Report to:	Leeds City Region Enterprise Partnership (LEP) Board
Date:	8 March 2023
Subject:	**Economic Update**
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.

1.2. To request input on the creation of a business health dashboard.

2. Information

Cost of Doing Business

2.1. 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.

2.2. 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 1.

2.3. 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, putting pressure on the support they can offer.

2.4. 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.

2.5. 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.

2.6. The Economic Analysis team are currently in the process of developing a Business Health Dashboard, which is intended to provide a snapshot of how businesses are dealing with historically high costs of doing business and the ongoing labour market challenges. Screenshots of the Dashboard can be seen in Appendix 2, and the team would welcome feedback on data visualisation and the metrics captured within the dashboard. Currently, the following indicators are being monitored:

- Out of work claimant counts by district
- In work claimant counts by district
- Vacancies by both district and sector
- New business registrations by district and sector
- Business liquidations by business and sector
- SME debt levels by district
- Business sentiment from the West and North Yorkshire Chamber of Commerce's Quarterly Economic Survey

2.7. The key insights from the dashboard thus far are as follows:

- On business liquidations, the manufacturing and construction sectors, as well as the arts and entertainment sectors are over-represented in the liquidation figures relative to the proportion of businesses within the region. This matches intelligence around high inflation on input prices and the impacts of inflation in reducing discretionary spending by households, leading to businesses in these sectors having less money to spend on non-essential items.
- Vacancy rates within West Yorkshire remain high. Since November 2021, the total number of job vacancies in West Yorkshire has remained around double the pre-pandemic levels, with 33,600 vacancies in the region in December 2022. This is close to the peak number of vacancies observed in October 2022, when there were 36,700 job postings in the region. Two in every three vacancies in West Yorkshire fall within two sectors: Administration and Support Services and Financial and Insurance Activities.

UK Macroeconomy

2.8. CPI inflation rose by 10.1% in the year to January 2023. Whilst this change represents a fall in the rate of inflation compared with the 12 months to December 2022, it is important to note that prices are still increasing, and at historically high rates, but slightly more slowly than they were previously. The most notable movement in price has come in the transport sector, where the annual inflation rate has fallen for a seventh consecutive month to 3.4%, down from its peak of 15.2% in June. Restaurants and hotels are also increasing their costs at a slower rate than they were previously, with this effect being visible mostly on drinks prices in cafes and restaurants.

2.9. In order to bring CPI inflation back to its 2% target, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 in favour of raising the Bank Rate from 3.5% to 4%. The Bank of England's model assumes a peak in the Bank Rate of 4.5% in Summer 2023 and a rate of 3.25% over the next three years. This move is in line with the Federal Reserve in the USA and the European Central Bank, who have also increased interest rates this week to bring the rate of inflation down to their long-term targets.

2.10. It is anticipated that inflation will fall sharply this year, falling to around 5% by the end of 2023, though it should be noted that inflation would naturally be lower this year due to timing effects. For example, the energy price cap had a relatively large increase in 2022, and the increases going forward are expected to be lower. Even though inflation is looking likely to decline, it does not mean that prices are overall getting cheaper for people, it simply means prices are increasing at a slower rate.

2.11. In January 2023, the International Monetary Fund (IMF) announced that its forecasts showed the UK to be the only advanced economy in the world to experience a recession in 2023. The IMF predict that the UK economy will contract by 0.6% during the year, whilst even sanction-hit Russia will see output grow in 2023.

2.12. Gas futures prices have fallen by 80% from their peak in August 2022, providing a clear route down for energy prices in the coming months. An unseasonably warm January has enabled the country to build up a reserve of energy, reducing demand for – and thus, the price of – wholesale gas. However, it is likely that these reductions will take time to reach consumers primarily because the energy store that has built up was bought at a higher price than the current market rate, meaning that these higher costs must be passed on to consumers in the coming months to work through the stock.

2.13. One positive consequence of the falling gas futures prices is that the falling prices have significantly reduced the cost to the Government of current energy support to both businesses and households, by around 90% throughout 2023. Whilst this will be partially offset by a reduction in windfall tax receipts, this could save the Treasury between £4 billion and £10 billion nationally, which had already been earmarked for spending on keeping energy bills below market rates. Paragraphs 2.15 onwards consider the implications of this for West Yorkshire, and how this earmarked money could be repurposed to deliver additional economic benefits for the region.

West Yorkshire economy

2.14. The latest ad-hoc economic forecasts for the West Yorkshire economy predicts that output within the region will contract by 1.8% in 2023, wiping over £1 billion from West Yorkshire's GVA figure. This is forecast to scar the economy, with output not recovering to 2022 levels until 2026, by which time the region is estimated to be £2.2 billion below the levels forecast in Summer 2022. A similar story is observed in the jobs trend, and the trend in GVA per job, with the short-term effects of the current economic situation compounding over time to create the scarring effect. The data shows that on a GVA per job basis, a worker in London produces as much value in three days as a West Yorkshire worker does in a five-day working week.

Spring Budget

2.14. There have been widespread calls for the Government to use the Spring Budget on 15 March to maintain the £2,500 Energy Price Guarantee, rather than the previously announced £3,000 cap on average household energy use from 1 April. Whilst this has been supported by 70 charities and the energy industry trade body Energy UK, at the time of writing on 22 February, details on the Spring Budget announcements are yet to be forthcoming.

2.15. The Spring Budget will take place on the 15 March. Detail on the Combined Authority's budget submission can be found in Appendix 3, but an overview of the strategic asks is as follows:

- West Yorkshire being included in the next wave of devolution trailblazer deals to negotiate further devolution of funding and powers, to enable strategic long-term plans to be realised
- Full devolution of all adult employment, skills, and careers funding so people can gain the right skills needed for good quality work
- Certainty, stability, and fairness in Local Government Funding to enable our local authorities to plan and allocate and manage resources efficiently
- Provide assurance of the Government's continued commitment to mass transit in West Yorkshire
- Delivering strategic rail infrastructure to connect West Yorkshire, through delivery of schemes such as Northern Powerhouse Rail including a City Centre through Station in Bradford and full delivery of HS2
- Secure money, powers, and market reform for buses

- Increase commitment to existing mechanisms at regional and national level aligned with the net zero target
- Investing in culture in West Yorkshire
- Revisions to the funding formula for policing to properly reflect the challenges of policing an area with significant urban areas like West Yorkshire
- Increased Innovation, R&D & business support investment for West Yorkshire

3. Tackling the Climate Emergency Implications

3.1. There are no climate emergency implications directly arising from this report.

4. Inclusive Growth Implications

4.1. The current inflationary pressures in the UK economy are being disproportionately felt by the poorest in society, with inflation being driven primarily by energy and food costs. On food costs in particular, the price of the thirty cheapest grocery items are currently rising by twice that of other foods – by around 30%.

5. Equality and Diversity Implications

5.1. From April, the Energy Bill Discount Scheme will end, meaning that the £400 support to all households for energy bills will cease. They will, however, be replaced by alternative support scheme to help households through the cost-of-living crisis. It should be noted that this support will be in the form of a direct cash transfer to recipients, so they are free to spend the money on non-energy costs. These payments will be one-off payments of £900 or those on means-tested benefits, £300 to pensioner households and £150 to individuals on disability benefits. Assuming that the households spend all of this money on energy bills, support for those on means-tested benefits will remain the same as it is now, whilst pensioners and the disabled will be made relatively worse off due to the rising Energy Price Guarantee and withdrawal of the Energy Bill Discount Scheme.

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 notes the latest evidence on the region's economic performance and wider national context that West Yorkshire is currently operating in and considers it as part of the decision making process.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

Appendix 1 – List of sectors eligible for the Energy and Trade Intensive Industries scheme
Appendix 2 – Business Health Dashboard
Appendix 3 – West Yorkshire Spring Budget 2023