Report to:	Leeds City Region Enterprise Partnership Board (LEP Board)
Date:	1 December 2022
Subject:	**Economic Update - Crisis in the Cost of Living and Doing Business**
Led by:	Mark Roberts, Interim Chair
Lead Officer:	Alan Reiss, Director of Strategy, Communications and Policing

1. Purpose of this report

1.1. To provide an update on the latest economic and business intelligence for the Board, including the key headlines from the Autumn Statement, and what it means in the context of the current cost-of-living crisis.

1.2 To generate discussion among members regarding potential solutions to issues, and potential asks of the new UK Government.

2. Information

2.1. The data below is correct at time of publication.

__Macroeconomy__

2.2. At the last Monetary Policy Committee (MPC) meeting on 3 November 2022, it was decided by a margin of 7-2 to **increase the Bank Rate by 0.75 percentage points to 3%**. This decision was taken in response to the persistent economic pressures within the economy at present, which are forecast to remain throughout 2023. This rise is the largest single increase in 33 years, and is the eighth consecutive rise since December 2021. The MPC also published forecasts, which show that consumer spending is likely to fall in 2023. The forecast also predicted that UK economy will enter a recession in Q4 2022, and will not emerge from the recession until the second half of 2024.

2.3. **CPI inflation rose by 11.1% in the 12 months to October, the highest rate for over 40 years**. The key price rises came in the costs of energy and food and non-alcoholic beverages, which rose by 16.4% in the year to October 2022. Anecdotal evidence suggests that people are substituting out branded food items for supermarket own brand goods, in order to reduce the impact of inflation. However, experimental statistics from the ONS show that the average price of the 30 cheapest grocery items has risen by 17% in the past year, and for nine of these

30 items, prices have risen by more than 20%. This means that those who were already buying the cheapest food items are facing higher rates of inflation on food prices than average. The lowest-cost items that saw the biggest price increases over the past year were vegetable oil (65%) and pasta (60%).

2.4. The Chancellor of the Exchequer delivered the Autumn Statement on 17 November, outlining the Government's fiscal plans. For households, the key headlines were:

- The threshold for the additional rate of Income Tax (45%) will be reduced from £150,000 to £125,140, increasing taxes for higher earners.
- Tax-free allowances, including the Personal Allowance of £12,570, will remain constant in nominal terms until April 2028, meaning that all employees who earn enough to pay tax, including lower earners, will also pay more tax over the coming years.
- The National Living Wage will rise by 9.7% to £10.42, which will boost a full-time employee's wages by £1,600 per year where this is applied
- Benefits and pensions will be uprated by 10.1%, and the pensions triple lock guarantee will remain, offering some protection to the most vulnerable in society.
- The Energy Price Guarantee will rise from the current level, which holds average household energy bills at £2,500 per year, to £3,000 per year, whilst support for people using alternative fuels to heat their homes will double from £100 to £200. It should be noted that the Energy Bill Support Scheme of £400 will also end, meaning that average energy bills will effectively rise by £900 from April.
- There will be additional cost-of-living payments of £900 for people on means-tested benefits, £300 for pensioners and £150 for people receiving disability benefits.

Ultimately, the levels of support through the cost-of-living crisis will fall, but they will be more targeted. Two-thirds of the support offered throughout 2023/24 will go to those in the bottom half of the income distribution, compared with just over half in 2022/23.

2.5. For businesses, the key headlines were:

- The threshold at which businesses begin to pay VAT will be frozen until March 2026.
- There will be a re-evaluation of business rates, anticipated to bring about a tax reduction of £14 billion over the next five years. This will mean that two in three businesses will not pay any more than they currently do.
- A HM Treasury-led review of the EBRS will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. While the government recognises that some businesses may continue to require support beyond March 2023, the overall scale of support the government can offer will be significantly

lower, and targeted at those most affected to ensure fiscal sustainability and value for money for the taxpayer.
- Supporting research and development by increasing public funding to £20 billion in 2024-25.
- Investment Zones will now focus on leveraging research strengths from universities in 'left behind areas', current applications will no longer be taken forward

2.6. The announcement was also accompanied by forecasts from the Office of Budget Responsibility (OBR) on the state of the UK macroeconomy. The key headlines were:
- The UK is currently in a recession that is expected to last into 2024. Higher energy costs are the main cause of the current downturn in economic growth, and one-third of the world is also currently in a recession.
- CPI inflation will average 9.1% throughout 2022, falling to 7.4% in 2023, supporting the Bank of England's statement that we are currently around the peak of the current inflationary period.
- Nominal earnings will increase by 5.9% in 2022 and 4.2% in 2023, but after accounting for inflation, this is a real terms drop in earnings.
- Real Household Disposable Income, a measure of living standards, is projected to fall by 7.1% between 2022 and 2024 – the largest drop since before the 1950s, and will take living standards back to levels last seen in 2013/14. This will recover slightly over the following years, but by 2027/28, living standards will still be below pre-pandemic levels.

Following the Autumn Statement, the Mayor and LEP Chair issued public responses.

Regional Data

Households

2.7. 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 April 2023, at which point the average household energy bill will rise to £3,000. 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.

2.8. Fuel poverty in West Yorkshire was greater than the national average prior to the pandemic (**17% of West Yorkshire households, compared with 13% nationally**). With standing charges in Yorkshire among the highest in the UK, **simply using less power will not solve the problem for many.** Households in West Yorkshire pay on average 15p per day more in standing charges than those in London. Reducing standing charges to the levels seen in London would save West Yorkshire households a combined £4.5 million per month.

2.9. 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.**

2.10. 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. Following the recent announcement that the Energy Price Guarantee will rise to £3,000 in April 2023, this figure is an underestimate of the scale challenge faced by West Yorkshire.

2.11. Government consulted with Housing Association sector partners to apply a cap on increase in social rents below the CPI+1% formula agreed with the sector in 2019. Government is seeking to control costs through the benefit system and protect tenants from the shock of significant rent increases. In the Autumn Statement it was announced increases to social rent will be capped at 7% for the next year, which the sector has accepted was a reasonable response. The sector also extended the 7% cap to the rental element of shared ownership homes. However, the Government has also continued the freeze on Local Housing Allowances, the maximum rent housing benefit can support tenants. In the private sector where rents continue to increase and are not capped, tenants will have to fund any additional rent over and above any housing benefit received.

Businesses

2.12. The Combined Authority has also commissioned research on the cost of doing business from Yonder, who carried out fieldwork between 21 and 27 October 2022, showing that **67% of businesses are concerned about the survival of their business** as a result of the cost-of-living crisis. This concern was most greatly felt among small and micro businesses. Other key findings include:

- Around half (44%) of businesses feel that the current Government support package, the Business Energy Relief Scheme, makes no difference to them in trying to ease the financial challenge of the energy crisis.
- 56% of businesses said that they were not planning on increasing wages over the next 6 to 12 months. With inflation expected to remain high throughout 2023, this poses a significant threat to the quality of life in Yorkshire.

2.13. The Government's Business Energy Relief Scheme caps the unit cost of gas and electricity for businesses at the same rates faced by households, and will run until the end of March 2023, though this will be reviewed by the end of 2022. It could then be extended for vulnerable businesses such as the hospitality sector. The support announced for businesses is unclear with significant uncertainly for businesses and other organisations (e.g. councils) beyond the six months support confirmed.

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 I 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.

Regional response

2.16. At the October meeting the Combined Authority approved a package of support to help with the cost of living crisis. Progress on delivery is as follows:

Support for businesses with energy efficiency is progressing through the launch of an emergency grants package which will provide grant support of up to £5,000 at 50% of project costs for small businesses (less than 50 employees) to implement energy efficiency measures. Procurement of a delivery partner has been undertaken and the CA is aiming to launch the scheme in December. The support is open to all sectors and will run until the end of March 2023. A broader net zero and climate readiness support programme will be considered for approval at the Combined Authority meeting on 8 December for launch in April 2023.

Mayoral Combined Authority emergency support for vulnerable communities

It is estimated that one in 5 of our region's 2.3m residents is spending nearly all of their available income on essential things, including energy and food. Prices generally have continued to rise rapidly, so placing further economic pressure on our most vulnerable communities. A new £3m Mayoral fund was agreed by the Combined Authority in October to directly respond to the cost of living crisis. Via our Local Authority partners, the fund is enabling local Voluntary and Community organisations to directly help those who are being failed by the labour market, in terms of access to good, well-paid work, in particular those in workless households and those experiencing in-work poverty. The fund is being used to help more households and individuals in these financially vulnerable communities pay for essential things during the cost of living crisis such as food and warmth, and to receive support such as on mental health and debt, the absence of which would present immediate and complex barriers to connecting into economic opportunity, increasing risk of economic exclusion and longer term economic scarring.

Employment West Yorkshire (name TBC) will be delivered by Local Authorities and will support 7,700 people towards and within work. The universal service will provide bespoke support to individuals across West Yorkshire to gain employment support advice and support for re-training, upskilling, and secure or progress in employment. The service will ensure continuity from Employment Hubs which have supported over 10,000 people over the last few years, and will commence from April 2023. It will also include two new pilots to develop pathways to support individuals gain valuable digital skills and into sustainable 'green' jobs in most areas of West Yorkshire.

This service will complement and signpost to existing skills and employment support offers, for example: **Skills Connect** – adult skills training with 30 courses available online either for individuals to sign up to, or to register their interest. The courses are across a number of sectors including health and care sector, digital and construction, and **Employment West Yorkshire** a £6m programme including pre-start up support 'Exploring Enterprise' workshops for support individuals options to start up in business.

Asks of Government

2.17. In early October the CA submitted views informed by LEP Board members and wider business representatives to Government as part of the Energy Price Cap review. The letter which was sent to the Secretary of State for Business, Energy & Industrial Strategy from the Mayor and LEP Chair is attached as Appendix 1 of this report.

The asks of Government included:

- Commit to supporting energy-intensive and enhanced risk businesses, the hospitality sector and wider supply chain businesses post-March 2023 with the EBRS. Many investment decisions are not being undertaken due to difficulty in forecasting energy and input costs. Businesses want reassurance during their longer-term business planning. The CA looks forward to the Review of the EBRS on December 31st and how the aforementioned businesses will be supported post-March 2023.

- Deliver a more structured approach to the delivery of energy efficiency and low carbon heating for businesses backed by funding. This could be through new tax incentive schemes that support businesses to make energy efficiency improvements. The Review of the EBRS Terms of Reference states business should "identify measures that protect themselves from the impact of high energy costs". The CA would welcome further support from Government to help businesses identify these measures and further support locally funded schemes.

- Progress plans around investing in energy generation as outlined in the UK Energy Security Strategy. This could include plans to ramp up solar photovoltaics, wind power and developing commercially viable hydrogen generation. The Autumn budget introduced a new temporary 45% levy on electricity producers from 1 January. Experts have warned that the introduction of the new levy in the UK could curb investment in new renewable energy projects. Introducing a windfall tax on renewable energy generation profits sends muddled signals to investors at a time when the government wants to see a step change of investment in low carbon generation (Ronan Lambe, Pinsent Masons).

2.18. Furthermore, prior to the Autumn Statement the Mayor sent a letter to the Chancellor of the Exchequer, which is attached as Appendix 2 of this report.

The letter called for the following:

- Help for businesses to bring down their energy bills through a reconsideration of the six-month cap on energy prices and more support for energy efficiency measures.

- Delivery of long-promised investment in the North, including Northern Powerhouse Rail in full with a new station in Bradford.

- Assurance of the Government's continued commitment to building a mass transit system in West Yorkshire, and funding to make it happen.

- More devolved funding to Mayors to end bidding contests for pots of money such as the recent Levelling Up Fund.

- A fair and long-term funding deal for local councils including adult social care and children with special educational needs and disabilities.

- Greater commitment from the Government on net zero along with the devolved powers and funding needed to make real progress.

- Investment in low-carbon energy to bring down household bills and reduce emissions.

- Proper funding for local police and the criminal justice system to reduce the backlog of cases in our courts.

Further comments following the Autumn Statement

2.19. The CA acknowledges that Government has changed its policy on Investment Zones. As Government refreshes this policy, the CA is planning to engage with Government to explore the opportunities for West Yorkshire going forward.

2.20. The Government announced there will be consideration of eligibility for single departmental-style settlements at the next Spending Review to be extended to other Combined Authorities following the outcome of negotiations with Greater Manchester and the West Midlands. West Yorkshire has previously called for this, and will be proactively seeking engagement with Government in order to shape the proposals, especially given the CA and LEP's long track record of delivery including the Leeds City Region Growth Deal.

2.21. The CA acknowledges the 7% social rent cap announced in the Autumn Statement will protect tenants to a degree; however, more work must be done to understand the longer term effects of the social rent cap on Housing Association business planning, and the sector's ability to raise capital for development programmes delivering much needed additional affordable homes. If the cap affects the ability of the sector to borrow at reasonable rates, this will impact development pipelines and supply of new homes, as well as decarbonisation and improvement programmes for existing stock. There is no equivalent cap on privately rented homes and a continuing freeze on Local Housing Allowance means private rented tenants will have to fund any gap between housing benefit and rising rents.

2.22. The CA welcomes the commitment of Government to the national R&D budget but would support further information as to how this investment could be used to support and incentivise businesses to address current global challenges.

3. Tackling the Climate Emergency Implications

3.1. Fuel use increases over the Winter due to colder temperatures. West Yorkshire homes are less likely to have an EPC rating of 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.

3.2 The grant programme for businesses to support with energy efficiency measures will help to reduce energy consumption, and hence reduce carbon emissions, as well as reducing businesses' energy bills.

4. Inclusive Growth Implications

4.1. 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.

4.2. Wages are already struggling to keep pace with inflation (median wages have increased by 7%, meanwhile inflation is above 10%). As of 1 November, 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%).

4.3. Whilst some households have been able to substitute towards cheaper food items to combat inflation, those who were already buying the cheaper items face either the inflation rate of these cheaper items (which is higher than inflation across the economy), or the need to reduce their food consumption.

5. Equality and Diversity Implications

5.1. 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.

The cap also remains on unit costs, so those who use more energy will pay more than the £3,000 average. This will disproportionately affect the elderly, the unemployed and those living in energy-inefficient homes. Analysis shows that one in four UK homes will face energy bills of over £4,000 in 2022/23.

5.2. In August the World Economic Forum reported that the cost-of-living crisis is expected to hit women hardest.

6. Financial Implications

6.1. There are no financial implications directly arising from this report.

7. Legal Implications

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

8. Staffing Implications

8.1. There are no staffing implications directly arising from this report.

9. External Consultees

9.1. No external consultations have been undertaken.

10. Recommendations

10.1. That the LEP Board note the latest intelligence, discuss the implications of the current economic situation for businesses within the region, note the action taken so far by the Combined Authority, and note the next steps following the Autumn Statement. There may also be implications for our longer term Economic Strategy, to be discussed at Item 8.

11. Background Documents

11.1. There are no background documents referenced in this report.

12. Appendices

12.1. Appendix 1 – Letter from the Chair of the LEP and the Mayor of West Yorkshire to Grant Shapps, Secretary of State for Business, Energy & Industrial Strategy

12.2. Appendix 2 – Letter from the Mayor of West Yorkshire to Jeremy Hunt, Chancellor of the Exchequer