Report to:	Business, Economy and Innovation Committee
Date:	24 January 2023
Subject:	**Crisis in the Cost of Living and Doing Business**
Director:	Alan Reiss, Director of Strategy, Communications and Intelligence
Author:	Thomas Purvis, Economic Analysis Manager

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

1. Purpose of this report

1.1 To provide an update on:

- The latest economic and business intelligence, particularly relating to the cost of living and doing business.
- Recent Government announcement on support for businesses
- Regional activity to support businesses and households and to influence Government decisions.

2 Information

2.1 The data below is correct at time of publication.

<u>State of the Region</u>

2.2 In December 2022, the Combined Authority published the annual State of the Region 2022 report. State of the Region 2022 examines the region's economy, transport, environment, community safety and policing, and access to culture, sport and creativity. A separate report covering Equality, Diversity and Inclusion has also been published.

2.3 The key messages are as follows:

- Productivity is on the increase, but there remains a gap between the output per hour worked in West Yorkshire and nationally

- The labour force is becoming better qualified over time in West Yorkshire, although there is still ground to make up with the national average
- The transport and storage sector, and the accommodation and food service sector are growing faster in West Yorkshire than they are at the national level
- West Yorkshire's digital infrastructure is a key strength. The area outperforms the national average on key measures relating to gigabit-capable and mobile 4G coverage

2.4 The full report can be found as a link in Appendix 1.

Macroeconomy

2.2. Data from the ONS published in December 2022 showed that CPI inflation has risen by 10.7% in the year to November 2022, a slight reduction from 11.1% in October 2021. Whilst the rate of inflation has fallen, it is important to note that this means that prices are still rising, but at a slower rate than before. The key dampening factor on inflation to November 2022 was transport costs, which, is now at 7.6% compared with a peak of 15.2% in June 2022. This fall is driven by two key factors: fuel prices increasing at a slower rate than they were previously over the past 12 months, and the price of second-hand cars falling sharply in the last month.

2.3. However, there are still a number of significant cost pressures, causing a considerable threat for households. Food and non-alcoholic beverage prices have risen by 16.5% in the last 12 months, which is the highest rate since September 1977. In addition to this, further notable rises are on the horizon for households, such as the Energy Price Guarantee increasing average household energy bills by 16.7% in April. Cornwall Insight are forecasting the energy price cap to be around £2,800 per year for the second half of 2023, which undercuts the Energy Price Guarantee offered by Government by £200. This is largely due to falling gas futures, which reduces the cost of energy in the long-term. This will take time to feed through to consumers for a number of reasons, including the fact that the country has a reserve quantity of energy that has been purchased at current higher rates that must be used before the cheaper gas can be bought.

2.4. As a result, and in order to bring inflation back down to its 2% target, the Monetary Policy Committee (MPC) voted by a margin of 6-3 in favour of increasing the Bank Rate by 50 base points to 3.5%. Two members preferred to maintain Bank Rate at 3%, and one member preferred to increase Bank Rate by 0.75 percentage points, to 3.75%. The Bank of England have also published their Financial Stability Report, which shows UK households and business finances are under growing pressure. Fixed rate mortgage rates are rising sharply, and with the loan to value ratio making little to no difference to rates offered. This is likely to persist in the medium to long term. By the end of 2025, 70% of mortgages will have experienced an increase in monthly payments, with over half of these increases being by more than £100.

2.5. GDP data for the UK was published on 22 December 2022, which shows that GDP fell by 0.3% in quarter 3 of 2022. This is largely driven by the production sector, which fell by 2.5% in the quarter, compared with the service sector's modest increase in output of 0.1%. The real level of GDP is now estimated to be 0.8% below pre-pandemic levels, and is likely to contract further throughout 2023 whilst the economy remains in a recession. This was the worst performance of any G7 country over the quarter, and economic forecasters are also predicting that the UK will have the deepest, most prolonged recession of any G7 country over the next 12 to 18 months. The Office of Budget Responsibility and the Bank of England also see this recession lasting at least the whole of 2023, and possibly into the first two quarters of 2024.

2.6. Outputs from the Census 2021 have been released, including data on travel to work and the labour market. It is important to consider that the Census was conducted in March 2021, when there were restrictions on travel and guidance to work from home where possible to limit the spread of Coronavirus. That being said, 1.1 million West Yorkshire residents (59.3%) were economically active at the time of the census, meaning that they were either in employment or actively seeking employment. Wholesale and retail trade, and manufacturing make up a greater proportion of West Yorkshire employment than the England average.

2.7. In December 2022, it was announced that the Spring Statement will be held on 15 March 2023, and will be accompanied by economic forecasts by the Office of Budget Responsibility. The Combined Authority intends to make a submission to the Spring Budget in order to inform Government decisions.

<u>Businesses</u>

2.8. On 9 January 2023, the Government announced the Energy Bill Discount Scheme, which will support eligible non-domestic properties with the rising cost of energy. This will replace the Energy Bill Relief Scheme that has been in place since September 2022, and will end on 31 March 2023.

2.9. The Energy Bill Discount Scheme will work by offering businesses and public sector organisations discounted prices for wholesale gas and electricity. This support will run from 1 April 2023 to 31 March 2024, with the level of support capped at £5.5 billion in order to protect the taxpayer from volatile energy markets. Whilst all businesses will receive some form of discount, there are additional discounts for those operating in Energy and Trade Intensive Industries. A list of these industries can be found in Appendix 2.

2.10. This scheme represents a reduction in overall support by about 66%. Smaller businesses that do not operate in Energy and Trade Intensive Industries will receive the least support, which is likely to mean that the culture and night time economies are likely to be particularly exposed to high energy costs. This leaves these industries in a precarious position given that many households are currently reducing discretionary spending where possible. Furthermore, public sector bodies and those in the third sector will be eligible for the more general level of support.

2.11. Data from Fame shows that there are 2,973 businesses in West Yorkshire that fall into the Energy and Trade Intensive Industries, 2.0% of all businesses within the region. This is greater than the 1.4% of businesses across England as a whole, reflecting West Yorkshire's relative strength in manufacturing. However, this support still falls short of what would be required based on previous analysis by the Combined Authority, which shows that up to 8,000 West Yorkshire businesses are at an enhanced risk of high energy bills.

2.12 The gap between those identified in previous analysis and those who will receive the enhanced support is driven by the difference in definitions used. Our previous analysis identified firms who were either trade intensive or energy intensive, whereas the enhanced support offered will be only available to those who meet the criteria of being both energy intensive and trade intensive.

Households

2.13. The End Fuel Poverty Coalition have provided updated estimates of the numbers of households in fuel poverty, in both November 2022 and April 2023, when both the Energy Price Guarantee will rise to £3,000, and the £400 Energy Bill Relief Scheme will be withdrawn. This will essentially mean an overnight annual increase of £900 per year for average household energy bills. The End Fuel Poverty Coalition data suggests that 7 million households in England are currently in fuel poverty, and that will rise to 8.6 million households in April. For West Yorkshire, this means that 39% of households are currently in fuel poverty (compared with 29% nationally), and this will rise to 48% in April - or almost one in two (compared with 36% nationally).

2.14. Data from the ONS shows that median pay in West Yorkshire rose by 7.3% in the year to November 2022, broadly in line with the UK average of 7.1%. Whilst this is a faster rise than in previous years, the impact of inflation means that real wages have actually fallen in the same time period, meaning that employees now have lower spending power than they did in December 2021. The rise in West Yorkshire is also lower than the levels of increase seen in Greater Manchester and the West Midlands (both 8.3%).

2.15. West Yorkshire has also seen the number of pay-rolled employees rise by 2.0% in the 12 months to November 2022, with over 1,014,000 people now in pay-rolled employment within the region. This growth fails to keep pace with the UK average (2.5%).

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:

2.17. **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 launched the scheme on 8

December. The support is open to all sectors and will run until the end of March 2023. At time of publication, over 200 eligible businesses have submitted an expression of interest. A broader net zero and climate readiness support programme has been agreed for launch in April 2023.

2.18. **Mayoral Combined Authority emergency support for vulnerable communities.** It is estimated that 1 in 5 of our region's 2.3m residents are spending nearly all of their available income on essential things, including energy and food. Prices have generally continued to rise rapidly, placing further economic pressure on our most vulnerable communities. **A new £3m Mayor's Cost of Living fund** was agreed by the Combined Authority in October to directly respond to the cost of living crisis. Via 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.

2.19. 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. This could include 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. The CA has signed funding agreements with each Local Authority, initial grant payments have been made and delivery has begun.

2.20. **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.

2.21. 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.

2.22. The **Combined Authority and the West Yorkshire Health and Care Partnership Board** have issued a **joint statement and action plan** to support the mental and physical health and wellbeing of people across West Yorkshire. The priorities focus on:

- Reducing costs to households and providing support to employees in financial hardship
- Supporting voluntary and community sector organisations to help people and communities
- Ensuring mental health and suicide prevention services are providing the appropriate support
- Working together to proactively respond to the impact of the cost-of-living crisis.

Asks of Government

2.23. In early October, and therefore prior to the announcement of the EBRS replacement scheme, the CA submitted views 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 3 of this report.

2.24. The following are the asks of Government included in the letter, which the new scheme falls well short of addressing:

- 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.

- 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 2023. 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).

2.25. Furthermore, prior to the Autumn Statement the Mayor sent a letter to the Chancellor of the Exchequer, which is attached as Appendix 4 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.

2.26. As noted above, the Mayoral Combined Authority proposes to make a further submission to Government in advance of the Spring Budget, including about the need for further support for businesses to help with the cost of energy.

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 There are currently a myriad of issues within the economy that disproportionately affect those towards the bottom end of the income distribution, and as a result, have a greater impact on West Yorkshire than the national average. Many of these are interlinked, for instance, West Yorkshire households are relatively less energy efficient, which in turn requires people in West Yorkshire to use more energy. There is currently an energy crisis, with very high unit costs on both gas and electricity, meaning that many people cannot afford to adequately heat their homes. As West Yorkshire has gone into this crisis in a worse position than the national average, this crisis is having a greater impact at the regional level, especially amongst those already worse off in the region.

4.2. A report from the New Economics Foundation shows that, across the UK, over 40% of people will be unable to afford a decent standard of living by the next general election in 2024. This includes 50% of working families with children, and rises to 85% of lone parents and 85% of working-age households in which somebody has a disability. The current crisis is therefore having a pronounced effect on single-parent families and those with disabilities.

4.3. The Energy Bill Discount Scheme is likely to leave the night time economy and culture sectors relatively more exposed to high energy costs at a time when households are reducing spending in these sectors.

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.

5.2 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.

5.3 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 Business, Economy and Innovation Committee

- notes the evidence presented within this report, and considers it as part of the decision-making process;

- considers what additional asks should be made of Government in order to help support businesses with rising energy costs.

11. Background Documents

11.1 There are no background documents referenced in this report.

12. Appendices

12.1 Appendix 1 – State of the Region 2022: Executive Summary and Full Report

12.2 Appendix 2 – List of sectors eligible for the Energy and Trade Intensive Industries scheme: Full list

12.3 Appendix 3 – Letter from the Chair of the LEP and the Mayor of West Yorkshire to Grant Shapps, Secretary of State for Business, Energy & Industrial Strategy

12.4 Appendix 4 – Letter from the Mayor of West Yorkshire to Jeremy Hunt, Chancellor of the Exchequer