



**Report to:** West Yorkshire Combined Authority

**Date:** 21<sup>st</sup> October 2022

**Subject:** Crisis in the Cost of Living and Doing Business

**Director:** Alan Reiss, Director of Strategy, Communications and Policing

**Authors:** Sarah Bowes, Policy Manager - Digital & Innovation

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

## 1. Purpose of this report

- 1.1 This report provides the latest economic and business intelligence within West Yorkshire, the CA's responses to the crisis, and outlines the resulting key asks of the Government.

## 2. Evidence

### Macroeconomy

- 2.1. **CPI inflation rose by 9.9% in the 12 months to August 2022**, down from 10.1% in the year to July. Whilst the rate of inflation has fallen, it should be noted that this still means that **prices are rising, just at a slightly lower rate** than they were in the twelve months to July. This is, in part, due to household energy bills rising to an average of £2,500. Inflation is expected to spike again when prices are increased, but this measure is likely to keep inflation below expected levels throughout 2023. Falling motor fuel prices made the largest downward contribution to CPI, with prices falling by 14.3 pence per litre between July and August. However, current fuel prices are still 32.1% higher than they were in August 2021. Elsewhere, food prices continued to rise into August by 13.1%, offsetting the falls in motor fuels. What this means for people within West Yorkshire, where food poverty levels are already higher than the national

average, is that even more people will be pushed to the limits of their budgets to provide essentials for their household.

- 2.2. Producer input prices continued to rise by more than producer output prices through August 2022, meaning that **firms retain a headroom within which they could increase costs further for consumers**. Producer input prices rose by 20.5% in the year to August 2022, driven mainly by domestic steel prices, placing manufacturing firms at an increased risk of the impacts of inflation. Food products had the largest impact on increasing output prices, with an annual rate of 14.2%.
- 2.3. The Bank of England's Monetary Policy Committee met on 22 September 2022, and voted by a margin of 5-3-1 to **increase the Bank Rate by 0.5 percentage points to 2.25%**. 3 members voted to raise the rate by 0.75 percentage points, whilst one member preferred a 0.25 percentage point rise. This decision was taken in response to the persistent inflationary pressures within the economy at present, which are forecast to remain in the economy throughout 2023. Following the Growth Plan, delivered by Government on 23 September, the poor performance of Sterling against the Dollar has led to pressure on the Bank of England to raise the Bank Rate again before the MPC's next meeting on 7 November, with some commentators calling for a further raise of 1 percentage point or more. However, Governor of the Bank of England Andrew Bailey has been keen to quieten speculation of another announcement.
- 2.4. On 28 September 2022, the Bank of England announced emergency measures to intervene in the gilt market. This requires the Bank of England to temporarily purchase long-dated UK government bonds in order to restore orderly market conditions, following Sterling's all-time low performance against the US Dollar. Whilst the Bank has not said how many bonds they will buy, they have said that the purchases will be "time-limited" on "whatever scale is necessary" in order to ease the concerns of investors, and bring about financial stability in the UK. This action follows an urge from the International Monetary Fund for the UK Government to rethink the tax cuts announced as part of the Growth Plan 2022.

### Regional Data

- 2.5. The Combined Authority has access to a Regional Econometric Model ("REM"), which provides forecasts for the area. We have also commissioned updated forecasts to understand how the current cost of living crisis is impacting the wider West Yorkshire economy. The rate of growth in the updated forecasts is considerably lower than the REM, which was produced earlier in the year, for the years 2022 and 2023. The REM predicted growth of 5.7% and 1.7% for 2022 and 2023 respectively across West Yorkshire. The updated forecasts bring these figures down to 2.5% and 0.5%. The expectation then is that long-run growth will be slightly reduced until 2028, compared to pre-cost-of-living crisis, suggesting there will be some economic scarring from the ongoing economic climate.

## Households

- 2.6 Fuel poverty in West Yorkshire was greater than the national average prior to the pandemic (**17% of West Yorkshire households, compared with 13% nationally**). Ofgem announced that the energy price cap will rise from £1,971 to £3,549 from October - **an increase of 80%**. With standing charges in Yorkshire among the highest in the UK, **simply using less power will not solve the problem for many**. West Yorkshire households are in a worse position to deal with these increased costs for two reasons. Firstly, **dwellings with an EPC rating of C or above are lower in West Yorkshire than nationwide (46.9% compared with 53.8%)**. Secondly, **around 33% of the West Yorkshire population fall within the poorest 20% of neighbourhoods in England**.
- 2.7 Data from the End Fuel Poverty Coalition, a campaign group including trade union and think tank members, estimates that as many as 300,000 West Yorkshire households, or 30%, of homes will be in fuel poverty on 1 October 2022. By 1 April 2023, forecasts suggest that this figure may have risen to 330,000, or 1 in 3, West Yorkshire homes.
- 2.8 Data collected by the University of Sheffield in 2021 shows **four out of the five West Yorkshire districts as having a higher share of food insecurity than the national average**. Nationally, 4% of adults went hungry due to not being able to afford food. In Leeds this figure was 2%, it was 6% in Kirklees, 7% in Wakefield and 8% in both Bradford and Calderdale. A further 8% in Leeds, 10% in Wakefield and 12% in Bradford, Calderdale and Kirklees were worried about the cost of food. Since this data was collected, food prices have accelerated significantly, with the cost of wheat-related goods climbing drastically due to the Russia-Ukraine War.
- 2.9 In order to help with the rising cost of energy, the Government announced the Energy Price Guarantee for households, capping unit costs of electricity and gas at 34.04p per kWh and 10.33p per kWh respectively. This brings average household energy bills to £2,500 per year until September 2024. It should be noted that this Energy Price Guarantee still represents a doubling of household energy bills on Winter 2021. Furthermore, households using more than the average amount of energy will still face bills of more than £2,500, and this is likely to disproportionately affect the elderly. Support for businesses was also announced, capping the unit rate of electricity and gas for businesses at the same rate as those faced by households. At the time of costing these policies, the combined cost to Government was forecast to be around £60 billion for this current financial year. However, as energy fuels are traded globally in US Dollars, this cost is likely to have risen recently, following Sterling's plunge to all-time low exchange rates in September. However, it is likely that this measure will reduce inflation forecasts, due to unit rates being kept at a much lower rate than the market-prevailing rate for businesses, or Ofgem's price cap for individuals.

- 2.10 Analysis by the Bank of England in July showed that the poorest 10% of households spent close to all their income on essential goods and services. **The poorest 10% will need to spend more than their income on essential goods and services, and the poorest 20% will lose most of their remaining disposable income.** Around 30% of the West Yorkshire population fall into the poorest 20% nationally. What this means is that for the poorest people in West Yorkshire, they will have no money left after spending on essential goods and services. In addition to the obvious human cost of this situation, it will also lead to reduced demand for other sectors, causing a knock-on economic effect elsewhere.
- 2.11 **People who use pre-payment meters will pay more than the energy price cap** (105,000 households in West Yorkshire). There is also no price cap on alternative energy sources, such as oil, coal, and LPG gas. **This leaves rural communities more exposed to rising energy costs. In West Yorkshire, we already have 18% of people spending over 90% of their gross income on essential items such as food and fuel.** Yorkshire homes are less energy efficient than the national average. West Yorkshire homes are less energy efficient than the national average, which creates further difficulties in combatting fuel poverty.
- 2.12 Employment levels in West Yorkshire have continued to increase. Over the last 12 months, the number of payrolled employees in West Yorkshire has increased by 3%, in line with national figures. The median wage across West Yorkshire has increased by 7% over the last 12 months from £1,857 to £1,979. Nationwide, the median wage also increased by 7% over the last 12 months. However, **wages have not kept pace with inflation, and this is expected to continue throughout 2023.**

## **Businesses**

- 2.13 The Government's business Energy Relief scheme will run for six months, though this will be reviewed in three months' time to see if the help should be more targeted towards certain industries. It could then be extended for vulnerable businesses such as the hospitality sector. The support announced for businesses is unclear with significant uncertainty for businesses and other organisations (e.g. councils) beyond the six months support confirmed. Concerns remain in West Yorkshire in terms of impact already felt to date, business planning cycles (not aligning with timescales set out) and sheer scale of the challenge facing our business base.
- 2.14 There are 1,751 firms in West Yorkshire that are both energy intensive and operating in internationally competitive markets. Most of these are operating in the manufacturing sector. Due to the requirements around data reporting for businesses, it is not possible to provide accurate employee numbers or turnover, but a conservative estimate for these businesses most at risk are 57,000 employees and £8 billion in turnover.

- 2.15 For those at an enhanced risk of rising energy prices, those who are exposed to internationally competitive markets but do not meet intensity thresholds, there are an additional 6,266 firms in West Yorkshire, again covering much of the manufacturing sector. The same data restrictions apply to employee counts and turnover figures, but conservative estimates place these at 147,000 employees and over £20 billion in turnover.
- 2.16 Officers have had a number of meetings with the business community, including with the two Chambers of Commerce and the Federation of Small Businesses. Stakeholders are reporting ongoing uncertainty amongst businesses on the implications of the energy price cap and the future Government direction on this. The capacity of energy efficiency suppliers to help the business community improve their energy efficiency is also an issue. The disproportionate impact of some sectors was raised by business representative groups. This includes more obvious ones, such as manufacturing and hospitality, as well as those that can sometimes be overlooked, including beauty and other personal care services.
- 2.17 The Combined Authority has recently surveyed 1,000 West Yorkshire-based businesses with BMG Research to understand business sentiment in the current economic climate. The key results are:
- 41% of businesses believe that their performance has improved over the past 12 months. This was most evident in the financial sector, where 52% of businesses have seen an improvement. This is likely to reflect lower levels of volatility, now that Covid-19-related loans have started to be paid back. This allows the financial sector to be better informed about levels of loan defaults.
  - 43% of businesses expect the business climate to remain as it currently is, whilst 30% expect it to worsen. This outlook is more negative than the sentiment expressed during the pandemic. Among the most pessimistic were those in the catering and accommodation industries (48% expecting the business climate to get worse), which are more likely to be hardest hit by food and energy price inflation.
  - The two main barriers to growth cited by businesses were decline in demand (17%) and availability of skilled labour (16%).
  - **30% expect to increase employment levels**, whilst only 5% expect employment levels to decrease. This expectation aligns with job vacancy data, with strong vacancy growth across all local authorities and key occupations within West Yorkshire over the previous months. 42% of transport companies expect to increase employment levels, and there is evidence that this demand is present within the economy now. In the three months to August 2022, there were around 2,000 jobs advertised in the land transport sector, with only the NHS posting more vacancies within the period than the HGV Training Network.
  - **30% of respondents expect their wage bill to remain the same over the next 12 months.** Of the 66% that expect their wage bill to increase, over half anticipate wage increases of less than 10%. Firms in the transport and storage sector were the most likely to be anticipating inflation-beating wage rises, reflecting the relative difficulty in recruitment within the sector.

- **69% expect the prices they charge to customers to increase over the next 12 months.** Over half (51%) expect that price increase to be between 5 and 10%. Sentiment most prevalent in the manufacturing and construction sectors, largely driven by rising input prices.

### **3. West Yorkshire activity**

3.1 Regional activity to support the issues faced above is focused around three areas for action: Relief, Prevention and Resilience:

- Relief aims for immediate action targeted at supporting people already in crisis and ramping up existing activity/programmes.
- Prevention aims for immediate action targeted to stop more people falling into crisis in the future.
- Resilience aims to act now to address medium- and long-term challenges.

#### **Mayoral Combined Authority support for the VCSE sector**

3.2 The VCS sector is seeing a significant reduction in philanthropic funding and donations (and increased costs) at a time when demand for its support and services, such as food banks, provision of warm spaces in the Winter, and for those with mental health problems is increasing. The Mayoral Combined Authority is therefore progressing at pace the West Yorkshire Mayor's Cost of Living Emergency Fund to provide funding to VCS organisations to enable them to help those most in need. Delivery routes for this will be via existing local authority delivery channels. Approval for this is being sought at item 9.

#### **Support for businesses with energy efficiency**

3.3 Given the appetite from businesses for support, the REBiz grant fund is likely to be fully committed by the end of October 2022, which will leave a gap for new applicants to apply until April 2023 when the new £10.6m Business Sustainability Programme (currently progressing through the CA's Assurance Framework process as part of a wider package of investments in response to the climate emergency) is expected to launch.

3.4 The new Business Sustainability Programme has been designed to provide a more a holistic package of support to a wider range of businesses, including retail and hospitality, which our existing support packages has been unable to support due to EU restrictions. Given the energy crisis facing businesses, the Combined Authority has brought forward at pace a funding package to support businesses. Approval for this is being sought at item 9.

- 3.5 In addition, the Combined Authority, in its role as the Growth Hub Cluster lead for Yorkshire and Humber, will shortly publish a tender opportunity for a delivery partner to deliver a programme of advice / support for SMEs related to energy efficiency. This will take the form of webinars at which SMEs can access expert guidance on reducing energy use and understand in more detail the impacts and implications of the energy price gap recently announced by Government.

### **Bus Fare Affordability**

- 3.6 As part of the Bus Service Improvement Plan the Combined Authority set out a proposal to reduce the daily cap on the MCard ticket to £4.50 from £5.50 and setting the maximum single day fare to £2. The “Mayor’s Fares” applied from the 4th of September 2022. Given the current cost of living crisis, the mayor felt that it was important that individuals and families obtained the benefit of this as soon as practically possible. Also, the start of the academic year was an opportune time to promote new fares as many people review and change travel habits at that time.

### **Support for businesses to innovate**

- 3.7 Every crisis breeds innovation because it demands a sharper, shared clarity of purpose. We saw this through COVID-19, with new processes, products and initiatives developed as both a means of business survival and solutions to the pandemic’s biggest challenges. There is a range of new/upcoming support available across West Yorkshire to support businesses and entrepreneurs to drive innovation from the crisis, including the Combined Authority’s new Innovative Entrepreneurs Programme, Mayoral Innovation Prize, Made Smarter and the new Business Productivity Programme, Innovation West Yorkshire (seeking approval as item 9) in addition to the new Digital Enterprise Programme. These products all contain elements of support related to the better use of digital technology to drive forward productivity and innovation, whilst also reducing energy usage and, hence, operating costs. Opportunities are also available through national products such as Innovate UK’s Regulators’ Pioneer Fund.

## **4. Ask of UK Government**

- 4.1 The ask of Government is centered around three pillars: Increased support for vulnerable households; Increased clarity and longevity of support for businesses; Increased commitment to a netzero transition; further devolution of AEB.

### **Increased support for vulnerable households**

- 4.2 Lobby for Universal Credit uplift to shield the most vulnerable and ongoing review of how these measures are affecting the most vulnerable.
- 4.3 Continued energy support for the public sector, and funding settlement for local Govt in order to enable Councils to provide the foundations necessary for economic growth and frontline service delivery

#### **Increased clarity and longevity of support for businesses**

- 4.4 Reconsideration by Government of the six-month cap on business prices and a input into the conversation on which sectors may be targeted/ prioritised at a review point and impact across public sector (eg councils)

#### **Increased commitment to a just netzero transition**

- 4.5 Input into the Chris Skidmore review into net zero commissioned by the PM.
- 4.6 Support locally and nationally the development and deployment of highly innovative technologies which could contribute to the reaching of the nation's carbon Net Zero Targets by 2050;
- 4.7 A national programme to increase energy efficiency measures and facilitate the switch of energy source by companies and households.
- 4.8 Reconsideration of the approach to providing relief to householders and businesses that doesn't proliferate the already record profits being made by energy generators
- 4.9 Lobby to accelerate the decoupling of gas from electricity prices to enable consumers to benefit fully from cheap domestic low-carbon generation.

#### **Increase in devolved Adult Education Budget**

- 4.10 AEB funding is critical in supporting adults to develop the skills they need to enter and stay in work, or enroll in an apprenticeship, traineeship, or other learning that meets the needs of the region's businesses. However, 26% of West Yorkshire's working population have low or no qualifications and this funding is not enough to support them all.
- 4.11 The rate at which adult education courses are funded has not increased in nearly a decade. Adult education is a key driver of West Yorkshire's economic aspirations, but real-terms investment has fallen over the last decade, in aggregate and on per course level.
- 4.12 An increase of the funding rate is urgently needed to continue to deliver the volume of skills and training for adults.

### **5. Tackling the Climate Emergency Implications**



- 5.1 Fuel use increases over the Winter due to colder temperatures. West Yorkshire homes are less likely to have an EPC C+, meaning that the region is more likely to need to use energy for heating. Analysis by the Resolution Foundation suggests it costs 58% more to heat a home rated as EPC D or lower, than it does C or above.

## **6. Inclusive Growth Implications**

- 6.1 According to the Resolution Foundation, lower-income households will have to reduce non-essential spending by three times as much as higher-income households to afford essential bills such as energy. West Yorkshire has a higher share of people in lower-income households, suggesting that spending will be cut significantly more across West Yorkshire than other areas.
- 6.2 Wages are already struggling to keep pace with inflation (median wages have increased by 7%, meanwhile inflation is above 10%). As of 17 August, the UK Government has not indicated that benefit payments (in and out of work) will be increased in-line with inflation. Therefore, many families will be facing real-term cuts in their household incomes (from wages and benefits). West Yorkshire has a higher percentage of people claiming out-of-work benefits compared to the national average (4.8% compared to 3.7%). West Yorkshire also has a higher percentage of people claiming in-work benefits compared to the national average (8.6% compared to 7.7%).

## **7. Equality and Diversity Implications**

- 7.1 A recent survey conducted by the Office for National Statistics showed that 89% of adults in Great Britain report concerns over the increase in the cost of living. Within this group, 57% have stated that they are spending less on non-essentials, 51% are trying to reduce their energy consumption at home, and 42% are cutting back on non-essential journeys. 23% are using their savings to cover the increased costs, whilst 13% have stated that they are using more credit than usual. Disabled people are more likely to have reduced their spending on food and essentials, than non-disabled people (42%, compared with 31%). Over 70% of the poorest people have already started to cut spending on food and other essentials. The survey also highlights that older people, particularly those aged between 55 and 74, have already started to reduce their energy consumption. The previous iteration of the survey highlighted that women and Asian people were in a particularly precarious position, relative to the national average.
- 7.2 In August the World Economic Forum reported that the cost-of-living crisis is expected to hit women hardest.

## **8. Financial Implications**

- 8.1 There are lots of financial implications in this report, but no financial decisions are required.

## **9. Legal Implications**

9.1 There are no legal implications directly arising from this report.

## **10. Staffing Implications**

10.1 Work on the crisis in the cost of living and doing business involves a reprioritisation of additional workloads and an increase in the intensity of work of colleagues both within the Combined Authority and Local Authorities.

## **11. External Consultees**

11.1 No external consultations have been undertaken, but the information within this report has been assembled from a range of sources.

## **12. Recommendations**

12.1 Members are asked to note the latest intelligence around the West Yorkshire economy and comment specifically on the asks of government.

## **13. Background Documents**

13.1 There are no background documents referenced in this report.

## **14. Appendices**

14.1 None