

Local Enterprise Partnership

10 March 2022

Cost of Living Crisis

Is the paper exempt from the press and public?	No
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

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Executive Summary

This paper summarises key elements of the emerging cost of living crisis and highlights implications and potential areas of focus for the region, MCA and LEP.

What does this mean for businesses, people, and places in South Yorkshire?

This paper is for information and discussion purposes. The cost of living crisis has a very real and present implication for all South Yorkshire residents, especially people on low incomes and businesses that operate on very tight margins.

Recommendations

That Board members review the emerging evidence, noting the impact on the MCA investment programme and consider potential responses.

Consideration by any other Board, Committee, Assurance or Advisory Panel

N/A

1. Background

- 1.1 The Covid pandemic delivered a multi-generational global economic shock. However, thankfully initial dooms day projections have not (yet) fully materialised. Instead, it seems a multitude of factors (including Covid, Brexit, energy, and Climate Change, war in Europe etc) are combining to deliver a economic and social pressures, unseen for decades. Inflation is now 5.5% in the UK and over 7% in the US. And many are struggling to heat their homes and put food on the table. For an area like South Yorkshire, with entrenched inequalities, the implications could be devastating.
- 1.2 Everyday cost of living, such as buying food or paying for energy, is rising too fast for wages to keep up. Some of the pressures could be particularly severe because there are several factors driving increased costs, which means there isn't a "silver bullet" solution to reach for. This means UK households are facing increased costs across the board, rather than just seeing a hike in their supermarket receipts or energy bills.
- 1.3 This "economic shock" is likely to impact the poorest in society the most, and therefore threatens the LEP Policy Objective of "Inclusion" as the crisis will have a direct bearing on virtually all outcomes agreed in the SEP. As the Board charged with developing policy to growth the economy, this is a clear and present risk to your remit.

2. Key Issues

- 2.1 The Bank of England has warned the population to prepare for the steepest drop in living standards for 30 years as the cost of living crisis sets in. Many economic commentators have highlighted warning signs that the fall in incomes (once adjusted for inflation and tax) for UK residents is expected to worsen over the next few months. Several economic factors are driving the cost of living crisis. These are summarised below:

2.2 Cost of Energy (and particularly fossil fuels)

Much of the cost of living crisis has focused upon the impact of cost rises for energy. The average gas and electricity bill in the UK will rise by 54% on April 1st 2022 when the regulator Ofgem lifts its price cap. This is an increase of roughly £700 a year for most households. There are major concerns for some South Yorkshire households as the housing stock in South Yorkshire is below average energy efficient and around 109,000 households are classified as being in Fuel Poverty.

Rising electricity prices will mean greater costs for many businesses especially energy intensive industry (EII) businesses. EII's include sectors such as chemistry, steel, plastics, paper, wood, refinery, ceramics, and many others. Looking at Combined Authorities across England, South Yorkshire MCA has the biggest share of its business stock classed as energy intensive.

UK petrol and diesel prices have hit their highest levels on record in recent months. This impacts upon many motorists (particularly in areas of South Yorkshire which are more car reliant) and upon businesses.

The energy prices are being driven by a variety of macro factors including geopolitics, supply issues and rocketing demand. Most of the energy that is consumed in South

Yorkshire is produced from fossil fuels. Petrol and diesel still dominate in the transport sector, with natural gas dominating in the domestic and industry and commercial sectors. Overall, fossil fuels still account for 89% of South Yorkshire's energy supply with renewables, bioenergy, and waste accounting for a small but growing proportion (11%).

2.3 **Supply Chain Pressures**

Disruption to global supply chains from the pandemic and Brexit is believed to be the reason behind price increases for food and some products (e.g. electricals).

Global shipping costs have also increased. The average cost of shipping a large container increased fourfold in the 12 months to September 2021. Other issues like environmental factors (e.g. poor wheat harvests in late 2021) and labour or raw material costs have led to some food products rising by almost 50% over the past year. On average, the overall rise in food prices has been around 4.8%.

A high-profile campaign by Jack Monroe has highlighted that this rise does not accurately reflect the true scale of price increases for the poorest. This is because price increases on budget options in supermarkets have a much higher impact, proportionally, on the costs of essentials for poorer families. There is concern that as household bills and food prices rise, foodbank use will also continue to rise. Anecdotal evidence suggests that food banks are seeing soaring demand in the early parts of 2022 (in the context of rising use of foodbanks over the last decade).

2.4 **Labour costs & wages**

There is a shortage of labour in many sectors including hospitality and transport. This is particularly acute in certain areas of the economy, often long-term skill shortage areas such as HGV drivers. This is partly due to the pandemic but also compounded by Brexit, which saw many foreign workers leave the country.

For many organisations facing shortages, offering a wage premium, or raising salaries can retain or attract workers into the areas with shortages. However, rising wages are often transferred onto consumers with the final price for goods and services being adjusted to account for price rises.

2.5 Despite skills shortage areas (and other sectors like financial services) seeing rises in wages, inflation and planned tax increases means that average take-home pay for many is likely to fall over the coming year. High rates of inflation erode the spending power of workers' pay packets, with many commentators predicting that average weekly earnings after tax will fall in real terms in 2022. In a low pay economy, such as South Yorkshire there will be opportunities for some to seek better pay (through pay rises or changing jobs) but the overall picture is of lower incomes.

2.6 **Tax Changes and Rises and Changes to Universal Credit**

From April, national insurance contributions will increase by 1.25 percentage points and many commentators believe that council tax bills across the UK are also expected to rise in April. The Government is to uprate benefits by 3.1% in April, when inflation is forecast to hit 7%. This represents a real term cut to those receiving benefits.

Universal Credit (UC) changes announced in the budget will also make low-earning and non-working UC recipients worse off (compared to under the £20 per week uplift). The Resolution Foundation estimates that while 1.3 million UC families will be better off, nearly three times this number (3.6 million) will be worse off.

2.7 **Prospects for South Yorkshire**

There are reports of other costs rising such as rents, public transport, and electrical goods. All this point towards some stark challenges for many communities in South Yorkshire, particularly because of the economic position it is in now.

This includes higher rates of deprivation, many areas of low household income, high rates of fuel poverty, high rates of child poverty, high rates of car dependency, the age of housing stock and low take up of alternative energy. Businesses also face some challenging times with higher rates of energy intensity across the business base, low take up of alternative energy and several big sectors worse affected by the economic factors listed above (e.g. Manufacturing (e.g. energy), logistics (e.g. wages) and retail (e.g. supply chain).

Many low-income households already pay the “poverty premium” whereby, extra costs are paid on essential products for people on low incomes and in poverty are supplemented because of their situation. For example, people may pay for essential products and services such energy, through prepayment meters; loans and credit cards with high interest rates; and insurance premiums tend to be higher in deprived areas.

Overall, the cost of living crisis is expected to hit lower and middle-income households in the UK (and therefore South Yorkshire) the worst.

- 2.8 For the LEP and MCA, the inflationary pressure on the economy is manifesting itself through procurement challenges, misleading cost estimates and fast diminishing programme headroom. Over time, this will negatively impact on the quantum of investments the MCA can make and thereby limit the ability to achieve agreed outcomes. Work is underway to develop options for the MCA Board to consider.

3. **Options Considered and Recommended Proposal**

- 3.1 Price increases will continue to affect residents and businesses across South Yorkshire and eventually the economic challenges will be directly felt by all South Yorkshire households in one way or another. However, many of the levers needed to mitigate the cost of living crisis are beyond the scope of the LEP (and MCA). The aim of this paper is to stimulate a discussion and consider what actions the LEP may want to take directly or indirectly (e.g. including convening, leading, lobbying and influencing). The Board may also want to consider how planned commitments could go further.

4. **Timetable and Accountability for Implementing this Decision**

- 4.1 N/A

5. **Financial and Procurement Implications and Advice**

- 5.1 There may be financial and procurement implications depending on discussion and the course of action.

6. Legal Implications and Advice

6.1 N/A

7. Human Resources Implications and Advice

7.1 N/A

8. Equality and Diversity Implications and Advice

8.1 N/A

9. Climate Change Implications and Advice

9.1 The cost of living crisis has some strong links to the climate emergency. The cost of living crisis highlights the importance of the cost elements of net zero.

10. Information and Communication Technology Implications and Advice

10.1 N/A

11. Communications and Marketing Implications and Advice

11.1 Potential impact depending on discussion.

List of Appendices Included

None

Background Papers