates have increased 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 will be updated to take account of these changes.

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

3.39 The economic background provided by our treasury advisers; Link Group at the 30th September 2022 is attached at Appendix A. It should be noted that this was provided at the end of the quarter and circumstances 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 13th October 2022 of £15.77 million, up slightly from £15.13 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]	1,301,456	3,146,572	295,317	6,324,871	9,766,760	3,057,405
Children's Services	56,021	2	112,204	58,040	170,246	-57,893
Corporate, Legal & Democratic Services	0	0	0	1,121	1,121	-460
Digital Services	33,531	615	4,016	26,326	30,957	5,649
Finance	10,907	14,816	512	479,145	494,473	-41,298
Highways, Transport & Recycling	267,967	63,606	100,946	641,329	805,881	-20,457
Housing	32,037	235,205	52,346	701,528	989,079	254,886
Leisure	18,195	0	971	45,175	46,147	-11,717
Other	26,456	5,000	5,961	79,045	90,005	5,811
Property, Planning & Public Protection	346,504	40,352	54,141	655,638	750,131	7,332
Schools	25,080	10,100	0	240,194	250,294	-119,215
Workforce and OD	129,201	46,455	30,207	53,346	130,009	-49,167
Total	**2,247,353**	**3,562,722**	**656,622**	**9,305,758[2]**	**13,525,101**	**3,030,875**

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

3.43 The £2.25 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 2022/23 revenue budget includes £73.59 million of generated income. Based on the total debt it represents 21% of the annual generated income, if you exclude the current debt (less than 30 days old) this falls to 18% up from 14% last quarter.

3.45 There is a significant level of aged debt (over 30 days old) which has increased by £3.03 million since the last quarter.

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.

3.47 The table below shows the debt raised and collected over the last five years.

Year	Debt Raised	Debt Collected	% Collected
2018	£37.0m	£29.3m	79%
2019	£39.4m	£26.8m	68%
2020	£43.9m	£38.7m	88%
2021	£49.0m	£40.4m	82%
2022 so far	£22.5m	£20.3m	90%

3.48 The debt recovery team is a small team of 5 FTE (full time equivalent) recovery officers. 2.5 FTE recovery officers are mostly collecting over £100m in council tax each year and 2.5 FTE work on the sundry debt full time. A system reminder is generated after a month and the team tends to concentrate on chasing the over 3 month debt. There are currently vacancies within the team, and there has been an inability to attract suitable candidates. When the team is at full strength it is better equipped to chase and reduce debt levels.

3.49 VAT

3.50 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.

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

3.52 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.

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Appendix A

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

- The second quarter of 2022/23 saw:
  - GDP in Q1 2022/23 revised upwards to 0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being.
  - Signs of economic activity losing momentum as production fell due to rising energy prices.
  - CPI inflation ease to 9.9% y/y in August but domestic price pressures showing little sign of abating in the near-term.
  - The unemployment rate falls to a 48-year low of 3.6% due to a large shortfall in labour supply.
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come.
  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% in July following an upward revision to Q1's GDP data (+0.2% q/q), though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rise of £4.6bn.
- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.
- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.
- However, utility price inflation is expected to add 0.7ppts to CPI inflation in October when the Ofgem unit price cap increases, typically, to £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.
- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

- The new Prime Minister and Chancellor have appeared to make a step change in government policy. The government's huge fiscal loosening from its significant tax cuts will add to these domestic inflationary pressures and will leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the fiscal statement on 23rd November. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- Since the fiscal event, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023 (up from our previous forecast peak of 2.75%). The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% priced into the financial markets at present.

- Gilt yields rose sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

- There is a possibility that the Bank continues with QE at the long end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

- The S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

MPC meetings 4th August and 22nd September 2022

- In August, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and on 22nd September moved rates up a further 50 basis points to 2.25%. The increase reflected a split vote – five members voting for a 50 basis points increase, three for 75 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.
- Moreover, the UK now has a new Prime Minister, a new Chancellor and new economic policies that seek to grow the UK economy faster than at any time since the 1980s. The central planks to the government's new policies are tax cuts and regulatory simplification. It is too early to say whether such policies will boost growth in the ways intended, but what is clear at this juncture is that the lack of scrutiny of the various projections, ideally by the Office of Budget Responsibility (OBR), and an emphasis upon borrowing to fund the significant cost of the proposals scared the markets.
- Subsequently, the Government has announced that the OBR will scrutinise their spending plans on 23rd November, after the MPC next meets on 3rd November. Naturally, the Bank Rate forecast set out below will be dependent on a more joined-up set of communications from the Bank of England and the government than that which we have seen or heard so far. In addition, the fiscal governance aspects referred to in the OBR's upcoming review in November will need to be suitably couched in reassuring language and analysis to persuade the markets that fiscal rectitude has not been abandoned.
- Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has led with increases of 300 basis points in the year to date and is expected to increase rates further before the end of the year. 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. 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 on 27th September 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 providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, 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, but its job is that much harder now.

Our current and previous 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.

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

Link Group Interest Rate View	09.08.22												
	Sep-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	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

Link Group Interest Rate View 21.06.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00

- LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Our forecasts 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 previously updated on 9th August 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 "fiscal event" has complicated the picture for the MPC, who will now need to double-down on counteracting inflationary pressures stemming from the government's widespread fiscal loosening.
- 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 will peak at close to 10.4% in November 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently, a very tight labour market.
- Regarding the "provisional" plan to sell £10bn of gilts back into the market each quarter, this is still timetabled to take place but not until October at earliest.
- 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 households 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 has shifted upwards since our August update and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.25% to 5.75%. The yield curve is currently inverted.
- 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 poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

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 two years 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 an even more rapid series of increases in Bank Rate faster than we currently expect.

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

- **The pound weakens** because of the UK’s growing borrowing requirement resulting in investors pricing in a risk premium for holding UK sovereign debt.

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

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			
Nov-22			
Dec-22			
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			
Nov-22			
Dec-22			
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			
Nov-22			
Dec-22			
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						
Nov-22						
Dec-22						
Jan-23						
Feb-23						
Mar-23						

Chargebacks to service areas

The upload of appropriate documents to the Barclaycard 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 £211,128 to date. The breakdown of this is as follows:

Potentially correctable errors

Reason	Amount £
Not a tax invoice	17,825
Powys County Council is not the named customer	31
No invoice uploaded to purchase card system	13,345
Invoice(s) do not match payment	1,096
No evidence to back recovery	0
No Signed Authenticated Receipt [3]	174,767
Total	**207,064**

[3] The relevant documentation has been sourced for these entries and the VAT will be claimed in the VAT return.

Other errors

Reason	Amount £
Non-domestic VAT	746
No tax on invoice	1,473
Supply not to Powys County Council	316
Over-accounting for VAT	1,462
Internal payments	67
Total	**4,064**