Cyngor Sir Powys County Council
Impact Assessment (IA)
The integrated approach to support effective decision making

Please read the accompanying guidance before completing the form.

This **Impact Assessment (IA)** toolkit, incorporates a range of legislative requirements that support effective decision making and ensure compliance with all relevant legislation.
Draft versions of the assessment should be watermarked as "Draft" and retained for completeness. However, only the final version will be made publicly available. Draft versions may be provided to regulators if appropriate. In line with Council policy IAs should be retained for 7 years.

Service Area	Council Wide	Head of Service	Jane Thomas	Director		Portfolio Holder	Cllr Aled Davies
Proposal	Powys County Council 2022-23 Draft Budget						

BACKGROUND

By law the Council has to agree a balanced budget annually. This impact assessment concentrates on the net revenue budget for 2022-23.

The 2022-23 Budget has been developed, refined and challenged by a robust process involving Heads of Service, Executive Management Team, Cabinet and Scrutiny Committees. The full timetable set out at Appendix A shows the governance approach and challenge meetings that have taken place since July 2021 and include the formal meetings to agree draft and final budgets in February 2022.

The Draft Budget will be approved by Cabinet on 18th January 2022 and then be considered by the three Subject Scrutiny Committees and the Finance Panel through January / early February 2022. The Final Budget will be presented to Council for agreement on 24th February 2022.

Individual impact assessments have been completed for each cost reduction, this assessment assesses the cumulative impact of the budget on Powys residents, in respect of the funding allocated, the council tax proposed and the cost reductions proposed.

The Final Budget includes a 3.9% increase in the Council Tax in 2022-23, and then 5% for the following 4 years (£1.05 a week for a band D property). The Council Tax Resolution will be presented to Council on 3rd March 2022.

REVENUE BUDGET

The Council has received a 9.6% settlement increase from the Welsh Government and allows Services to manage its service pressures alongside achievable savings. The Council has developed its 2022-27 MTFS and revenue budget by seeking to focus resources on delivery of Vision 2025, service improvements and the Council's statutory obligations using an Integrated Business Planning approach.

Inescapable Cost Pressures

The 2022-23 budget includes £26.5 million to meet inescapable cost pressures, including pay and price inflation as well as service specific pressures like the real living wage increase and demographic growth. These must all be recognised in the budget as the Council is required by law to set a viable and balanced budget.

Powys residents will benefit from investment in these pressures as they will ensure that services can be improved or maintained at current levels and the Council's statutory obligations can be delivered. However, the value of the pressures included in the budget exceed the funding settlement the Council has received from the Welsh Government creating a budget gap of £11.2 million.

Cost Reductions

To bridge the budget gap in 2022-23 all services were asked to identify possible cost reductions that could be made to reduce the Council's spending requirement. £7.7 million of cost reductions have been identified which are deemed to be achievable within an acceptable level of risk. This leaves a residual budget gap of £3.5 million which it is proposed is found by increasing Council Tax by 3.9% in 2022-23. If Council Tax was to be increased by less than 3.9% the Council would need to make further cost reductions, in addition to the £7.7 million already proposed and deemed to be deliverable. In looking for additional cost reductions the Council would need to consider whether the impact on residents from any cost reduction would be greater than the impact on households of an additional 3.9% per annum in Council Tax. Work to develop the Draft Budget suggests that every element of the budget has been explored so the scope for additional cost reductions in the short term is very limited.

Council Tax

The Council's net revenue budget is funded from Welsh Government grant known as Aggregate External Finance (AEF) and Council Tax. AEF is the total level of support that the Government provides to local authorities, comprising Revenue Support Grant (RSG) and the amount distributed from business rates (NNDR) and is distributed using a needs-based formula. Over the last decade the Council's finances have suffered, as the Council has received in many years the lowest AEF settlements compared to the other 21 counties in Wales primarily due to the costs of rurality not being adequately reflected in the formula. This is evidenced in the Council's Rural Cost Analysis which remains valid.

In 2021-22 all Welsh Councils received a settlement of around 4% and this has been further improved by the 2022-23 provisional settlement of 9.6% for Powys. The settlement formula is based on Standard Spending Assessment (RSG & NNDR plus notional Council tax). What has been seen in years is that the notional Council Tax element of the settlement has increased at a greater rate than the AEF element, this results in councils with smaller tax bases having a greater share of the grant element and areas with higher tax bases like Powys received less grant because they had a greater relative share of the council tax pot. However this year the opposite has happened where AEF has increased greater than the notional council tax increase. Therefore there is a reverse pattern.

Last year AEF was at a level of 68% of the Council's net revenue budget requirement and the remaining balances of 32% funded by Council Tax. This year that split has changed to 70:30 respectively.

Council Tax income comes from residents but not all residents pay full Council Tax. Many residents benefit from the Council Tax Reduction Scheme (CTRS). Our annual expenditure to provide this support for Powys residents exceeds the level of funding included in the settlement by £1.8 million. The level of support provided by this scheme has increased during the pandemic as more people became eligible. Any increase in Council Tax in 2021-22 will increase the CTRS shortfall and an allocation of £366,600 is included in the budget to cover a 3.9% increase in Council Tax.

In setting the Council Tax level each year the Council must strike an appropriate balance, the need to ensure the Council has sufficient funds to provide crucial often statutory services to local residents within a balanced budget (a legal requirement) with the ability of Powys taxpayers to afford to pay the level set.

Understanding the affordability of any Council Tax increase requires consideration of the cost of the increase in relation to household income. Council Tax can be measured in 'Band D' or in 'per dwelling' terms. Band D has historically been used as the standard for comparing Council Tax levels between and across local authorities. This measure is not affected by the varying distribution of properties in bands that can be found across authorities. The 'per dwelling' calculation uses chargeable dwelling figures which gives an indication of the average amount of Council tax that is actually paid per household. In 2021-22 the Average band D council tax set for Powys in 2021-22 was £1,747 which was above the Welsh average of £1,731. These figures include Community Council and Police authority precepts. Council Tax can also be measured as average Council Tax per dwelling. In Powys the average Council Tax per dwelling for 2020-21 is £1,887, £178 a year (£3.42 a week) above the £1,709 average for Wales.

National statistics[1] from the Office of National Statistics (ONS) show the average gross weekly earnings (full-time equivalent employees on adult rates) in Powys in 2021 to be £540.20 compared to an average for Wales of £536.80, placing Powys 5th lowest of 22 council areas in Wales.

In real terms (adjusted for inflation), total and regular pay continues to grow at a faster rate than inflation, at 1.7% for total pay and 1.0% for regular pay. Average total pay growth for the private sector was 5.4% in August to October 2021, while for the public sector, it was 2.7%; all sectors saw growth, with the finance and business services sector seeing the largest growth rate at 7.7%. Since the end of 2019, the public sector generally had stronger growth than the private sector; but since April 2021, the year-on-year comparison with a low base period has meant the private sector now shows stronger growth.

ONS sets out that between August to October 2021 estimates show a continuing recovery in the labour market, with a quarterly increase in the employment rate, while the unemployment rate decreased. Total hours worked increased on the quarter, due to the relaxing of some coronavirus (COVID-19) restrictions, but are still below pre-coronavirus levels. The UK employment rate was estimated at 75.5%, 1.1 percentage points lower than before the coronavirus pandemic (December 2019 to February 2020), but 0.2 percentage points higher than the previous quarter (May to July 2021). The UK unemployment rate was estimated at 4.2%, 0.2 percentage points higher than before the pandemic, but 0.4 percentage points lower than the previous quarter.

CPI inflation is expected to reach 4.4 - 5 per cent next year, with the risks around that tilted to the upside and it could hit the highest rate seen in the UK for three decades.

Taking account of the above information the groups of people most likely to be impacted by an increase in Council Tax are families with children especially those headed by a working lone parent and people who rent their home (social or a private landlord). Those people less likely to be impacted by an increase in Council Tax are people on higher incomes and people wholly reliant on means tested benefits.

A 3.9% increase in Council Tax in 2022-23 for a Band D dwelling would be an increase of £54.77 for the year, equivalent to £1.05 per week (before Community Council and Police precept).

Based on previous years figures it would be reasonable to assume that only around 48% of Powys' 65,000 households would pay the full increase, while just over 52% would receive partial or total exemption from payment.

The Council conducted a residents survey which closed on the 19th December and focused on post Covid-19 recovery, balancing the limited funding against growing demand for our services, using resources effectively to deliver the best outcomes for local people, and achieving the Councils key priorities. It allowed the public to provide views and insights on funding priorities, Council Tax levels and recovery planning. With an aim to align our communities' visions and expectations with those of the Council and Councillors, making Powys a fantastic place in which to live, learn, work and play. There were 493 responses. The summary of responses:

1. As we emerge from the Covid-19 pandemic, which of the following two priorities do you think we should focus our budget on - 236 respondents said improving health and care for our local communities and 163 respondents said supporting the local economy to recover from the pandemic

2. 64% of respondents agreed that the Council should continue with its new ways of working and services being delivered digitally or home working

3. As part of our Vision 2025 we asked participants to say which were their priority objectives:

- 'Economy: we will develop a vibrant economy' - 229 respondents favoured improve our infrastructure to support regeneration and attract investment
- 'Healthcare:we will lead the way in providing effective integrated health and care in a rural environment' - 326 respondents favoured to ensure that Powys children and young people are safe, healthy, resilient, learning, fulfilled and have their voices heard, valued and acted on
- 'Learning and skills: We will strengthen learning and skills' - 256 respondents favoured improving the skills and employability of young people and adults
- 'Residents and Communities: We will support our residents and communities' - 285 respondents favoured safeguarding and enhancing the natural environment for residents and communities

4. Which of the following three priorities do you think we should focus our Capital spending on?

- 228 responses - Town centres and regeneration to improve the local economy and tourism
- 188 responses - Climate change - to become Carbon Neutral by 2030
- 156 responses – Improving our road networks and maintain bridges

5. If we receive less funding from Welsh Government than planned, how would you like to see this addressed?

- 48% of respondents said they would prefer to see some services cut and a marginal increase in Council Tax

6. Do you think we (the Council) are doing enough to help with the global challenge of climate change?

- 61% of respondents said no

A full report on the budget consultation is provided with the budget papers in the Cabinet agenda 18th January and Council agenda 24th February 2022

Conclusion

The Council's financial position and outlook continue to be challenging over the medium term. Although the financial settlement covers the main core pressures such as pay and price inflation, there have been additional obligations that are needed from this funding such as funding the Real Living Wage for all care workers on top of pay and price inflation and specific service pressures. The next two years settlements will be 3.5% and 2.4%, which are likely to be below inflation levels and leave the Council short covering the basic uplifts. As the net budget is only financed by the settlement and Council Tax the only other way the Council can balance its budget is by making cost reductions.

The Council has made more than £104 million cost reductions in the last decade making it harder each year to find more. A further £7.7 million of cost reductions are proposed for 2022-23, leaving £3.5 million budget gap which it is proposed should be met by a 3.9% increase in Council Tax.

Although any increase in Council Tax is likely to impact to some extent on many residents, not all pay Council Tax as there are a number of discounts and exemptions in place which means that only 48% pay full Council Tax.

Despite the average Band D Council Tax Bill in Powys being £16 per annum higher than the Wales average and the average Council Tax per dwelling is £178 above the average, these figures need to be considered against the fact that in Powys only 70% of the net budget is funded from AEF which means 30% of the net budget has to come from Council Tax which is higher than all but three other council in Wales.

In terms of affordability a 3.9% increase in Council Tax for a Band D property would be £1.05 per week and £1.05 represents only 0.19% of the average weekly wage and in view of the means tested reductions, discounts and exemptions that are available to residents this is considered to be in the realms of affordability for residents.

1. Version Control (services should consider the impact assessment early in the development process and continually evaluate)

Version	Author	Job Title	Date
V1	Anne Phillips	Interim Deputy Head of Financial Services	24/12/22
V2	Jane Thomas	Head of Financial Services	

2. Profile of savings delivery (if applicable)

£000	2022-23	2023-24	2024-25	2025-26	2026-27
Net budget - £k	£302,322	£317,424	£330,957	£344,508	£358,243
Council Tax increase of 3.9% (plus tax base) rising to 5% year 2 £k	4,166	4,601	4,851	5,074	5,327
Cost reductions total required - £k	£7,683	£4,781	£4.586	£4,498	£4.112

3. Consultation requirements

Consultation Requirement	Consultation deadline/or justification for no consultation
Public consultation required	Budget engagement took place with the public by use of an online questionnaire. It was undertaken between 3rd December 2021 and 19th December 2021. Full details of the questionnaire and communications and findings can be found at Appendix H in the Budget papers pack Consultation on specific proposals will be undertaken where appropriate before introduced.

Impact on Other Service Areas

Does the proposal have potential to impact on another service area? (Including implication for Health & Safety and Corporate Parenting) PLEASE ENSURE YOU INFORM / ENGAGE ANY AFFECTED SERVICE AREAS AT THE EARLIEST OPPORTUNITY
The overall budget will see some service reductions, and each individual proposal has been scrutinised by the relevant committee to assess any detrimental effect on residents and the Council's delivery model.

5. How does your proposal impact on the council's strategic vision?

Council Priority	How does the proposal impact on this priority?	**IMPACT** Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	**IMPACT AFTER MITIGATION** Please select from drop down box below
The Economy **We will develop a vibrant economy**	Each service has completed its own Integrated Business Plan that sets out the changing shape of the service delivery plan, and the need to fund pressures, and where service reductions can be achieved, and is expected to remain aligned to Vision 2025	Neutral	The reductions are underpinned by individual Impact Assessments which will be scrutinised before approval to ensure a minimal, or acceptable level of impact on the Council priorities.	Neutral
Health and Care **We will lead the way in effective, integrated rural health and care**	See above	Neutral	See above	Neutral
Learning and skills **We will strengthen learning and skills**	See above	Neutral	See above	Neutral
Residents and Communities **We will support our residents and communities**	See above	Neutral	See above	Neutral

Source of Outline Evidence to support judgements
Individual Impact Assessments for all savings will be published as part of the budget papers

6. How does your proposal impact on the Welsh Government's well-being goals?

Well-being Goal	How does proposal contribute to this goal?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
A prosperous Wales: An innovative, productive and low carbon society which recognises the limits of the global environment and therefore uses resources efficiently and proportionately (including acting on climate change); and which develops a skilled and well-educated population in an economy which generates wealth and provides employment opportunities, allowing people to take advantage of the wealth generated through securing decent work.	The budget contains growth for schools' budgets and education remains a priority for the Council and the public. Delegated schools have no savings to deliver and have had all their pressures funded. But Workforce Development are proposing to charge for Health & Safety advice to schools and for DBS fees to schools - this will be a pressure to schools of £115k, this could be funded by savings from school closures. The central schools budget is proposing to deliver than £55,000 cost reductions but have had pressures and transformation funded totalling £1.6 million. There is no impact on schools. Schools continue to have a major capital programme of build and renovation. The wider programme recognises the Mid Wales Growth Deal and Levelling up funding now confirmed and the Vision 2025. Community Regeneration funding supports the purchase of electric road sweepers	Neutral	The capital programme continues to focus on 21st Century Schools and the building and modernisation of schools linked to a newly updated transformation strategy that could see an additional £350 million spent on schools over the next ten years. It is likely that the capital programme will bring up to £200 million capital funding to the regime over the next 15 years for economic growth and tourism. Levelling up funding of £23m has been approved for capital schemes in the county. This allows on the job training, and support the jobs market	Neutral
A resilient Wales: A nation which maintains and enhances a biodiverse natural environment with healthy functioning ecosystems that support social, economic and ecological resilience and the capacity to adapt to change (for example climate change).	Travel budgets £48k are being cut as the new ways of working sees more staff work from home and less travelling is taking place that improves our carbon emissions. In addition pool cars have been returned to deliver £26k of savings as these are not now used Remedial works funding of £500k for Council offices will ensure energy efficiency is improved The budget supports an additional Climate change officer post to help the Council develop its action in response to Climate change.	Poor	The capital strategy continues to fund an additional £1 million for street lighting and £5 million for the HAMP annually until 2030, and further capital bids will be considered to support this area. Community Regeneration funding supports the purchase of electric road sweepers	Neutral

Well-being Goal	How does proposal contribute to this goal?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
A healthier Wales: A society in which people's physical and mental well-being is maximised and in which choices and behaviours that benefit future health are understood.	Social Care budgets are the main deliverer of this goal, alongside leisure and public protection. Both Adults and Children's Services have cost reductions to deliver but mainly linked to new models of delivery linked to early intervention and prevention and providing new facilities closer to home: • Strength based reviews/assessments to maintain independence with the right sized level of care, using technology, direct payments and maintaining life in own homes • Using health funding where available to support service user need through continuing healthcare • TEC - To deploy (TEC) Technology Enabled Care in order to cost avoid . TEC includes lifelines emergency phones/alarms and sensors which support people to live independently in their own homes. These systems enable people to live at home for longer and for next of kin / informal carers to be assured of the individual's wellbeing. • Bringing services closer to home, which may involve building facilities in county • Recommissioning and decommissioning - We will continue to work in partnership with all service providers to review the way services are delivered in Powys to ensure that such services are accessible, of the right quality and at an affordable cost for all people who need to arrange their support. Alongside this, and to generate further efficiencies we will continue to promote reablement and recovery throughout all services to ensure that resulting support packages are appropriate to a people's needs.	Neutral	Funding all carers the real living Wales will help retain and attract care workers to the profession. To support more vulnerable and frail service users. This is estimated at £2.3 million cost to the council and will fund external providers and direct payment carers. Joint commissioning arrangements to support a seamless service. In line with Vision 2025, we are committed to developing pooled budgets and joint commissioning arrangements to ensure those in need of care receive a seamless service. This will include resolution of ordinary residence challenges and to work with health boards to support accessing correct funding for care.	Neutral

Well-being Goal	How does proposal contribute to this goal?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
A Wales of cohesive communities: Attractive, viable, safe and well-connected Communities.	Housing in the main is ring fenced through the Housing Revenue Account (HRA). Annual rent increases are set independently of the general fund budget process. The HRA business plan includes the cost of borrowing to enable an additional 250 dwellings to be built and increase the overall stock of social housing. Housing do not have any savings to deliver. Digital transformation is expected to address how residents want to engage with the council, whether that be face to face, by telephone or by 24/7 digital access. Digital service have additional funding of £1.7 million to cover pressures and transformation and only a small saving of £25k	Neutral	Extra care facilities continue to take priority from the Supported Housing Capital grant funded through Welsh Government and a number of new sites are now being built.	Neutral
A globally responsible Wales: A nation which, when doing anything to improve the economic, social, environmental and cultural well-being of Wales, takes account of whether doing such a thing may make a positive contribution to global well-being.	Overall the budget proposed makes a positive impact on the well-being of our residents across all the services. Despite there being some reductions to budgets, most are to be achieved through service redesign. There are plans to address any negative impacts arising through working proactively with partners and the public to develop new ways of working using new commissioning models and digital technology.	Neutral		Neutral
A Wales of vibrant culture and thriving Welsh language: A society that promotes and protects culture, heritage and the Welsh language, and which encourages people to participate in the arts, and sports and recreation.				
Opportunities for persons to use the Welsh language, and treating the Welsh language no less favourable than the English language	N/A	Neutral		Neutral
Opportunities to promote the Welsh language	N/A	Neutral		Neutral

Cyngor Sir Powys County Council

Impact Assessment (IA)

The integrated approach to support effective decision making

Well-being Goal	How does proposal contribute to this goal?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
Welsh Language impact on staff		Neutral		Neutral
People are encouraged to do sport, art and recreation.	There is a proposal to reduce funding to some Arts third part contributions to organisations £63k. Leisure contract will save £50k next year this is part of the agreed contract and will have no effect on the service	Poor	These are savings that were identified last year and part of a longer term budget reduction plan	Poor
A more equal Wales: A society that enables people to fulfil their potential no matter what their background or circumstances (including their socio economic background and circumstances).				
Age	N/A	Neutral		Neutral
Disability	N/A	Neutral		Neutral
Gender reassignment	N/A	Neutral		Neutral
Marriage or civil partnership	N/A	Neutral		Neutral
Race	N/A	Neutral		Neutral
Religion or belief	N/A	Neutral		Neutral
Sex	N/A	Neutral		Neutral
Sexual Orientation	N/A	Neutral		Neutral
Pregnancy and Maternity	N/A	Neutral		Neutral

Source of Outline Evidence to support judgements

Cyngor Sir Powys County Council

Impact Assessment (IA)

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7. How does your proposal impact on the council's other key guiding principles?

Principle	How does the proposal impact on this principle?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
Sustainable Development Principle (5 ways of working)				
Long Term: *Looking to the long term so that we do not compromise the ability of future generations to meet their own needs.*	Although the focus of this impact assessment is the 2022-23 budget the Council is also being asked to approve the Medium Term Financial Strategy which extends the revenue forecasting to 2027 and the capital programme to 2027, both of which help the Council to take a longer term view. The Integrated Business Planning approach involves developing operational service and resource plans for the next three years which again encourages the organisation to take a medium term view of planning which should lead to better outcomes for the citizen and future generations.	Good	.	Choose an item.
Collaboration: *Working with others in a collaborative way to find shared sustainable solutions.*	The budget will support significant collaborative working in terms of the Regional Partnership Board in respect to our shared Heath and Care Strategy; the Public Service Board in delivering Towards 2040; and with Ceredigion Council to develop the Mid Wales Growth Deal. In social care around 20% of the proposed cost reductions are predicated on closer working and realigning services in collaboration with others particularly health.	Good		Choose an item.
Involvement (including Communication and Engagement): *Involving a diversity of the population in the decisions that affect them.*	There was stakeholder engagement in the budget development process, including a public survey, and advertising that reached out to business rate payers for their input.	Good		Choose an item.

Cyngor Sir Powys County Council
Impact Assessment (IA)
The integrated approach to support effective decision making

Principle	How does the proposal impact on this principle?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
Prevention: *Understanding the root causes of issues to prevent them from occurring.*	The transformation of Adult and Children's Services is predicated on early intervention and prevention to help maintain independence. This is evidenced by the focus on early years and the developments around Technology Enabled Care and the development of extra care.	Good		Choose an item.
Integration: *Taking an integrated approach so that public bodies look at all the well-being goals in deciding on their well-being objectives.*	The budget has been developed using an integrated business planning approach during which each service assessed how best to achieve their wellbeing goals as defined in Vision 2025 CIP.	Good		Choose an item.
Preventing Poverty: Prevention, including helping people into work and mitigating the impact of poverty.	The Vision 2025 Update report sets out a number of actions that will be taken to help people into work and mitigate poverty	Good		Choose an item.
Unpaid Carers: Ensuring that unpaid carers views are sought and taken into account	The Adults and Children's Service is engaging unpaid carers in the design and delivery of new service models.	Good		Choose an item.
Safeguarding: Preventing and responding to abuse and neglect of children, young people and adults with health and social care needs who can't protect themselves.	The Children's and Adult Services transformation plans which underpin their budgets are design to strengthen our arrangements for safeguarding vulnerable children and adults	Good		Choose an item.
Impact on Powys County Council Workforce	There will be some work force reductions as a consequence of staff restructures that will deliver greater efficiency, resilience and agile working	Neutral	The Council is also implementing an Apprenticeship programme to encourage all entrant level posts being filled this way	Neutral
Source of Outline Evidence to support judgements				

Principle	How does the proposal impact on this principle?	IMPACT Please select from drop down box below	What will be done to better contribute to positive or mitigate any negative impacts?	IMPACT AFTER MITIGATION Please select from drop down box below
The Local Government Act 2003 requires the Chief Finance Officer, Section 151 Officer (the Head of Financial Services), to make a report to the Council when it is considering its budget and Council Tax. The report must provide assurance on the robustness of the estimates, highlighting the risks associated with its deliverability and the adequacy of the reserves allowed for in the budget proposals, and fundamentally a balanced budget must be set each year. Council can propose and consider alternative budget suggestions, these would have to be fully costed with identified funding to maintain a balanced budget, this is likely to mean other service reductions and changes to Council Tax. Council Tax is agreed at Council, and is a political decision based on an assessment, not only between balancing council tax and service reductions, but also making spending choices that meet the immediate needs with those that meet future generation's needs.				

8. What is the impact of this proposal on our communities?

Severity of Impact on Communities	Scale of impact	Overall Impact
Low	Low	Low
Mitigation		

9. How likely are you to successfully implement the proposed change?

Impact on Service / Council	Risk to delivery of the proposal	Inherent Risk
Low	Low	Low
Mitigation		

Risk Identified	Inherent Risk Rating	Mitigation	Residual Risk Rating
An unacceptable risk is Council not agreeing a fully balanced and agreed budget	Medium	**The budget has been prepared by Cabinet and The Senior Leadership Team with engagement and consultation with the public and the wider council membership. The proposals (pressures and reductions) have been subject to scrutiny and challenge and provide a balanced budget within the funding envelope from Welsh Government, with an affordable increase in Council Tax**	Low
Council tax collection levels may reduce due to the 3.9% increase, deemed unaffordable by some residents	Low	**CTRS and certain discounts are available, in addition there are flexible ways to pay the bill over 12 months. The council have trained money advice officers to support those struggling to make ends meet.**	Low
	Choose an item.		Choose an item.

Overall judgement (to be included in project risk register)			
Very High Risk	**High Risk**	**Medium Risk**	**Low Risk**
			X

10. Overall Summary and Judgement of this Impact Assessment?

Outline Assessment (to be inserted in cabinet report)	**Cabinet Report Reference:**	
Low risk. There are individual risk assessments for each cost reduction proposal contained in the budget which shows they are deliverable within an acceptable level of risk and impact on residents.		

11. Is there additional evidence to support the Impact Assessment (IA)?

What additional evidence and data has informed the development of your proposal?
N/A

12. On-going monitoring arrangements?

What arrangements will be put in place to monitor the impact over time?
Customer satisfaction and continued consultation through surveys; formal and informal assessment and monitoring of the services reduced
Please state when this Impact Assessment will be reviewed.
Budget delivery and consequences are reviewed as part of the budget forecast

13. Sign Off

Position	Name	Signature	Date
Impact Assessment Lead:	Anne Phillips	Anne Phillips	
Head of Service:	Jane Thomas	Jane Thomas	
Director:			
Portfolio Holder:	Aled Davies	Aled Davies	

14. Governance

Decision to be made by	Council	**Date required**	24 February 2022

FORM ENDS

2022/23 BUDGET PLANNING TIMETABLE

Date	Meeting/Responsibility	EMT, SLT and Cabinet Activities
19th May	EMT	Recap, Welsh budget projections, impact on FRM, approach to bridging the gap, projects? allocations? Financial Resilience outcomes. Reserves.
9th June	SLT	Feedback and their views on shaping the process. When to start IBPS - using performance info, agree when might scrutinise the IBPs ?
15th June	Cabinet Seminar	Recap on FRM and assumptions for next 4 years, agree modelling assumptions, update on Capital Review and implications
23rd June	EMT	Review Cabinet / SLT proposals
25th June	Finance Panel	Review Outturn Reports
7th July	EMT / SLT	Update on FRM and cabinet assumptions for modelling, agree timetable and what is to be completed - IBP delivery commences
July	Finance Panel and Group Leaders	Workshop - confidential - scrutinise outturn, savings delivered etc to set the scene for delivery by services on 2022/23 budget proposals
13th July	Cabinet / EMT	Agree worked up proposals
26th July	IBP Board	OBB Activity - reporting progress to Board
27th July	Cabinet	Sign off updated MTFS
27th July	Cabinet Seminar	Capital Review work (2 hrs)- Provide revised FRM and agree stance for SLT on budget savings / growth etc, capital review (OBB) update and impact on FRM
11th Aug	SLT	Budget update if needed
End date 31st Aug	SLT	IBP 1st draft - need to provide guidance on what to include etc and OBB / change activities driving budget movements
16th August	IBP Board	OBB Activity - reporting progress to Board
Early Sept	Political Groups	S151 and political groups - updates on budgets
7th Sept	Cabinet / EMT	Budget update if needed
Sept	WG	Autumn spending review
13th Sept	Finance	Collate all savings and growth proposals in IBPs

13th Sept	Finance	Collate the capital proposals identified through the IBP - if any as we know bids can be submitted through the year
15th Sept	SLT	FRM and updates re WG / WLGA
Sept	Scrutiny	Scrutiny (ECR 9th, LS 15th, HC 24th, FP 30th)
22nd Sept	EMT / Finance / Comms	Decide on public engagement re budgets and work up approach
End Sept	SLT	Agrees public engagement budget draft questions
27th Sept	IBP Board	OBB Activity - reporting progress to Board
30th Sept	Finance Panel	Budget consultation and budgets
October	IBP Service Panels	Various dates - Each Head has a panel challenge event in Oct
November	Group Leaders	Alternative budgets timetable agreed
02-Nov	Cabinet / EMT	Budget workshop
8th Nov	Council	Budget seminar
10th Nov	SLT/Comms	Planning the budget consultation
November	Scrutiny	Scrutiny (ECR 29th, HC 1st FP 26th) if needed
25th Nov	Group Leaders	Budget Update
December	Comms	Budget consultation with public goes live
6th Dec	Group Leaders	Budget Update
07-Dec	Cabinet / EMT	Budget workshop
8th Dec	SLT	Update on budget FRM
14th Dec	Cabinet	Approve council tax base, update of FRM provisional settlement
19-Dec	Comms	Consultation closure
21-Dec	Comms	Finalise consultation responses and feedback findings
21-Dec	WG	Draft Budget Settlement
21-Dec	Cabinet / EMT	Budget workshop
23rd Dec	Group Leaders	Budget Update
Dec	Audit Committee	Update if needed on agenda
December	Finance	Prepare draft capital & TM strategy inc PIs and MRP
2022		
Jan	Head of Finance	Business rates consultation

Jan	Finance	Community council precepts finalised
6 - 12 Jan	Cabinet/EMT	Finalise draft budget - informal meetings
10th Jan	Group Leaders	Budget Update
10th Jan	Council	Budget workshop
12-Jan	Clerks	Publish cabinet agenda
18-Jan	Formal Cabinet	Approve draft budget (MTFS & FRM), reserve policy, capital strategy and Fees & Charges Register (income and charging schedule) and recommend to full council for approval
19 Jan - 2 Feb	Political Groups	Preparation of Alternative Budget & discussions with HoS re Impact assessments
27th Jan	Group Leaders	Budget Update
31st Jan	ERC Scrutiny	Scrutiny of draft budget - ensure meeting long enough for robust scrutiny
01-Feb	H & C Scrutiny	Scrutiny of draft budget - ensure meeting long enough for robust scrutiny
02-Feb	L & S Scrutiny	Scrutiny of draft budget - ensure meeting long enough for robust scrutiny
02-Feb	Finance panel	Scrutiny of draft budget - ensure meeting long enough for robust scrutiny
04-Feb	Head of Finance	Discussion of alternative Budget with S 151 officer
07-Feb	Finance / Groups	Last date for submission of alternative budget with Final Impact assessments
07-Feb	Clerks	Issue Scrutiny Agenda for Alternative Budget (papers to follow)
08-Feb	Cabinet	Informal Cabinet to consider Scrutiny Comments on Cabinet Budget
09-Feb	Head of Finance	Last date for Alternative budgets to be approved by s151 officer
09-Feb	Clerks	Send Alternative Budget papers to Scrutiny if approved by s151 officer
09-Feb	Group Leaders	Budget Update
11-14 Feb	Scrutiny	Scrutiny Of Alternative Budgets
14-15 Feb	Finance	Prepare Scrutiny Report for alternative budget
15-Feb	Cabinet	Cabinet consider Alternative Budget
18-Feb	Clerks	Publish Cabinet and any alternative Budgets
24-Feb	Council	Approve final budget (MTFS & FRM) and capital strategy, reserve policy and Fees & Charging Register (income & charging schedule).
01-Mar	WG	Final budget settlement published

03-Mar	Council	Council approve council tax
08-Mar	WG	Final settlement budget agreed
Mid March	Finance	Full budget included in the finance system
Mid March	Finance	Full budget set out in the budget book available on the website

Appendix B - Economic Background - 22nd December 2021

The Council has appointed Link Group as its treasury advisor who have provided the following Economic Background.

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 has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pandemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. 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

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.

- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16H DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  - Raising Bank Rate as "the active instrument in most circumstances".
  - Raising Bank Rate to 0.50% before starting on reducing its holdings.

- Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
- Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to act now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting 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 for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

- **WORLD GROWTH.** World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. 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.