TO:- Council

Councillor Meg Barrow , Councillor Andrew Adams , Councillor Helen Adams , Councillor Penny Allen , Councillor Jeff Ashley , Councillor Barry Bond M.B.E. , Councillor John Brindle , Councillor Gary Burnett , Councillor Val Chapman , Councillor Bob Cope , Councillor Mike Davies , Councillor Philip Davis , Councillor Steph Dufty , Councillor Robert Duncan , Councillor Sue Duncan , Councillor Christopher Evans , Councillor Mark Evans , Councillor Warren Fisher , Councillor Sam Harper-Wallis , Councillor Dr Paul Harrison MBE , Councillor Rita Heseltine , Councillor Diane Holmes , Councillor Fiona Hopkins , Councillor Matthew Jackson , Councillor Victor Kelly , Councillor Dan Kinsey B.E.M , Councillor Roger Lees J.P. , Councillor Vincent Merrick , Councillor John Michell , Councillor Rob Nelson , Councillor Kath Perry M.B.E. , Councillor Martin Perry , Councillor Ray Perry , Councillor Robert Reade , Councillor Gregory Spruce , Councillor Christopher Steel , Councillor Wendy Sutton , Councillor Sue Szalapski , Councillor Bernard Williams , Councillor David Williams , Councillor Kath Williams , Councillor Victoria Wilson

Notice is hereby given that the Annual General Meeting of South Staffordshire Council will be held as detailed below for the purpose of transacting the business set out below.

Date: Tuesday, 23 May 2023
Time: 19:00
Venue: Council Chamber Community Hub, Codsall, South Staffordshire, WV8 1PX

D. Heywood
Chief Executive

A G E N D A

Part I – Public Session

1 Election of Chairman of the Council

To elect the Chairman of the Council for the Municipal Year 2023/24

(The new Chairman of the Council will be invested with the chain of office and, having taken the chair, will sign the Declaration of Acceptance of Office)

2 Election of Vice-Chairman of the Council

To elect the Vice-Chairman of the Council for the Municipal Year 2023/24

3 Minutes **9 - 10**

To confirm the Minutes of the meeting of Council held on 21 March 2023

4 Apologies

To receive any apologies for non-attendance.

5 Declarations of Interest

To receive any declarations of interest.

6 Election of the Leader of the Council

Note: (1) The Constitution of the Council specifies that :

"at its first post-election Annual Meeting, appoint a Leader of the Council for a term of office expiring at the next post-election annual meeting (unless removal or disqualified from office in accordance with the Constitution)"

the election of the Leader of the Council will be carried out in accordance with Council Procedure Rule 3 (a roll call of members recorded in the minutes).

(2) The Constitution of the Council also specifies that following election the Leader of the Council will assume the full power of the Leader and shall:-

(a) appoint a Deputy Leader of the Council

(b) notify the Council of the members, the Leader of the Council wishes to appoint to the Cabinet (NB. The Leader of the Council and the Deputy Leader of the Council will both be members of the Cabinet).

7 Notification by the Leader of the Council of the Councillors Appointed to the Cabinet

The Leader of the Council will inform the Council of:-

(1) the Councillors he/she has appointed to the Cabinet for the Municipal Year 2023/24 and the Lead Responsibilities they will each hold

(2) the Member of the Cabinet he/she has appointed as Deputy Leader of the Council for the Municipal Year 2023/24

10 Planning Committee

(a) To appoint 18 members to the Planning Committee for the Municipal Year 2023/24

(N.B. - the political balance calculations to comply with Section 15 of the Local Government and Housing 1989 will be set out in the report of the Monitoring Officer)

(b) To elect the Chairman of the Planning Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Planning Committee for the Municipal Year 2023/24

11 Overview and Scrutiny Committee

(a) To appoint the Overview and Scrutiny Committee for the Municipal Year

2023/24

(N.B. the Constitution specifies that:-

(i) the Overview and Scrutiny Committee shall comprise all members of the Council who are not members of the Cabinet
(ii) the Chairman of the Overview and Scrutiny Committee may not also chair the Wellbeing Select Committee)

(b) To elect the Chairman of the Overview and Scrutiny Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Overview and Scrutiny Committee for the Municipal Year 2023/24

12 Standards and Resources Committee

(a) To appoint 12 members to the Standards and Resources Committee for the Municipal Year 2023/24

(N.B. (i) The Leader of the Council and the Chairman of the Council may not be members of the Standards and Resources Committee
(ii) No more than 1 member of the Cabinet may also be a member of the Standards and Resources Committee
(iii) The Chairman and Vice-Chairman should be voting members of the Standards and Resources Committee
(iv) The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer)

(b) To elect the Chairman of the Standards and Resources Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Standards and Resources Committee for the Municipal Year 2023/24

(d) To co-opt six Parish Councillors to the Standards and Resources Committee for the Municipal Year 2023/24 in a non-voting capacity

13 Standards and Resources Sub-Committee - Hearings

(a) To appoint 6 members of the Standards and Resources Committee to the Hearings Sub-Committee for the Municipal Year 2023/24
(N.B. The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer)
(b) To co-opt three parish councillors to the Sub-Committee

14 Standards and Resources Sub-Committee - Assessment

(a) To appoint 6 members of the Standards and Resources Committee to the Assessment Sub-Committee for the Municipal Year 2023/24
(N.B. The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer)
(b) To co-opt three parish councillors to the Sub-Committee

15 Licensing and Regulatory Committee

(a) To appoint 15 members to the Licensing and Regulatory Committee for the Municipal Year 2023/24

(N.B. The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer)

(b) To elect the Chairman of the Licensing and Regulatory Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Licensing and Regulatory Committee for the Municipal Year 2023/24

16 Audit and Risk Committee

(a) To appoint 8 members to the Audit and Risk Committee for the Municipal Year 2023/24

(N.B. (i) The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer

(ii) A member of the Cabinet may not also be a member of the Audit and Risk Committee)

(b) To elect the Chairman of the Audit and Risk Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Audit and Risk Committee for the Municipal Year 2023/24

17 Investigatory and Disciplinary Committee

To appoint 7 members to the Investigatory and Disciplinary Committee for the Municipal Year 2023/24

(N.B. (i) The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer
(ii) This Committee must include at least one member of the Cabinet
(iii) No member of this Committee may also be a member of the Disciplinary and Grievance Appeals Committee)

18 Disciplinary and Grievance Appeals Committee

To appoint 7 members to the Disciplinary and Grievance Appeals Committee for the Municipal Year 2023/24

(N.B. (i) The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer
(ii) This Committee must include at least one member of the Cabinet
(iii) No member of this Committee may also be a member of the Investigatory and Disciplinary Committee

19 Housing Review Panel

To appoint 3 members (and 3 named substitute members) to the Housing Review Panel for the Municipal Year 2023/24

(N.B. The Constitution specifies that the Housing Review Panel shall comprise:
(i) a Cabinet Member (not the Member for Welfare Services) (Substitute: Leader of the Council)
(ii) one member and named substitute from the controlling Group on the Council
(iii) one member and named substitute appointed by the Leader of the Main Opposition Group on the Council or in the absence of such a Leader, one member and named substitute nominated by the Leader of the Council, who shall not be members of the controlling Group on the Council)

20 Wellbeing Select Committee

(a) To appoint a Wellbeing Select Committee for the Municipal Year 2023/24 comprising 12 members of the Overview and Scrutiny Committee (plus the County Council Lead Member for Health Scrutiny [as a full voting member of the Select Committee] in accordance with the agreement with Staffordshire County Council)

(N.B. (i) The political balance calculations to comply with Section 15 of the Local Government and Housing Act 1989 will be set out in the report of the Monitoring Officer)
(ii) The Wellbeing Select Committee is the Council's Crime and Disorder Committee for the purposes of the Crime and Disorder (Overview and Scrutiny) Regulations 2009
(iii) The Wellbeing Select Committee will discharge the Council's responsibilities under the Health and Social Care Act 2001 and the National Health Service Act 2006 in accordance with the agreement between Staffordshire County Council and South Staffordshire Council (including scrutiny of proposals for and by health service organisations and the promotion of health and wellbeing activities in the district)
(iv) The Chairman of the Wellbeing Select Committee may not also chair the Overview and Scrutiny Committee)

(b) To elect the Chairman of the Wellbeing Select Committee for the Municipal Year 2023/24

(c) To elect the Vice-Chairman of the Wellbeing Select Committee for the Municipal Year 2023/24

21 Lottery Advisory Panel

To appoint 10 members to the Lottery Advisory Panel for the Municipal Year 2023/24

22 Asset Scrutiny Panel

(a) To elect 7 members to sit on the Asset Scrutiny Panel for the Municipal Year 2023/24
(b) To elect the Chairman of the Asset Scrutiny Panel for the Municipal Year 2023/24
(c) To elect the Vice-Chairman of the Asset Scrutiny Panel for the Municipal Year 2023/24

23 Local Joint Committee

To elect 6 members to the Local Joint Committee for the Municipal Year 2023/24

24 Discretionary Housing Payments Scheme

To elect 8 members from which panels will be drawn to consider disputes arising from the Discretionary Housing Payments Scheme during the Municipal Year 2023/24

25 Personal Development Review and Appointments Panel

To elect 6 members to sit on the Personal Development Review and Appointments Panel

26 Appointment of Representatives to Serve on Outside Bodies

To make appointments to outside bodies as follows:-

(Note: All appointments to be made for the Municipal Year 2023/24 unless otherwise stated)

(1) STAFFORDSHIRE COUNTY COUNCIL:-

(a) Health Select Committee - Nomination of 1 member and 1 substitute member

N.B. This Committee comprises 8 County Councillors and 8 District/Borough Councillors. The District/Borough members are Chairmen of their Council's Health Scrutiny Committee/Panel. It is recommended that the member nominated also serves as Chairman of the Wellbeing Select Committee)

(b) Staffordshire Planning Forum - Nomination of 1 member and 1 substitute member

(c) Corporate Parenting Panel - Nomination of 1 member

(2) Bilbrook Playing Fields Committee - Nomination of 1 member

(3) 2078 Boscobel Squadron Air Training Corps - Nomination of 1 member

(4) Campaign to Protect Rural England - Nomination of 1 member

(5) Cannock Chase Area of Outstanding Natural Beauty Joint Committee - Nomination of 1 member and 1 substitute member

(6) Codsall Village Hall and Playing Fields Committee - Nomination of 1 representative

(7) Environmental Protection UK - Nomination of 2 members

(8) Forest of Mercia Members' Advisory Panel - Nomination of 2 members

(9) Four Ashes Energy Recovery Facility Local Liaison Committee - Nomination of 3 members

(10) Hilton Main Recreation and Social Welfare Fund Grant Panel - Nomination of 1 member (who must be a member for a ward formerly part of Cannock Chase Rural District Council)

(11) Marsh Recreation Ground and Community Centre Trust - Nomination of 1 representative

(12) Leisure Centre Management Committees

(a) Cheslyn Hay Leisure Centre Management Committee - Nomination of 2 members

(b) Codsall Leisure Centre Management Committee - Nomination of 2 members

(c) Wombourne Leisure Centre Management Committee - Nomination of 2 members

(13) Local Government Association

(a) Association - Nomination of 2 members (Primary Representative and 2nd Representative)

(b) District Council Network - Nomination of 1 member

(14) Midlands Joint Advisory Clean Air Council - Nomination of 1 member

(15) Monckton Recreation Management Committee - Appointment of 1 member

(16) PATROL (Traffic Penalty Tribunal) Adjudication Joint Committee - Nomination of 1 member and 1 substitute member

(17) PFCC Strategic Community Safety Forum - Nomination of 1 member

(18) Perton Playing Fields Association - Nomination of 1 representative

(19) Shoal Hill Common Joint Committee - Nomination of 3 members
(1 of whom must be the member for Hatherton)

(N.B. The provisions of the Local Government and Housing Act 1989 re political balance apply to this Committee)

(20) South Staffordshire Partnership Leadership Board -
Nomination of 2 representatives
(one of whom should be the Leader of the Council)

(21) Sow and Penk Internal Drainage Management Board -
Nomination for the appointment of 1 representative
(by agreement with Stafford Borough Council)

(22) Staffordshire Destination Management Partnership Board (Enjoy Staffordshire) - Nomination of 1 member

(23) Staffordshire Joint Police and Crime Panel - Nomination of 1 member

(24) Staffordshire Playing Fields Association - Nomination of 1 member

(25) Trysull and Seisdon Playing Fields Committee - Nomination of 1 representative
(To hold office from AGM of the Management Committee in October 2023 to the AGM in October 2024)

(26) West Midlands Employers - Nomination of 1 representative

(27) Wolverhampton Business (Halfpenny Green) Airport Consultative Committee -
Nomination of 2 representatives
who must either be members or employees of the Council

(28) Wombourne and District Community Association - Nomination of 1 member

(29) Saredon Quarry Liaison Committee - Nomination of 1 representative

(30) Seisdon Quarry Liaison Committee - Nomination of 1 representative

(31) Council Company - Nomination of 1 representative

(32) iESE - Nomination of 1 representative

(33) Staffordshire Sustainability Board - Nomination of 1 representative

(34) Staffordshire Leaders Board - Nomination of 1 representative

27 Independent Members' Remuneration Panel

To appoint an independent remuneration panel comprising up to 5 members to consider:
(a) the Members' Allowances Scheme
(b) Parish Councillors' Remuneration arrangements

during the Municipal Year 2023/24

28 Appointment of Independent Person

To re-appoint the following Independent Person for the Municipal Year 2023/24:

Stephen Cork

29 Appointment of Independent Members of Complaints Panel

To appoint the following Independent Members to the Council's Complaint Panel for the Municipal Year 2023/24:

Nicola Davies, Steven Cork, and Adrian Hamlyn

32 Questions pursuant to Council Procedure Rule 11.4

Note: A Councillor may ask the Chairman of the Council, a member of the Cabinet or the Chairman of any Committee, Sub-Committee or Panel a question on any matter in relation to which the Council has powers or duties or which affects the District of South Staffordshire provided that:-

(a) they have given at least seven working days' notice in writing of the question to the Chief Executive; or

(b) the question relates to urgent matters, they have the consent of the Cabinet Member to whom the question is to be put, and the content of the question is given to the Chief Executive by 11.00 a.m. on the day of the meeting. Every question shall be put and answered without discussion but the person to whom the question has been put may decline to answer.

33 Chairman's Announcements

To receive any announcements which the Chairman wishes to bring to the attention of the members.

Note: Members, officers, and the public are requested to stand at the conclusion of the meeting whilst the Chairman and Vice-Chairman leave the Council Chamber.

RECORDING
Please note that this meeting will be recorded.

PUBLIC ACCESS TO AGENDA AND REPORTS

Spare paper copies of committee agenda and reports are no longer available. Therefore should any member of the public wish to view the agenda or report(s) for this meeting, please go to www.sstaffs.gov.uk/council-democracy.

Minutes of the meeting of the **Council** South Staffordshire Council held in the Council Chamber Community Hub, Wolverhampton Road, Codsall, South Staffordshire, WV8 1PX on Tuesday, 21 March 2023 at 18:00

Present:-

Councillor Andrew Adams, Councillor Meg Barrow, Councillor Len Bates, Councillor Joyce Bolton, Councillor Barry Bond, Councillor Anthony Bourke, Councillor Gary Burnett, Councillor Nigel Caine, Councillor Jo Chapman, Councillor Bob Cope, Councillor Brian Cox, Councillor Mike Davies, Councillor Philip Davis, Councillor Mark Evans, Councillor Matt Ewart, Councillor Rita Heseltine, Councillor Lin Hingley, Councillor Steve Hollis, Councillor Diane Holmes, Councillor Ve Jackson, Councillor Janet Johnson, Councillor Michael Lawrence, Councillor Roger Lees, Councillor Dave Lockley, Councillor Terry Mason, Councillor Vincent Merrick, Councillor Kath Perry, Councillor Robert Reade, Councillor Ian Sadler, Councillor Christopher Steel, Councillor Bernard Williams, Councillor Kath Williams, Councillor Victoria Wilson

104 **PRIORITY BUSINESS (IF ANY)**

There was no priority business.

105 **MINUTES**

RESOLVED: that the minutes of the Council meeting held on 21 February 2023 be approved and signed by the Chairman.

106 **APOLOGIES**

Apologies were received from Councillors P Allen, M Boyle, D Kinsey BEM, R Spencer and K Upton.

107 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

108 **QUESTIONS PURSUANT TO COUNCIL PROCEDURE RULE 11.4**

There were no questions pursuant to Council procedure Rule 11.4.

109 **COUNCIL PAY POLICY STATEMENT FOR 2023/24**

It was proposed by Councillor R Lees and seconded by Councillor R Heseltine and

RESOLVED: that Council approve the Pay Policy Statement 2023/24.

110 **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman of the Council, Councillor Dr M Ewart, confirmed that his Civic Dinner had taken place last Friday and had been a successful event. He thanked the donor from Wergs Golf Club who had donated £1,000 to his chosen charities.

The Meeting ended at: 18:13

CHAIRMAN

SOUTH STAFFORDSHIRE COUNCIL **COUNCIL – 23 MAY 2023** **ANNUAL REVIEW OF THE CONSTITUTION** **REPORT OF THE MONITORING OFFICER**

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The report sets out a number of changes to the Constitution recommended to be adopted at Annual Council on 23 May 2023. The changes proposed are set out in detail in paragraph 3.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The constitution is a legal requirement and provides the legal framework for ensuring that the Council can deliver the Council Plan.
	Has an Equality Impact Assessment (EqIA) been completed?	
	Yes	Available to Members as a meeting document; no negative impacts were identified.
SCRUTINY POWERS APPLICABLE	No – decision of Council	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	Target delivery date is adoption of constitution on 23 May 2023	
FINANCIAL IMPACT	No	There are no direct financial implications arising from this report.
LEGAL ISSUES	Yes	It is a legal requirement of the Council that it has a constitution. This report ensures that it meets this requirement. Legally the constitution must be followed or the Council will potentially act unlawfully and is open to legal challenge.
OTHER IMPACTS, RISKS & OPPORTUNITIES Including climate impacts and health impacts if applicable	No	No other specific risks and implications.
IMPACT ON SPECIFIC WARDS	No	Applies to all of the Council

PART B – ADDITIONAL INFORMATION

3. INFORMATION

3.1 As set out above it is a legal requirement that the Council has a constitution. The constitution is a critical document. It sets out how the Council operates and the rules that must be met in carrying on its business (often known as "standing orders").

The Constitution is reviewed and readopted on an annual basis.

However, it is important to note that the constitution can be reviewed or amended at any point in the year if the Council so decides.

3.2 A summary of the changes proposed for the Municipal Year 2023/24 is set out below:

Proposed changes

- Reduction in the size of some committees following the Boundary Review reduction in the number of elected members.
- Changes to the locality basis of membership of Planning Committee
- Changes to delegated powers in respect of planning matters
- Changes to the Challenge Panels structure
- Administrative changes to the Constitution to reflect: (i) clarification of Standards and Resources Committee Terms of Reference; (ii) clarification of Personal Development Review and Appointments Panel Terms of Reference; (iii) the recent Individual member decisions on leases; (iv) consequential amendments following Boundary Review changes; (v) minor administrative changes.
- Minor changes to the Procurement Rules for low level contracts.
- Proposed adoption of Islamophobia Definition.

3.3 **Reduction in Committee membership**

In light of the Boundary Review changes, which has resulted in a reduction in the number of members from 49 to 42, the overall seats available across council committees has been reviewed and it is proposed there is a slight reduction in the seats across committees to reflect the reduction in councillor numbers. Firstly, it is proposed that Standards and Resources Committee is reduced from 14 to 12 members with each of the two sub-committees also being reduced by one member.

Secondly, the membership of Wellbeing Select Committee is also reduced; from 15 district members plus the county lead to 12 district members plus the county lead.

Finally, it is proposed that one seat is removed from the Discretionary Housing Payment Scheme, from 9 to 8 members.

If approved, this would see an overall reduction in seats available across the council committees from 140 to 132. It is proposed that this is a proportionate approach to ensure the effective delivery of local government without an unreasonable call on member time for attendance at meetings.

3.4 **Planning Committee Membership**

Currently, membership of Planning Committee is split across the 5 Localities as follows:

2 members from Locality 1
3 members from Locality 2
5 members from Locality 3
4 members from Locality 4
4 members from Locality 5

The above split was agreed by Council in May 2022 pending the May 2023 implementation of the Boundary Review changes, with the intention to achieve the Locality split as follows from May 2023 subject to political balance requirements being achieved:

3 members from Locality 1
3 members from Locality 2
4 members from Locality 3
4 members from Locality 4
4 members from Locality 5

However, imposing such a rigid split across the Localities, whilst also achieving political balance, can be problematic and lead to unintended consequences. It may be that certain members from certain political groups could be prevented from sitting on the committee if they are not in the ‘right’ locality. It is therefore proposed to adopt a more flexible approach to membership of Planning Committee, with no set Locality allocation but rather seeking to achieve a spread of members throughout the district whilst also achieving political balance. It is thought that this approach will give group leaders greater flexibility when considering nominations for this committee and will allow members who are keen to sit on this committee the ability to put themselves forward regardless of locality. The final membership would of course be subject to agreement of full Council.

Part 3 – Responsibility for Functions

3.5 A number of minor changes to the Scheme of Delegation to Officers (in Part 3 of the Constitution) in respect of planning functions have been proposed and these are set out in full in Appendix 1 (these are shown in track-changes mode for ease of identification).

3.6 In summary:

* Clarification that existing delegation on issuing of notices includes Planning Contravention Notices
* Clarification around enforcement powers in respect of advertising notices etc
* Clarification of wording in respect of West Midland Interchange applications
* Confirmation of delegation of powers to agree Statements of Common Ground (agreed by way of a Member Decision in February 2023)
* Delegation to deal with matters associated with the Government's First Homes Programme
* Delegation to work with groups on Neighbourhood Plans
* Clarification on call-in process for planning applications to Planning Committee and for site visits
* Specifying the ability to make minor modifications to wording of planning conditions following committee decision (subject to previously agreed consultation with member where appropriate).

3.7 <u>Challenge Panels</u>

The Council has operated a scrutiny process of 3 Challenge Panels for a number of years. These Panels provide an opportunity for every member to scrutinise particular matters on an annual basis, seeking to ensure engagement across the whole membership.

These Challenge Panels have proved successful, but it is considered that now is an opportune time to refresh the approach. The three panels – Your Council, Your Place and Your Community – have to a degree been bound by their titles and this could be seen as an unnecessary restriction. It is proposed that we move away from the 3 panels with set membership. Currently, the panel membership is set at the May AGM but the topics are not selected until July. This can mean that a member may, for example, be allocated to the Your Council panel but, once topics have been selected, have a greater affinity or interest in the Your Place panel topic. Moving away from a set membership would allow a degree of self-selection onto the panels, so that if a member had a particular interest or knowledge in a certain area, they could elect to go on that panel. It is envisaged this will further increase engagement. It is also proposed that whilst the basis will be 3 panels, this will not be definitive and, if appropriate, a greater or indeed smaller number of panels will operate. These could be Locality based if the subject matter lends itself to a Locality approach; or they may be topic based with a selection of members across the Localities. The principle will be to have a flexible approach that best serves members' requirements. These panels would be renamed Member Working Groups. The proposed changes to the Constitution (Part 2 Article 9) to reflect this can be seen in Appendix 2.

3.8 Administrative changes within the Constitution

(i) Standards and Resources Committee – Terms of Reference

Currently, the Standards and Resources Committee has oversight of employment matters generally, with day-to-day matters delegated to the Chief Executive as Head of Paid Service. It is proposed that it is made clear in the Constitution (Part 3) that this Committee has responsibility for new or significant amendments to HR policies. This revision can be seen at Appendix 3.

(ii) Personal Development Review and Appointments Panel – Terms of Reference

It is proposed that the terms of reference for the Personal Development Review and Appointments Panel, in Part 3, be clarified to make it clear as to the requirement to have 2 Independent Persons sitting on the Panel when making decisions in respect of the payment of Special Severance Payments as detailed in the Council's Pay Policy Statement. The terms will also be amended to mirror the agreed Pay Policy Statement around pay decisions for JNC posts resting with this Panel (excepting CLT posts and temporary payments).

(iii) Cabinet Decisions

On 14 February 2023 Cabinet made two decisions making minor changes to the delegations around lease approvals. These previously agreed decisions will be reflected in the new Constitution in Part 3. Any changes to Cabinet Member areas of responsibility post-election will also be incorporated. Minor changes to reflect or clarify areas of current Cabinet Member responsibility have been made.

(iv) Boundary Review Changes

The Constitution will also be updated in respect of minor consequential changes following the Boundary Review of South Staffordshire Council e.g. Article 2 of Part 2 which lists the ward and number of members elected. The proposed revised Constitution (with changes shown) is available as a meeting document for viewing by members.

(v) Administrative Changes

The standard report format, contained within the Constitution Part 4, has been updated to enhance the provisions in place to ensure that members have clear visibility of key considerations when making decisions. The revised format can be seen at Appendix 4. Minor changes to Assistant Director areas of responsibility have been made; no new areas of delegated responsibility have been added.

3.9 Changes to Procurement Rules in Part 4

It is proposed to increase the lower threshold in the procurement rules from £500 to £1000. The threshold was previously set at £1000 but was reduced a few years ago to be in line with the transparency data requirements (whereby all spend over £500 has to be published). However, this has caused practical difficulties in seeking to obtain 3 quotes for very low-level contracts and therefore it is proposed that the previous level of £1000 for the seeking of 3 quotes be restored. This will not affect the information required to be published under the transparency regulations. It is also proposed that there is an increase in the threshold for intermediate-value contracts from £25,000 to £30,000 to reflect the impact the recent increases in inflation have had on costs.

Due to the digitalisation of the internal contract waiver process (no change to authority in this area) minor changes to the wording is necessary and this will be reflected in Part 4.

The rules currently provide an exemption for the obtaining of legal advice due to the specialist nature involved when it can be necessary to obtain advice either from a leading specialist or at very short notice. It is proposed that this exemption is extended for the obtaining of specialist HR consultancy and training services; again this can require a particular specialist to be instructed or advice may be required at very short notice, making the obtaining of 3 quotes problematic. This would not affect the requirement to obtain quotes/tenders for high value contracts.

3.10 Adoption of Islamophobia Definition

The Constitution currently includes the IHRA definition of antisemitism. Alongside this, members may wish to consider the widely adopted definition of Islamophobia as approved by the All-Party Parliamentary Group:

Islamophobia is rooted in racism and is a type of racism that targets expressions of Muslimness or perceived Muslimness.

The full definition and background can be seen at Appendix 5.

If supported in principle, this would be considered by the Equality Steering Group and incorporated into our equality plans and documents as appropriate. Any future proposed definitions would be considered by this Group to ensure a consistent approach is taken. Such definitions would be removed from the Constitution and incorporated into plans and documents to ensure they are embedded across the Council.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

A detailed Equalities Impact Assessment was produced in March 2015 in conjunction with the approval of the revised constitution. This has been updated as necessary, but no impacts are envisaged. The Assessment is available to Members as a meeting document.

5. PREVIOUS MINUTES

The Constitution was last revised and adopted in May 2022.

6. BACKGROUND PAPERS

Constitution of South Staffordshire Council

7. RECOMMENDATION

Report prepared by: Lorraine Fowkes – Director Legal and Governance (Monitoring Officer)

CORPORATE DIRECTOR INFRASTRUCTURE AND BUSINESS GROWTH

1. Within the overall resources allocated by the Council and in direct support of the Council's objectives to act on behalf of the Council on all matters relating to the discharge of the Council's functions relating to property and assets, major development and investment projects. Also all functions within the remit of the Assistant Director Enterprise and Growth.

Development Management Functions

2. Within the overall resources allocated by the Council and in direct support of the Council's objectives to act on behalf of the Council on all matters relating to the discharge of the Council's functions relating to planning, development management, tree preservation, high hedges, conservation, street naming and numbering, grants for the repair of historic building and areas, protection of hedgerows, local list of buildings of Architectural or Historical Interest, major planning infrastructure sites, completion of the current SAD. For the avoidance of doubt this does not confer authority on the Corporate Director Infrastructure and Business Growth to reply to a consultation undertaken in respect of a possible Development Consent Order under the Planning Act 2008

3. To authorise the issue of Stop Notices, Temporary Stop Notices, Enforcement Notices, Listed Building Enforcement Notices, Planning Contravention Notices and Breach of Condition Notices as well as any other enforcement powers under the relevant sections of the Town and Country Planning Act 1990~~–~~, Listed Building and Conservation areas Act 1990 and the Planning and Compensation Act (2004) all as amended~~legislation~~.

4. Determination as to the expediency of initiating enforcement proceedings, including the authorisation or an Enforcement Notice, Breach of Condition Notice, to require maintenance of untidy land/buildings, Stop Notice, Temporary Stop Notice, Listed Building Enforcement Notice, Planning Contravention Notices and Conservation Area Enforcement Notice; subject to consultation/notification provisions set out in internal scheme of delegation.

~~4.~~5. The removal or obliteration of placards or posters under Section 225 of the Town and Country Planning Act 1990 (or as amended).

~~5.~~6. The making of Directions under Article 4 of the Town and Country Planning (General Permitted Development Order) or subsequent legislation.

~~6.~~7. To approve direct action pursuant to Section 219 Town and Country Planning Act 1990 or subsequent legislation.

~~7.~~8. The making of Discontinuance, Revocation and Modification orders subject to the completion of a covenant not to claim compensation in respect of the Orders.

~~8.~~9. To carry out or instruct an appropriate contractor to carry out works comprising direct action authorised pursuant to Section 219 of the Town and Country Planning Act 1990 or subsequent legislation; and to take action to recover costs incurred.

~~9.~~10. Power to execute urgent works pursuant to Section 54 Planning (Listed Buildings and Conservation Areas) Act 1990 or subsequent legislation to preserve an unoccupied Listed Building and to recover expenses

~~10.~~11. To comment on behalf of the Council on County Council determinations on applications to divert/extinguish public rights of way, after consultation with the appropriate ward member(s) electronically through the Council's e-mail system.

~~11.~~12. To determine planning and allied applications in accordance with the scheme of delegation of planning decisions set out in Appendix A attached.

~~12.~~13. Subject to prior consultation with all relevant ward councillors, to authorise the issue of notices under Section 215 of the Town and Country Planning Act 1990

~~13.~~14. To authorise any urgent action necessary to preserve any building which he considers important and which appears to be in danger of alteration or demolition or collapse, pending a report to the next available meeting of the Planning Committee.

~~14.~~15. To authorise any action necessary in respect of works to dangerous trees under Section 23 the Local Government (Miscellaneous Provisions) Act 1976, and associated powers and functions.

~~15.~~16. To make representations on Licensing Act 2003 applications as the local planning authority.

~~16.~~17. To determine commuted sums for Section 106 agreements.

APPENDIX A
SCHEME OF DELEGATION OF PLANNING DECISIONS

1. The powers delegated shall only be exercised after ensuring that all statutory requirements have been complied with and after considering all representations received.

2. The powers delegated shall be:-

2.1 To determine applications for planning permission and applications for reserved matters (including those applications which do not meet the Council's Space About Dwellings Standards).

2.2 To determine approvals and consents pursuant to any condition imposed on a planning consent and applications to modify or discharge planning obligations, including those imposed in relation to applications made under the Development Consent Order for the West Midlands Interchange.

2.3 To decline to determine an application for planning permission.

2.4 To determine whether prior approval is required (under any relevant part of the General Permitted Development Order).

2.5 To determine approvals to and agreements to certain other matters relating to the exercise of permitted development rights as defined in the General Permitted Development Order.

~~2.6~~ The determination of applications under the Town and Country Planning (Control of Advertisements) Regulations 2007 and the service of discontinuance notices thereunder.~~Determination of consent for the display of advertisements.~~

~~2.7~~2.6 Determination of applications for a certificate of existing or proposed lawful use or development; for listed building consent and related powers; ~~for conservation area consent and~~ for hazardous substances consent and related powers; Permission in Principle; Demolition Consent Orders; Certificates of Appropriate Alternative Consents or applications to modify or discharge planning obligations, non-material amendments and minor material amendments.

~~2.8~~2.7 Determination of applications to fell or carry out works to trees protected by a tree preservation order or trees within conversation areas.

~~2.9~~2.8 Determination of complaints under Part 8 of the Anti-Social Behaviour Act 2003 (high hedges) or subsequent legislation.

~~2.10~~2.9 Determination of applications for garages in a domestic curtilage in the Green Belt or Open Countryside.

~~2.11~~2.10 To determine all applications submitted associated with the Development Consent order for West Midlands Interchange (WMI)~~,~~. F~~f~~ollowing consultation with the Chairman of the Planning Committee, approvals/consents and approval of guarantees/security for compensation under Part 5 of the Order, in relation to applications made under the Development Consent Order for the West Midlands Interchange. If a Councillor wishes ~~an application~~ an application made under the Development Consent Order for WMI to be determined by Planning Committee, they shall notify the Corporate Director Infrastructure and Business Growth and the Assistant Team Manager for Strategic Projects within 5 days of being notified of the proposal.

~~2.12~~2.11 ~~Applications for Lawful Development Certificates which are called-in will not be determined by Planning Committee but will be determined by~~

~~the Corporate Director Infrastructure and Business Growth.~~

2.12 To agree Statements of Common Ground (SoCG) with relevant parties to set out factual planning matters, including areas of joint agreement, disagreement and joint working where appropriate.

2.13 To consider and deal with all approvals, consents, compliance and any matters arising therefrom pursuant to the Governments First Homes Programme.

2.14 To work with Neighbourhood Plans groups to assist them in preparing suitable Neighbourhood Plans, and in doing so, carry out the following legislative tasks:

a) Designating Neighbourhood Area and Forum
b) Carrying out Pre-Submission Consultation & Publicity
c) Accepting the Plan Submission to the LPA
d) To carry out a check of Legal Requirements
e) To submit the Plan to the Examiner
f) To carry out the Publication of Examiners Report
g) To carry out the Council's consideration of Examiner's Report
    a. If satisfied that the plan meets Basic Conditions publish a Decision Statement to proceed to Referendum
    b. If not satisfied that the plan meets the Basic Conditions, plan is refused and decision is publicised.

~~2.13~~

3. PROVIDED THAT any decision:-

3.1 shall not approve any application which does not comply with the Council's Space About Dwellings Standards (SAD) or is a disproportionate extension to a building within the Green Belt or Open Countryside, or is for a replacement dwelling(s) in the Green Belt and Open Countryside, where the proposed new building(s) is materially larger than the original, but is acceptable because of the permitted development fallback position, (this does not apply to applications in relation to the West Midlands Interchange Development Consent Order which are subject to separate provisions set out at point 2.11 of this Scheme of Delegation), without having first notified all ward councillors electronically and affording the ward councillors three clear working days to request that the application be referred to the Planning Committee for determination.

3.2 is not contrary to the policies and proposals of the Development Plan.

3.3 where the Council is the applicant or landowner.

3.4 where the applicant is a member of the Council.

3.5 where the applicant is a member of Development Management or Building Control or a Senior Manager (Corporate Leadership Team/Assistant

Directors).

3.6 The limit to the delegation above shall not apply:

~~(a) in relation to the approval of matters reserved for subsequent approval by a condition on a planning permission, but excluding the design, siting, means of access or external appearance of a building.~~

~~(b)~~(a)the approval of minor amendments to an approved development where the amendments would not conflict with any consultation responses previously received.

1 The delegations in paragraph 2.1 and 2.2 above shall not operate if any ward Member has notified the Corporate Director Infrastructure and Business Growth of their~~his~~ wish to speak at Planning Committee during the consideration of an application in respect of a material objection of a planning nature. This notification must be made through the call-in procedure, completing in full the requisite form AND agreeing to speak at the relevant planning committee either in support or against the development. The application site must be in the ~~members~~member's own ward. If the application site is in a single member ward, and the relevant member has declared an interest in the matter, then the application can be called-in by a member from outside the ward.

4. To refuse to determine applications submitted in accordance with, and subject to the limitations of, Section 17 of the Planning and Compensation Act 1991.

5. ~~To issue planning contravention notices and, where appropriate, give audience to the recipient(s) of any such notice.~~

6. To determine all applications for prior approval of the Council as local planning authority for any relevant categories of permitted development in accordance with, and subject to the limitations of, the Town and Country Planning (General Permitted Development) Order 1995 as amended.

~~7. To determine responses to consultations with the Council as Local Planning Authority of and by other local authorities and statutory bodies, subject to consultation with the ward members. For the avoidance of doubt this does not confer authority on the Corporate Director Infrastructure and Business Growth to reply to a consultation undertaken in respect of a possible Development Consent Order under the Planning Act 2008.~~

~~8.~~7. The delegations shall not operate if the Corporate Director Infrastructure and Business Growth does not consider it prudent to exercise his or her delegated authority, in which case he/she shall report the matter to the Planning Committee.

~~9.~~8. The Corporate Director Infrastructure and Business Growth shall prepare and circulate to Members of the Council each week a list of registered applications. Any Member of the Council has 21 days in which to make representations on the application. ~~and/or~~Any request that the application is referred to the Planning Committee for determination must be within that councillors ward and the request must be received using the prerequisite form, completed in full. If a planning application is called-in by a ward member the ward member must be agreeable to speak at the relevant planning committee or if unable to attend, to nominate a representative to attend.~~, or in the case of applications for a certificate of existing or proposed lawful use or development referral for determination by the Corporate Director Infrastructure and Business Growth.~~ The call in request will not be accepted without an agreement to speak at the requisite Planning Committee.

9. The Corporate Director Infrastructure and Business Growth may bring before the Planning Committee any application, and request that it be delegated on a 'case by case' basis for determination by him/her. Any such delegation may be subject to the receipt and resolution of specified outstanding matters, including receipt of consultees views, expiry of statutory notices and expiry of consultation periods, and on the basis that the outstanding matters referred to, when resolved, did not give rise to any new issue or objection.

10. Once the agenda for Planning Committee has been set, officers of the Council will notify members of planning applications within their ward to be determined. If a ward member wants to request a site visit by the Planning Committee members and relevant interested parties then this must be carried out in strict accordance with the approved “Site Visit Protocol”. Any request for a site visit is at the discretion of the Chairman of Planning Committee (or in their absence the Vice-Chairman) who will have the final say on appropriateness of the visit. Attendance to the site visit by the requesting ward member is a pre-requisite of acceptance by the Chairman (or Vice-Chairman) of Planning Committee. Site visits can only be requested by ward members for planning applications within their own ward (subject to the exception set out in point 8 above).~~-~~

11. Any actions pursuant to the Town and Country Planning (Environmental Impact Assessment) Regulations 2017 or subsequent Regulations including issuing of Screening and Scoping Opinions.

12. To comment on behalf of the Council on:

(a) Consultations from adjoining local planning authorities
(b) Overhead lines
(c) County Council matters
(d) County Council applications, after consultation with the appropriate ward member(s) electronically through the Council’s e-mail system
(e) Consultations from outside bodies relating to landscaping/arboricultural matters.

For the avoidance of doubt this does not confer authority on the Corporate Director Infrastructure and Business Growth to reply to a consultation undertaken in respect of a possible Development Consent Order under the

Planning Act 2008.

13. To make minor modifications to the wording of conditions or reasons for refusal wording post committee, following consultation with the Proposer of the Motion that was contrary to the Officers Recommendation, to render them National Planning Policy Guidance compliant and include all relevant planning policies, and formalisation of the Decision Notice in the event of planning permission being granted or refused by the Planning Committee contrary to officer recommendation.

14. To make minor modifications to the wording of planning conditions or add further planning conditions as deemed necessary following the resolution to grant planning permission at a Planning Committee meeting (Subject to point 13 above).

9.0 The Council will appoint ~~3~~ a number of ~~Challenge~~ Member Working Groups annually. These groups will generally be based around ~~covering~~ the following areas:-

(a) ~~Your~~ Strong Council
(b) ~~Your Place~~Strong Finances
(c) ~~Your~~ Strong Communit~~y~~ies

but the approach when establishing the Groups will be to establish groups that best serve the topics under consideration. A flexible approach will be taken.

The Working ~~Panels~~ Groups are informal working groups and have no decision-making powers or any formal role in the Council's governance arrangements; although their work may inform the actions of the Cabinet or the consideration of matters by the Overview and Scrutiny Committee and the Wellbeing Select Committee.

~~A Challenge Panel shall comprise no fewer than 15 members of the Council.~~ All members of the Council will be offered a seat on at least one ~~Challenge Panel~~Working Group. There is an expectation that every member take part in a working group annually.

No more than two members of the Cabinet shall sit on any one Working ~~Challenge Panel~~Group.

No member of a ~~Challenge Panel~~Working Group may undertake the challenge/review of a decision ~~made by that member or to which the member was a party to the making of~~in which they were directly involved.

A member of the Cabinet or the Chairman of a standing committee or a scrutiny committee may not also chair a ~~Challenge Panel~~ Working Group.

Each ~~Panel~~ Working Group will agree an informal action plan at the start of each ~~Municipal Year~~round of meetings and may make recommendations to inform the work of the Cabinet or the consideration of matters by the Overview and Scrutiny Committee and the Wellbeing Select Committee.

Appendix 3

Part 3 – Delegation of Functions

Council/ Committee/Panel	**Functions**	**Delegation of Functions**
Standards and Resources Committee	Approval of new or materially changed employment policies affecting terms and conditions of employment of the entire workforce	
	Matters pertaining to NJC conditions, minor policy updates or working practices	Chief Executive

SOUTH STAFFORDSHIRE COUNCIL

CABINET – DATE

TITLE

REPORT OF THE

LEAD CABINET MEMBER –

PART A – SUMMARY REPORT

1. **SUMMARY OF PROPOSALS**

1.1

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Has an Equality Impact Assessment (EqIA) been completed?	
	Has a Data Protection Impact Assessment been completed?	
SCRUTINY POWERS APPLICABLE		
KEY DECISION		
TARGET COMPLETION/ DELIVERY DATE		
FINANCIAL IMPACT		
LEGAL ISSUES		
OTHER IMPACTS, RISKS & OPPORTUNITIES including climate impacts and health impacts if applicable		
IMPACT ON SPECIFIC WARDS		

PART B – ADDITIONAL INFORMATION

3. INFORMATION

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

4.1

5. PREVIOUS MINUTES

5.1

6. BACKGROUND PAPERS

7. **RECOMMENDATIONS** 7.1

Report prepared by:

All Party Parliamentary Group on British Muslims

Definition of Islamophobia

The All-Party Parliamentary Group (APPG) on British Muslims was established in 2017 to build on the work of the APPG on Islamophobia, but with a wider remit to examine a broad range of issues that British Muslims care about, and are affected by. APPGs are composed of Members of both the House of Commons and the House of Lords. They are informal, cross-party groups that have no official status within Parliament, are not accorded any powers by Parliament or any of its Committees, and are independent of Government.

Following two years of consultation, in 2018, the APPG on British Muslims published a report titled "Islamophobia Defined: the inquiry into a working definition of Islamophobia".

This report contained the following definition:

“Islamophobia is rooted in racism and is a type of racism that targets expressions of Muslimness or perceived Muslimness.”

Contemporary examples of Islamophobia in public life, the media, schools, the workplace, and in encounters between religions and non-religions in the public sphere could, taking into account the overall context, include, but are not limited to:

• Calling for, aiding, instigating or justifying the killing or harming of Muslims in the name of a racist/ fascist ideology, or an extremist view of religion.

• Making mendacious, dehumanizing, demonizing, or stereotypical allegations about Muslims as such, or of Muslims as a collective group, such as, especially but not exclusively, conspiracies about Muslim entryism in politics, government or other societal institutions; the myth of Muslim identity having a unique propensity for terrorism, and claims of a demographic ‘threat’ posed by Muslims or of a ‘Muslim takeover’.

• Accusing Muslims as a group of being responsible for real or imagined wrongdoing committed by a single Muslim person or group of Muslim individuals, or even for acts committed by non-Muslims.

• Accusing Muslims as a group, or Muslim majority states, of inventing or exaggerating Islamophobia, ethnic cleansing or genocide perpetrated against Muslims.

• Accusing Muslim citizens of being more loyal to the ‘Ummah’ (transnational Muslim community) or to their countries of origin, or to the alleged priorities of Muslims worldwide, than to the interests of their own nations.

• Denying Muslim populations the right to self-determination e.g., by claiming that the existence of an independent Palestine or Kashmir is a terrorist endeavour.

• Applying double standards by requiring of Muslims behaviours that are not expected or demanded of any other groups in society, eg loyalty tests.

• Using the symbols and images associated with classic Islamophobia (e.g. Muhammed being a paedophile, claims of Muslims spreading Islam by the sword or subjugating “Islamophobia is rooted in racism and is a type of racism that targets expressions of Muslimness or perceived Muslimness.” minority groups under their rule) to characterize Muslims as being ‘sex groomers’, inherently violent or incapable of living harmoniously in plural societies.

• Holding Muslims collectively responsible for the actions of any Muslim majority state, whether secular or constitutionally Islamic.

SOUTH STAFFORDSHIRE COUNCIL

COUNCIL – 23 MAY 2023

POLITICAL BALANCE

REPORT OF THE MONITORING OFFICER

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

The report details the position re political balance in accordance with section 15 of the Local Government and Housing Act 1989.

2. RECOMMENDATION

That the overall proportions for committees set out in paragraph 4.5 be approved.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	N/a	Legal requirement
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	None needed – meets legal requirements of the Local Government and Housing Act 1989
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	23 May 2023	
FINANCIAL IMPACT	No	This report has no financial implications.
LEGAL ISSUES	Yes	It is a legal requirement of the Council that it ensures the seats in the various committees meet the requirements of political balance. This report ensures that is done.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	No other specific risks and implications.
IMPACT ON SPECIFIC WARDS	No	Applies to all of the Council

PART B – ADDITIONAL INFORMATION

4. INFORMATION

4.1 As set out above it is a legal requirement that the Council has political balance in accordance with section 15 of the Local Government and Housing Act 1989 (the 1989 Act).

The Council elections, which were "all out" elections, took place on 4 May 2023. The election produced the following result:

- Conservatives – 29 seats
- Independents – 5 seats
- Liberal Democrats – 4 seats
- Green Party – 2 seats
- Labour – 2 seats

4.2 The Conservative Group (made up of 29 members) is the largest single group. There are currently 4 opposition groups, the South Staffordshire Independents Group (made up of 5 members), the Liberal Democrats Group (made up of 4 members), the Green Group (made up of 2 members) and the Labour Group (made up of 2 members).

4.3 The provisions of the Local Government and Housing Act 1989 require the Council to review the representation of each political group on committees, panels etc. at each annual meeting or as soon as practicable after that meeting.

The regulations require that all Scrutiny, Standing and Regulatory Committees are politically balanced across the total number of committee places. Subject to that overriding requirement, each committee must also be politically balanced, as far as it is reasonably practicable.

The Cabinet is not subject to the political balance rules. Advisory bodies such as Member Working Groups and other ad hoc bodies and groups are not subject to the political balance rules either.

Section 15(4) sets out 4 rules and requires authorities to apply them in descending order of priority.

• The first rule is that, where some or all of the members of an authority have formed into two or more political groups, then no Committee may comprise just members from the same political group.

• The second rule is that, where a majority of members of Council are members of one political group, that political group must have a majority of the seats on each Committee. For example, which dictates that a 10-member Committee be split at least 6:4.

• The third rule provides that, without being inconsistent with the first two rules, the number of seats allocated to each political group on all the Committees taken together be as near as possible proportionate to their strength on Council.

• The fourth rule provides that, so far as is consistent with Rules 1 to 3, each political party must be allocated that number of seats on each Committee taken individually as is proportionate to their strength on the Council. However, as set out above, this is subject to the need to give the majority group, a majority on each Committee.

Any seats left unallocated go by default to any members who are not members of any political group. The decision on who these are allocated to is made by Council as those members do not belong to a Group.

The Council can only depart from these rules by passing a resolution with no member voting against the resolution, as it has previously done in relation to the Licensing and Regulatory Committee Sub-Committees (at the meeting on 24th March 2015).

4.4 The following political groups have the following political share:

- Conservative Group has a 69.0% share of the seats, this is based on 29 seats out of a total of 42 seats.

- The South Staffordshire Independents Group has a 11.9% share of the seats, this is based on 5 seats out of a total of 42 seats. As this group is the largest of the opposition groups, this is the major opposition group.

- The Liberal Democrat Group has a 9.5% share of the seats, this is based on 4 seats out of a total of 42 seats.

- The Green Group has a 4.8% share – this is based on 2 seats out of a total of 42 seats.

- The Labour Group has a 4.8% shared – this is based on 2 seats out of a total of 42 seats.

4.5 At the time of drafting of this report, no members are outside of the political groups listed above.

4.6 The total number of Committee seats available is 132. On that basis, based on the third rule above:

- the Conservative Group should have a total of 91 seats
- the South Staffordshire Independents Group should have a total of 16 seats
- the Liberal Democrats Group should have a total of 13 seats

- the Green Group should have a total of 6 seats
- the Labour Group should have a total of 6 seats.

4.7 The proposed allocation is

Committee	**Total Seats**	**Conservative Group**	**South Staffordshire Independents Group**	**Liberal Democrats Group**	**Green Group**	**Labour Group**
Planning	18	12	2	2	1	1
Licensing and Regulatory	15	10	2	1	1	1
Audit & Risk	8	6	1	1	0	0
Asset Scrutiny	7	5	1	1	0	0
Well Being	13*	9	1	1	1	1
Standards and Resources	12	8	1	1	1	1
Standards and Resources – hearing	6	4	1	0	1	0
Standards and Resources – assessment	6	4	0	1	0	1
Lottery Advisory Panel	10	7	1	1	0	1
Local Joint Committee	6	4	1	1	0	0
Personal Development and Review**	6	4	1	0	1	0
Discretionary Housing Payments Scheme	8	6	1	1	0	0
Disciplinary and Grievance Appeals Committee	7	5	1	1	0	0
Investigatory & Disciplinary Committee	7	5	1	1	0	0
Housing Review Panel	3	2	1	0	0	0
TOTAL	**132**	**91**	**16**	**13**	**6**	**6**

* = includes Staffordshire County Council Representative (currently Conservative nominee)

** = Constitution states that Leader of the Main Opposition must be on this Committee.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

None

6. PREVIOUS MINUTES

24 March 2015 – for resolution that political balance rules do not apply to Sub-Committees of the Licensing and Regulatory Committee.

7. BACKGROUND PAPERS

Section 15 of the 1989 Act.

Report prepared by: Lorraine Fowkes – Director Legal and Governance (Monitoring Officer)

CALENDAR OF MEETINGS FOR MUNICIPAL YEAR 2023/2024

2023	Planning Committee (6.30p.m) Council Chamber	Overview & Scrutiny Committee (6.30p.m) Council Chamber	Personal Development Review Committee	Wellbeing Select Committee (5.00p.m) Council Chamber	Audit and Risk Committee (4.00p.m) Council Chamber	Standards and Resources Committee (2:30p.m) Council Chamber	Licensing and Regulatory Committee (2.30p.m) *Council Chamber*	Cabinet (2.00p.m) Council Chamber	Council (7.00p.m) Council Chamber
MAY									23 (ANNUAL)
JUNE	20			6	13	8		6	27
JULY	18	25			11		17	4	
AUGUST	15								
SEPTEMBER	19	26				14		12	5
OCTOBER	17		9 23	10	3		30	3	
NOVEMBER	21	14	6 20		28	23		7	
DECEMBER	19			5				5	12
2024									
JANUARY	30	23				25	15	9	
FEBRUARY	27			13	6			6	20
MARCH	19	12				28	18	5	26
APRIL	16			9	2			2	
MAY	21	28					20		7 (ANNUAL)
JUNE	18			11	4	6		4	25
JULY	16	9					15	2	
AUGUST	20								
SEPTEMBER	17	24		3		12		3	10

SOUTH STAFFORDSHIRE COUNCIL

COUNCIL – 23 MAY 2023

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2023/24 – 2027/28

REPORT OF THE CORPORATE DIRECTOR FINANCE & RESOURCES

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 The Council is required to annually approve a Treasury Management Strategy that, in light of the Council's approved budget, establishes investment and borrowing policies for the Council for the current and future financial years. The Strategy also includes the Council's Prudential Indicators and sets out the expected treasury operations for the period 2023/24 – 2027/28. Prudential Indicators are designed to demonstrate that the Council has a prudent, affordable and sustainable approach to financing its capital spending plans. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A);
- The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
- The **Treasury Management Strategy** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix A;
- The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the sector's Investment Guidance and also shown in Appendix A.

2. RECOMMENDATIONS

2.1 That Council approve:

1) The Prudential Indicators and Limits for 2023/24 - 2027/28 contained within Appendix A of the report.
2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 2.3) which sets out the Council's policy on MRP.
3) The Treasury Management Strategy 2023/24 - 2027/28 contained within Appendix A.
4) The Authorised Limit Prudential Indicator contained within Appendix A (para 3.2).
5) The Investment Strategy 2023/24 contained in the Treasury Management Strategy (Appendix A), and the detailed criteria (included in Appendix B)

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	Maximising investment income whilst managing risks and minimising borrowing costs helps to support the council's overall financial position and therefore the delivery of all policy objectives.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The setting of a Treasury Management Strategy does not impact on equalities.
SCRUTINY POWERS APPLICABLE	No (Council decision)	
KEY DECISION	No (Council decision)	
TARGET COMPLETION/ DELIVERY DATE	May 2023	
FINANCIAL IMPACT	Yes	Where appropriate these are detailed in the body of the report.
LEGAL ISSUES	Yes	The Council's Treasury Strategy has to comply with the relevant statue, codes and guidance which are set out both in the main body of this report and Appendix A. The Corporate Director Finance & Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Corporate Director Finance & Resources is meeting one of the key responsibilities of the post.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4.1 The Prudential Code operates by the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator has been updated and provided for the next three years and included in Appendix A section 2. This is in accordance with the Prudential Code which requires that the Council approves as a minimum, certain mandatory prudential indicators.

4.2 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It is intended to highlight, through the prudential indicators, the level of capital expenditure, the impact on investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.

4.3 The Treasury Management Strategy outlined in detail in Appendix A sets the Council's **operational boundary limit** for external debt at £42 million and the **authorised limit** at £45 million. These limits are based on prior years spend on the capital programme as well as the planned capital programme of £20.556 million as approved by Council on 21 February 2023. Should these plans change, these limits will be revisited.

4.4 Within this overall capital expenditure framework there is a clear impact on the Council's treasury management activity through the application of investment balances. As a consequence, the Treasury Management Strategy for 2023/24 is also included at Appendix A (section 3) to the report to draw out the expected treasury activity. This report also includes the treasury prudential indicators. The production of the Treasury Management Strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the sector's MRP and Investment Guidance.

4.5 The Treasury Management Strategy requires the formulation of an Annual Investment Strategy. In accordance with guidance, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The detailed criteria utilised are included in Appendix B.

4.6 Security, Liquidity and Yield has always been at the forefront of the councils thinking when making investment decisions, however we will now also consider non-financial factors when making investment decisions, these include any ethical considerations as well as any environmental, social and governance (ESG) factors, this is detailed further in Appendix A 4.1.

4.7 The above policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.

4.8 It should be noted that this strategy is closely aligned to the Councils Capital Strategy with the Capital Programme being the main determinant of the councils borrowing need.

4.9 It should also be noted that at the time of writing this report, there are various geo-political events taking place both nationally and internationally that are impacting financial markets. The impacts of these are continuously monitored and any political or economic shocks that require any adjustment to the Treasury Management Strategy will be reported back to the Audit and Risk Committee (and Council) at a later date.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

5.1 None identified

6. PREVIOUS MINUTES

6.1 Not Applicable

7. BACKGROUND PAPERS

Appendix A - Treasury Management Strategy and Capital Prudential Indicators 23/24 – 27/28
Appendix B - Credit and Counterparty Risk Management
Appendix C - Approved Countries for Investment
Appendix D - Treasury Management Scheme of Delegation
Appendix E – Prospect for Interest Rates & Economic Background

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Treasury Management Strategy and Capital Prudential Indicators 2022/23 to 2024/25

1 INTRODUCTION

1.1 Background

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

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

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

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Following reporting requirements introduced in 2019/20 (re the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code) this Strategy now links to the Council's Capital Strategy which provides a longer-term framework for our capital plans.

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA Prudential Code for Capital Finance in Local Authorities (the code) was updated in 2018 and requires all local authorities to prepare a 'Capital Strategy'.

The Council's Capital Strategy (approved by Council in May 2019) builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy in order to:

- Set the long term context in which capital expenditure and investment decisions are made in a sustainability way:
- Set the basis upon which risk and reward and priority outcomes are considered as part of capital decisions;

- Set the context within which capital decision making is consistent with the concepts of value for money, public stewardship and prudence; and
- Report explicitly on the deliverability, affordability and risk associated with Capital Strategy.

This Capital Strategy tells the story of how this council prioritises capital expenditure, sets capital budgets, decides on how much it can afford to spend (and borrow) and how it manages risk – through robust governance and performance monitoring.

It provides a framework for ongoing decisions and provide a useful strategic link to other interrelated Council strategies which are impacted by capital decision making – including the Council Plan, Medium Term Financial Strategy, and Treasury Management Strategy.

1.2.2 Treasury Management reporting

Members receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

1. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an Investment Strategy (the parameters on how investments are to be managed).

2. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators if necessary, and whether the treasury strategy and/or policies require revision.

3. **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Risk Committee.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny of the policy and operations. Training events are run for all members (including the Cabinet member for Corporate, who has responsibility for treasury management) by Link Group our treasury management advisors.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Link Group as its external treasury management advisors.

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2022/23 – 2024/25

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist member's overview and confirm capital expenditure plans.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The capital expenditure forecasts to 2024/25 (which form part of the Capital Programme approved by Council on the 22nd February) are as follows:

Capital expenditure £000s	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Corporate	6,369	20,919	0	0	0
Business Transformation	107	89	45	255	100
Welfare Services	879	1,945	900	900	900
Community Services	333	8,680	567	47	0
Planning & Business Enterprise	2	127	0	0	0
Total	**7,690**	**31,760**	**1,512**	**1,202**	**1,000**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need (to be met either through internal funds or external borrowing).

Capital expenditure £000s	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Total	**7,690**	**31,760**	**1,512**	**1,202**	**1,000**
Financed by:					
Capital Receipts	89	4,845	273	256	100
Capital Grants & Other Contributions	902	2,396	900	900	900
Revenue	35	2,000	0	0	0
Revenue Grant	0	456	0	0	0
Total Internal Financing	**1,026**	**9,697**	**1,173**	**1,156**	**1,000**
Net External Financing Requirement	**6,664**	**22,063**	**339**	**46**	**0**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below:

Capital Financing Requirement (CFR) £000s	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement (CFR)	**19,418**	**41,280**	**41,157**	**40,198**	**39,171**
Movement in CFR	6,496	21,862	-123	-959	-1,027
Movement in CFR is represented by					
Net financing need for the year	6,664	22,063	339	46	0
Less MRP & other financing movements	-168	-201	-462	-1,005	-1,027
Movement in CFR	**6,496**	**21,862**	**-123**	**-959**	**-1,027**

The above table shows that as a result of the Council's capital plans (as set out in 2.1) the CFR (which essentially is a measure of the Council's underlying borrowing need) will increase to £41.280m in 2021/22 before starting to reduce from 2022/23 as the planned capital spend slows down and MRP contributions are made.

The large movement in the CFR in 2021/22 relates to commitments as set out in the capital programme, the majority of this relating to spend on the Community Hub and Industrial units.

2.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be based on the Asset life methodology:

- MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life. Finance leases are applied to revenue as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2022 the council has not made any VRP overpayments.

2.4 Core Funds (available to invest or cover the borrowing position)

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are prudent estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £000s	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund Balance	7,894	8,598	7,900	5,512	3,535
Capital Receipts Reserve	1,483	838	563	308	208
Earmarked Reserves	12,076	3,521	3,521	3,521	3,521
Total Core Funds	**21,453**	**12,957**	**11,984**	**9,341**	**7,264**
Working Capital*	1,000	1,000	1,000	1,000	1,000
Total Core Funds Available to Invest	**20,453**	**11,957**	**10,984**	**8,341**	**6,264**

*Working capital balances shown are our preferred position; Actual figures are likely to be different

3 TREASURY MANAGEMENT

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The overall estimated treasury management portfolio as at 31.3.21 and for the position as at 31.12.22 are shown below for both investments & borrowing

Treasury Position £000s	Current 31.12.21	Estimated 31.03.22
Investments		
CCLA	15,000	15,000
Federated MMF	9,500	4,350
Total Investments	**24,500**	**19,350**
External Borrowing		
PWLB	15,000	15,000
Total External Borrowing	**15,000**	**15,000**

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

External Debt £000s	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt at 1 April	**0**	**0**	**15,000**	**15,000**	**17,500**
Expected change in Debt	0	15,000	0	2,500	2,500
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**0**	**15,000**	**15,000**	**17,500**	**20,000**
The Capital Financing Requirement	19,418	41,280	41,157	40,198	39,171
Under / (over) borrowing	**19,418**	**26,280**	**26,157**	**22,698**	**19,171**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Corporate Director Finance & Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future – as set out in the above table. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and internally available funds.

Operational boundary £000s	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt	41,000	41,000	40,000	39,000
Other long-term liabilities	1,000	1,000	1,000	1,000
Total	**42,000**	**42,000**	**41,000**	**40,000**

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

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Council is asked to approve the following authorised limit:

Authorised Limit £000s	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Debt	44,000	44,000	43,000	42,000
Other long-term liabilities	1,000	1,000	1,000	1,000
Total	**45,000**	**45,000**	**44,000**	**43,000**

In order to ensure that the Council has the overall scope to borrow, the Authorised Limit has been adjusted upwards to reflect the approved Capital Programme. This provides the flexibility to borrow, but not the obligation.

The authorised limit has been set at a level higher than the (net) external borrowing need in 3.1. This provides some headroom for changes in available funds/working balances.

It should be noted that these limits have been set based on the current planned capital programme. Should proposals come forward for additional capital items these limits would be reviewed and risks and rewards reconsidered.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used.

The table below summarises the council forecast under-borrowing position.

Year End Resources £000s	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Under borrowing	19,418	26,280	26,157	22,698	19,171

This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered. Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Corporate Director Finance & Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then* *the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the Audit and Risk Committee at the next available opportunity.

Treasury Management Limits on Activity
There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Interest Rate Exposures £000s	**2021/22 Upper**	**2022/23 Upper**	**2023/24 Upper**	**2024/25 Upper**
Limits on fixed interest rates	44,000	44,000	43,000	42,000
Limits on variable interest rates	15,000	15,000	14,000	14,000

Maturity Structure of borrowing
These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2022/23		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	0%	50%

**Please note that this excludes other long term liabilities (leases)*

3.4 Policy on Borrowing in Advance of Need

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

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

3.5 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020. If however, short-term borrowing rates become considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. These savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.7 Approved sources of long- and short-term borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of risk

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

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

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Code Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B under the categories of 'specified' and 'non-specified' investments.

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

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see Appendix B).

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in paragraph 4.2.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

This authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

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

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

•	Yellow	5 years*
•	Dark Pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
•	Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
•	Purple	2 year
•	Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
•	Orange	1 year
•	Red	6 months
•	Green	100 days
•	No colour	Not to be used

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

Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings are regularly monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Banks	**Yellow**	**£4m / 25%**	**5 years**
Banks	**Purple**	**£3m / 25%**	**2 years**
Banks	**Orange**	**£3m / 25%**	**1 year**
Banks – part nationalised	**Blue**	**£3m / 25%**	**1 year**
Banks	**Red**	**£1m / 10%**	**6 months**
Banks	**Green**	**£1m / 10%**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (not meeting Banks 1)	**n/a**	**£10m**	**14 days**
Other institutions limit*	**-**	**£12m**	**1 year**
DMADF	**AAA**	**100%**	**6 months**
Local authorities	**n/a**	**£4m / 25%**	**3 years**
	Fund rating	**Money and / or % Limit**	**Time Limit**
Money market funds	**AAA**	**£15m per MMF**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.25	**Dark pink / AAA**	**£4m / 25%**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.5	**Light pink / AAA**	**£3m / 25%**	**liquid**

*The Council, from time to time, may also issue small short term loans to local parishes, charities and similar organisations. These organisations do not have a credit rating and so fall outside of the normal credit rating assessments; however these are covered under other institutions within the criteria set above

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 40% of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA1*** from Fitch *or equivalent*. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 50% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Interest rate forecast are included in Appendix E. Interest rates increased from 0.1% to 0.25% in December however, it is still very difficult to say when and by how much rates will rise in the future so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the next 12 months, with further rate increase coming in the medium term (12 – 48 months).

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on the next increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested longer than 365 days			
£m	**2022/23**	**2023/24**	**2024/25**
Principal sums invested longer than 365 days*	£4m	£4m	£4m

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

*Please note that currently the council does not have any investments invested for more than 365 days.

4.5 Property Funds

The Council current uses CCLA as one of its main Money Market Funds, CCLA also offer investments in property funds. The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any additional funds it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The council does not currently have any investments in property funds.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

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

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 40% will be held in aggregate in non-specified investment

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

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

	Minimum credit criteria / colour band	**£ limit per institution / Max % of total investment**	**Max. maturity period**
Specified			
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	£4 million / 50%	1 Year
UK Government Treasury bills	UK sovereign rating	£4 million / 50%	1 Year
Bonds issued by multilateral development banks	AAA (or state your criteria if different)		
Local authorities	N/A	£4m / 25%	3 Years
Council's banker (Barclays)		£10 million	14 days
Money Market Funds CNAV	AAA	£15 million Per fund	Liquid
Money Market Funds VNAV	AAA	£15 million per fund	Liquid
Money Market Funds LVNAV	AAA	£15 million per fund	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.25 *		£4 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*		£3 million / 25%	Liquid
Term Deposits with part nationalised banks	Blue Orange Red Green	£3 million / 25%	1 Year 1 Year 6 Months 100 days
Term deposits with banks and building societies	Blue Orange Red Green	£3million/ 25%	1 Year 1 Year 6 Months 100 days
CDs or corporate bonds with banks and building societies	Blue Orange Red Green	£3million/ 25%	1 Year 1 Year 6 Months 100 days
Non-Specified			
Term Deposits with part nationalised banks	Red Green	£1 million / 10%	6 months 100 days
Term deposits with banks and building societies	Red Green	£1 million / 10%	6 months 100 days
CDs or corporate bonds with banks and building societies	Red Green	£1 million / 10%	6 months 100 days
Ultra-Short Dated Bond Funds with a credit score of 1.25*		£4 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*		£3 million / 25%	Liquid
Property funds - The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund. This Authority will seek guidance on the status of any fund it may consider using.	AAA	£4 million / 25%	10 years

*****Any investments in ultra-short dated bond funds will be considered on an individual basis due to the complex nature of this type of investment. These types of funds do not always have an official rating, in the event that the Council wishes to invest in the type of fund the council will seek guidance from its treasury advisors and undertake additional due diligence prior to any decision.

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

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

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

THIS LIST IS CORRECT AS AT 09.02.22

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

(ii) Audit & Risk Committee (responsibility for scrutiny)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations;

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 7th February 2022. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Additional notes by Link on this forecast table: -

- 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.*

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021 and then to 0.50% at its meeting of 4th February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes a further three increases of 0.25% in March, May and November 2022 to end at 1.25%.

Significant risks to the forecasts

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.

- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **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.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks,** for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

The Monetary Policy Committee is now very concerned at the way that forecasts for inflation have had to be repeatedly increased within a matter of just a few months. Combating this rising tide of inflation is now its number one priority and the 5-4 vote marginally approving only a 0.25% increase on 4th February rather than a 0.50% increase, indicates it is now determined to push up Bank Rate quickly. A further increase of 0.25% is therefore probable for March, and again in May, followed possibly by a final one in November. However, data between now and November could shift these timings or add to or subtract from the number of increases.

However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons: -

- We do not know whether there will be further mutations of Covid and how severe they may be, nor how rapidly scientific advances may be made in combating them.
- The economy was running out of steam during the second half of 2021 and Omicron will mean that economic growth in quarter 1 of 2022 is likely to be flat, though on the rise towards the end of the quarter as the economy recovers. However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.

- Consumers are 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 increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.

- These increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?

- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

- If the UK were to invoke article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this would have the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

Forecasts for PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below). As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising higher in the US than in the UK; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.

- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong and enduring will inflationary pressures turn out to be in both the US and the UK, and so impact treasury and gilt yields?
- **Will the major western central banks implement their previously stated new average or sustainable level inflation monetary policies when inflation has now burst through all previous forecasts and far exceeded their target levels? Or are they going to effectively revert to their previous approach of prioritising focusing on pushing inflation back down and accepting that economic growth will be very much a secondary priority - until inflation is back down to target levels or below?**
- How well will central banks manage the running down of their stock of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?
- If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era for local authority investing

– a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures once economies recover from the various disruptions caused by the pandemic.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Investment and borrowing rates

- **Investment returns** have started improving in the second half of 21/22 and are expected to improve further during 22/23 as the MPC progressively increases Bank Rate.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

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

Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate is 2.00%. As nearly all PWLB certainty rates are now above this level, borrowing strategy will need to be reviewed, especially as the maturity curve has flattened out considerably. Better value can be obtained at the very short and at the longer end of the curve and longer-term rates are still at historically low levels. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. In addition, there are also some cheap alternative sources of long-term borrowing if a client is seeking to avoid a "cost of carry" but also wishes to mitigate future re-financing risk.

An economic update has been provided by our treasury advisors, link asset service:

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This dashed such hopes and raised major concerns that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that although this mutation is very fast spreading, it does not cause severe illness in fully vaccinated people. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time focused on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection., It also placed restrictions on large indoor gatherings and hospitality venues over Christmas and into January and requested workers to work from home. This hit sectors like restaurants, travel, tourism and hotels hard which had already been hit hard during 2021.Economic growth will also have been lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds in early 2022 although some sectors have learned how to cope well with Covid. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- The threat from Omicron was a wild card causing huge national concern at the time of December's MPC meeting; now it is seen as a vanquished foe disappearing in the rear-view mirror.
- The MPC shifted up a gear last week in raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.
- Our forecast now expects the MPC to deliver another 0.25% increase in March; their position appears to be to go for sharp increases to get the job done and dusted.
- The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.
- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.
- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance, food inflation around 5% and council tax likely to rise in the region of 5% too - these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.
- Consumers are 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 increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.
- The increases are already highly disinflationary; inflation will also be on a gradual path down after April so that raises a question as to whether the MPC may shift into protecting economic growth by November, i.e., it is more debatable as to whether they will deliver another increase then.

- The BIG ISSUE – will the current spike in inflation lead to a second-round effect in terms of labour demanding higher wages, (and/or lots of people getting higher wages by changing job)?
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

PWLB RATES

- The yield curve has flattened out considerably.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate.
- It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once Bank Rate rises to 1%: it is likely to act cautiously as it has already started on not refinancing maturing debt. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the *"Bank Rate had risen to at least 1%"* and, *"depending on economic circumstances at the time."*
- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures.
- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields.

MPC MEETING 4TH FEBRUARY 2022

- After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25bps to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously for the following: -
    - to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets.
    - to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
- The Bank again sharply increased its forecast for inflation – to now reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK GDP rose by 1.1% in quarter 4 of 2021 but, because of the effect of Omicron, GDP would be flat in quarter 1, but with the economy recovering during February and March. Due to the hit to households' real incomes from higher inflation, it revised down its GDP growth forecast for 2022 from 3.75% to 3.25%.
- The Bank is concerned at how tight the labour market is with vacancies at near record levels and a general shortage of workers - who are in a very favourable position to increase earnings by changing job.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was

notable was the Bank's forecast for inflation: based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices – not the level – that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.

- So the message to take away from the Bank's forecast is that they do not expect Bank Rate to rise to 1.5% in order to hit their target of CPI inflation of 2%. The immediate issue is with four members having voted for a 0.50% increase in February, it would only take one member more for there to be another 0.25% increase at the March meeting.

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -
    1. Raising Bank Rate as "the active instrument in most circumstances".
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

OUR FORECASTS

a. Bank Rate

- Covid remains a major potential downside threat as we are most likely to get further mutations. However, their severity and impact could vary widely, depending on vaccine effectiveness and how broadly it is administered.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

b. PWLB rates and gilt and treasury yields

Gilt yields. Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. Our forecasts show little overall increase in gilt yields during the forecast period to March 2025 but there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for medium to longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields. During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. This was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme roll-out had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

- **At its 3rd November Fed meeting**, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At its **26th January meeting**, the Fed became even more hawkish following inflation rising sharply even further. It indicated that rates would begin to rise very soon, i.e., it implied at its March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely that the Fed could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Fed because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the US where long rates are a key driver of household and corporate borrowing costs.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

Globally, our views are as follows: -

- **EU.** The ECB joined with the Fed by announcing on **16th December** that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. The ECB did not change its rate at its **3rd February** meeting, but it was clearly shocked by the increase in inflation to 5.1% in January. The President of the ECB, Christine Lagarde, hinted in the press conference after the meeting that the ECB may accelerate monetary tightening before long and she hinted that asset purchases could be reduced more quickly than implied by the previous guidance. She also refused to reaffirm officials' previous assessment that interest rate hikes in 2022 are "very unlikely". It, therefore, now looks likely that all three major western central banks will be raising rates this year in the face of sharp increases in inflation - which is looking increasingly likely to be stubbornly high and for much longer than the previous oft repeated 'transitory' descriptions implied.

- **China.** The pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, lockdown strategies may not prove so successful in future. To boost flagging economic growth, The People's Bank of China cut its key interest rate in December 2021.

- **Japan.** 2021 was a patchy year in combating Covid. However, recent business surveys indicate that the economy is rebounding rapidly now that the bulk of the population is fully vaccinated, and new virus cases have plunged. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back towards its target of 2% any time soon.

- **World growth.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **Supply shortages**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

The balance of risks to the UK economy: -

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

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

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed.

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

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

- **The Government** acts too quickly to increase taxes and/or cut expenditure to balance the national budget.

- **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, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows. If Russia were to invade Ukraine, this would be likely to cause short term volatility in financial markets, but it would not be expected to have a significant impact beyond that.

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 within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

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