

Report to: Business, Economy and Innovation Committee

Date: 29 March 2023

Subject: **Evidence Report**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" 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. To provide an update on the latest economic and business intelligence, particularly relating to the cost of living and doing business, as well as the Spring Budget.
- 1.2. To update the Business, Economy and Innovation Committee on the Business Health Dashboard and the early insights that it is providing.

2. Information

Macroeconomy

- 2.1. The Spring Budget was held on 15 March, where the following key announcements were made:
 - The Energy Price Guarantee scheme will continue to be frozen at current levels for the next 3 months. As it stands, the Ofgem Energy Price Cap is greater than the EPG level, but that is anticipated to reverse throughout 2023. At the same time, the £400 rebate will be withdrawn, instead to be replaced by more means-tested support. **This £400 withdrawal will push up to a further 32,000 West Yorkshire households into fuel poverty.**

- The Government will introduce a new programme to support people with disabilities and long-term sickness into work. A new Universal Support programme will match individuals in England and Wales who want to work with existing job vacancies, and ensure they are supported to enter and stay in work by funding the necessary training and workplace support. The Government is expecting to provide 50,000 jobs per year through this scheme, with £4,000 worth of funding for each individual. **Of the 344,000 economically inactive people in West Yorkshire, 80,000 are inactive due to long-term sickness, and a further 6,400 are due to short-term sickness.**
- The Government will introduce Returnerships, a new offer promoting existing skills interventions to the over-50s, focussing on flexibility and previous experience to reduce training length. They will be supported by a £63.2 million investment for an additional 8,000 Skills Bootcamps in 2024-25 in England.
- The Government will provide £4.1 billion by 2027-28 to deliver 30 hours a week of free childcare for eligible working parents of children aged 9 months up to 3 years in England, where eligibility will match the existing three to four-year-old 30 hours offer. To support delivery, the Government will also provide £204 million in 2023-24 from September, followed by increases each year, to uplift the funding rate for the existing childcare offers. **There are currently 73,000 economically inactive people in West Yorkshire that are inactive due to looking after their family.**

2.2. In addition to the above, the following tax changes were announced:

- The Government is maintaining the level of Fuel Duty at the current level, including the extension of the 5p cut, costing £5 billion in 2023/24 and estimated to save the average driver £200. **Within West Yorkshire, 74% of households have at least one car, up from 71% in 2011.**
- Businesses in the Film and high-end TV industry will be eligible for a credit rate of 34% and animation and children's TV will be eligible for a rate of 39%. The new Video Games Expenditure Credit will have a credit rate of 34%. **Across West Yorkshire there are roughly 450 businesses within these sectors.**
- R&D tax relief for the largest companies will increase from 13% to 20% from 1 April 2023. From 1 April, tax relief for smaller companies will also change. There will be increased relief for loss-making, R&D intensive SMEs. By April 2024, the Government will have finalised R&D tax support for SMEs going forward, which have recently been consulted on. **In the FY 2019/20, 2,920 R&D tax credit claims were made, worth £150m. 96% of the claims made by West Yorkshire firms were from SMEs.**

- The Lifetime Allowance charge will be removed from 6 April 2023, with the Lifetime Allowance fully abolished by April 2024. The maximum tax-free lump sum will be frozen at the old limit of £268,275 (representing 25% of the old limit). The Annual Allowance for pension contributions will also increase from £40,000 to £60,000.

2.3. Given these measures, the Office for Budget Responsibility has produced the following forecasts:

- The UK economy will avoid a technical recession – but only just. Q1 2023 GDP growth is forecast to be -0.4%, and 0.0% in Q2. This means that the peak-to-trough fall in GDP will be 0.6%, better than the previously forecast 2.1% in November 2022.
- CPI inflation will fall to 2.9% in Q4 2023, a greater reduction than was previously anticipated. Continued falls in energy prices are likely to take the Ofgem energy price cap to £2,200 by the end of this year, which will combine with the timing effects of last year's higher energy prices falling out of the 12-month calculation.
- Real Household Disposable Income (RHDI) per person – a measure of real living standards – is expected to fall by 5.7% between April 2022 and March 2024. Whilst this is 1.4 percentage points less than was forecast in November, this is still the largest two-year fall in living standards since records began in 1956-57. This is largely due to rising energy costs outstripping wage rises, meaning that real living standards will be 0.4% lower in March 2028 than they were in March 2020.
- Improvements in economic prospects has led to a brighter outlook for public finances, and the Chancellor has spent two-thirds of this uplift in fiscal outlook, leaving around £6 billion in fiscal headroom. The budget is therefore exposed to significant risks from volatile energy prices and interest rates, as well as the assumptions made around labour market participation.

2.4. 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.

2.5. 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.

- 2.6. 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.
- 2.7. In the twelve months to February 2023, median pay in West Yorkshire rose by 4.8%. Given that CPI inflation was 10.1% for the same period, the average person in West Yorkshire became 5.3% poorer over the last year. Across the UK, median pay rose by 5.6% during the same period, meaning that the median pay gap between West Yorkshire and the UK has continued to rise in the past twelve months.
- 2.8. The monthly count of online job postings is volatile but remains at very high levels in historic terms. There were 33,600 unique, new postings recorded in December 2022, a 16% increase on November 2022 and 43% higher than the level for December 2021. Job vacancies increased in all five districts between November and December. In terms of the impact across sectors, sales saw the biggest growth in absolute (+810) and percentage terms (+33%) but there were also big increases for Clerical / Admin, Engineering, Business management and operations and Hospitality, food and tourism.

Businesses

- 2.9. No new business support for energy bills was announced at the Spring Budget, meaning that the Energy Bill Discount Scheme announced in January will come into effect from 1 April. The scheme works by offering businesses and public sector organisations discounted prices for wholesale gas and electricity. This support will run until 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.
- 2.10. The Government have also announced a British Industry Supercharger scheme to ensure that energy costs for key UK exporting industries are in line with other major economies around the world. Details are currently light on the mechanisms, eligibility, and delivery of this scheme, but consultation will begin in Spring 2023, with rollout due to commence in Spring 2024.
- 2.11. February saw 1,953 business registrations in February 2023 largely in line with the 2022 trend. The wholesale and retail trade sector, as well as the transport and storage sector are over-represented in the business registrations figures relative to their overall business base share.

2.12. There were also 1,426 business liquidations in February, with 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. Taking registrations and liquidations together, West Yorkshire saw 526 net new businesses in February.

2.13. 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

2.14. 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.

Households

2.15. The Ofgem price cap fell by £999 to £3,280 for April to June, but energy prices will still rise for households. Current legislation means that consumers pay the

lower of the Ofgem price cap or the Energy Price Guarantee (EPG) offered by the government, which is currently £2,500 per year for average household energy usage.

- 2.16. The decision by the government to maintain the £2,500 Energy Price Guarantee for average household energy consumption but end the £400 energy bill discount that every household was entitled to, represents a £400 increase in average household energy bills. In West Yorkshire, this means that an estimated 42% of households will be in fuel poverty compared with 32% nationally.

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. It is expected that the ending of the £400 energy bill discount for households will push up to an additional 32,000 West Yorkshire homes into fuel poverty, giving West Yorkshire an estimated fuel poverty rate of 42% from April, compared with 32% nationally.

5. Equality and Diversity Implications

- 5.1. The government's decision to offer 30 hours of free childcare for children aged 9 months or over will provide important support to the 73,000 West Yorkshire residents who are currently economically inactive due to looking after their family.

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 note the latest intelligence around the West Yorkshire economy and comment specifically on the asks of government.

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