Greater Brighton Economic Board **Agenda Item 13**

Subject: **Economic Outlook for Greater Brighton**

Date of meeting: **18th October 2022**

Report of: **Chair, Greater Brighton Programme Board**

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LA(s) affected: **All**

For general release

1. Purpose of the report and policy context

1.1 Over the last six months a cost-of-living crisis has started to grip the UK, affecting both households and businesses. The rising costs of energy, fuel food, and raw materials are the major inflationary pressures.

1.2 The Government announced a package of energy market interventions to help alleviate the financial strain caused by rocketing bills. But there are concerns that the plight of small businesses are not being fully addressed by current support packages.

1.3 In addition, at the end of September the new Government unveiled Growth Plan 2022 which contained a series of tax-cuts, ranging from income tax to stamp duty. Market reaction to the mini-budget led to the value of Sterling dropping to an all-time low against the Dollar, putting upward pressure on interest rates, including mortgage rates. Many economists believe inflation will rise to yet higher levels in the coming months.

1.4 The Institute of Employment Studies (IES) have been commissioned to conduct a research study into the impact of the economic turbulence in Greater Brighton. The research will primarily focus on the impacts on businesses associated with rising costs, increasing interest rates and ongoing uncertainty. These impacts will be documented in a forthcoming report which will also contain some key recommendations.

2. Recommendations

2.1 That the Board acknowledges the need for a deep-dive into the Greater Brighton economy, so as to understand the sectors and geographic areas that are likely to be most impacted.

2.2 That the Board agrees that due to the pressing need to act, the report will be circulated when ready even if this is outside of the usual Board cycle.

2.3 That the Board supports the #BusinessSOS campaign submitted by the 300 BIDS asking Government for an urgent package of support for businesses.

3. Context and background information

3.1 In August, the UK inflation rate was at 9.9%, slightly down from the 40-year high (10.1%) witnessed in July, but still well above the average experienced since the 1980s. The surge in the costs of energy and fuel in the late spring and early summer are a major driver of this.

3.2 When the energy price cap was initially raised in April, average domestic gas and electricity prices jumped by 54% and 96% respectively compared with April 2021. The energy price cap was due to increase by a further 80% in October 2022, meaning a typical household energy bill would rise to over £3,500 (from around £1,400 in October 2021).

3.3 The Government have introduced a range of support measures, the chief one being capping *typical* household bills to £2,500 from 1 October. This is still an increase of around £500 from the last price cap raise in April, but over £1,000 below what it would be without intervention. The “energy price guarantee” will last for two years. All households will also receive a one-off £400 fuel discount this autumn, with 8 million low-income households due to receive a further £650 of support, £326 of which was paid out in July and the other £324 to follow in October.

3.4 Businesses are not protected by the energy price cap in the same way that households are, so are therefore more exposed to changes in the wholesale price of energy. Recent estimates suggest that many businesses were facing up to a 300% increase in energy bills this year.

3.5 There has been growing concern for the impact on businesses, particularly small and medium sized enterprises (SMEs). The Greater Brighton Business Survey (2018) found that 85% of businesses in the City Region were classed as micro, having 10 or fewer employees. Only around 7% of Greater Brighton businesses employ more than 25 people. SMEs are the lifeblood of the Greater Brighton economy, and collectively employ a substantial number of people from across the City Region and beyond. Unlike large businesses, there are limitations on the financial shocks they can absorb. There is a serious risk of widespread business failure, and business failure leads to job losses. Government support is clearly needed.

3.6 In mid-September the Government announced details of the Energy Bill Relief Scheme to support businesses. The scheme will fix wholesale energy prices for six months from 1 October to shield businesses from the exponential rise in costs. It’s estimated that this intervention will cut energy bills by around half their expected level. A review will be published at the end of 2022 which will identify the most vulnerable organisations that will need support beyond March 2023.

3.7 Analysts suggest that the combined cost of the support packages for households and businesses could be up to £150bn, and details of further support for hospitals, schools and charities are soon to be announced.

3.8 Government intervention will help protect businesses and households but will not address the underlying problem which is that the wholesale price of oil and gas remain at an elevated level. In May 2021, the average price of a litre of petrol was 130.5p, but in June 2022 this had risen to 186.6p per litre. Prices have slackened a little, but the cost of petrol and diesel are still well above their 2021 levels.

3.9 Additional inflationary pressures stem from the rising prices of food, particularly, cereals, bread and meat. The cost of raw materials has also increased, impacting the price of furniture and other household items.

3.10 Much of these price rises are caused by the conflict in Ukraine, so much so that in September, the Governor of the Bank of England stated that "the Russia shock is now the largest contributor to UK inflation." The war in Ukraine has driven up the cost of crude oil and has resulted in in disruption to food (particularly grain) production and distribution through supply-chains, which has driven up prices. An end to the conflict does not appear near on the horizon, so pressure on prices looks set to continue.

3.11 To curb the rising costs the Bank of England increased interest rates to 1.75% in August and followed this up with a further increase to 2.25% in September. Whist these rates are still historically low, this is the highest rate since 2008, meaning the cost of borrowing, at a time when household and business finances are already squeezed, is at a 14-year high.

3.12 On 23 September the Government delivered a mini-budget (Growth Plan 2022) with the aim of stimulating economic growth. Many of the measures did not come as a surprise as they had been floated previously and ranged from reversing the planned 1.25% NI rise due in November, scrapping the 45% tax band (a decision which was reversed on 3 October), cutting the basic rate from 20% to 19% and overhauling the rates at which home buyers pay stamp duty. Concerns among investors around how this £45bn package of cuts would be funded sent the value of Sterling down to $1.03 on 26 September, a record low, before recovering in the days after following intervention by the Bank of England. The falling value of the Pound is likely to push inflation higher, meaning that future interest rate rises look inevitable.

3.13 In terms of managing the threats associated with the cost-of-living crisis, Greater Brighton partners have been doing what they can to provide support, primarily to residents. This includes;

- Lewes DC committing £750,000 to support those on low incomes, with £150,000 ring-fenced for council tenants. The £750,000 includes £50,000 of support for the food bank and the creation of a dedicated officer post to co-ordinate delivery of this funding and the £220,000 from the East Sussex CC Household Support Fund (HSF).

- Worthing Borough Council declared a cost-of-living emergency in July. Since then the Council has been working on an urgent action plan on how to work with health and education experts and the community to support the estimated 12,000 people in the borough who cannot afford to feed themselves and their families.
- Crawley Borough Council have been running a pilot to better support residents with complex needs who are in financial crisis. Early work is being undertaken to understand how the authority can identify residents most at risk and target support before crisis hits, but this is in its early stages. More widely the Council has brought together a wide range of support, advice and guidance into a self-help page that is being widely advertised and this will be augmented over time.
- Brighton & Hove City Council's response was underpinned by financial support of £2.571m including allocations of £2.140m from tranche two of the Household Support Fund (HSF) together with additional one-off resources of £0.431m provided by the Council. With support from partners, the Council's website has been updated with advice on available energy support and provides a link to the Local Energy Advice Partnership (LEAP) who can provide support and advice on energy saving measures as well as information on the full range of government discounts and grants available. Alongside this, the Council continues to develop the 'Brighton & Hove Warmer Homes' programme. The programme which is due to be launched in Spring 2023 has a capital allocation of £7.2m to support energy efficiency improvements for eligible owner occupiers and households in the private rented sector.
- Mid Sussex District Council is targeting its existing support services to those more impacted by the cost-of-living crisis, including considering how it can enhance support through its partnership working and will produce a winter support guide identifying all the available support. The Council will continue to use its Community Grant Scheme and the UK shared prosperity funding, to fund community and voluntary groups to deliver activities to support communities.

Greater Brighton Study

3.14 Whilst the Greater Brighton Local Authorities and other partners have been doing what they can, resources are very limited, and have therefore been targeted at households and residents most at risk. Due to the complexity and costs of providing direct support to businesses, Greater Brighton partners have been lobbying government for much needed business support. The Brighton Business Improvement District (BID) along with around 300 other BIDs from across the UK, have been lobbying government for a number of interventions in their #BusinessSOS campaign. These include reducing VAT to 12.5% (from 20%) and business energy bills from 20% to 5% to match domestic billing, 100% Business Rate relief until March 2023 and Energy Rate relief.

3.15 At a recent session held for Board Members to discuss the Board's priorities going forwards, it was agreed that the cost-of-living crisis was the number one urgent priority. So far there has not been an attempt to co-ordinate a response or interventions across the Greater Brighton geography. There is a real need to understand, using a mix of quantitative and anecdotal data, the likely impact of the economic challenges on our businesses particularly drawing out the sectors and geographic areas that are set to be hit hardest. With robust data in place it will be possible to understand what can be done at a Greater Brighton level that will make the most impact.

3.16 To that end, the Institute of Employment Studies has been commissioned to perform this study and the work will contain the five main elements below;

- Scoping/discussions with leads in each of the councils to understand the approach they are taking now, what analysis they have done, what they plan to do, key gaps.
- Discussions with the business community to explore current and future concerns and challenges.
- Data analysis on Universal Credit/benefits receipt by areas – looking at levels and changes by area (local authority and lower level); comparisons within region and with other areas.
- Desk research on latest (national) analysis of impacts of cost-of-living crisis on different demographic groups, sectors, occupations.
- Detailed analysis to local authority level of places most/ least at risk based on their demographics, sectors, occupations.

3.17 The expectation is that most of the work will be performed during November. This Board is not due to meet again until February so given how serious this situation is, it may be sensible to circulate the information and look at what the Board can do collectively once the findings are ready (recommendation 2.3), otherwise there will be a lag of more than two months between completion of the work and the Board meeting.

4. Analysis and consideration of alternative options

4.1 Paragraphs 3.14-3.15 outline the rationale for the Board to understand the economic impact of the economic turmoil on the City Region. Only by understanding the potential impacts will the Board be able to make informed decisions around what interventions may be possible. To gain reliable information requires the expertise and experience of an external partner.

4.2 The alternative would be to try and pull together data using existing resources. Limited capacity, analytical skills and access to data sources would mean that reliable data would need to be high-level. Drilling down into detail would probably require making some leaps in the data, which will then not provide a robust enough foundation on which to make sound decisions and recommendations.

5. Community engagement and consultation

5.1 As outlined in 3.16 above, the methodology employed by IES will involve engaging with local authorities, other partners and businesses to understand what work is already being done and assess where the current gaps may be.

6. Conclusion

6.1 The current cost-of-living crisis is the most severe witnessed in the UK in the last 40 years. The Government have introduced a range of measures to try and help households and businesses, but with much of the inflationary pressures fueled by the conflict in Ukraine, which does not seem like being resolved any time soon, there does not seem to be a clear break point. There is also concern that Government support for businesses, SMEs in particular, does not address all of the challenges businesses will face over the coming months.

6.2 Whilst there is some national data to draw upon, there is a need for a study at a Greater Brighton level to draw out the main impacts on the City Region and make some recommendations around the kind of interventions the Board could make.

7. Financial implications

7.1 The Government has introduced a number of measures and actions to support households and businesses against the cost-of-living crises, these are detailed in paragraph 3. Greater Brighton partners have been lobbying central government for additional business support particularly for small businesses including energy rate relief Business Rate relief and VAT reductions. Any direct financial outcomes from the Greater Brighton Study to be undertaken by the Institute of Employment Studies will be reported back to this Board as a matter of priority. Furthermore, paragraph 3.13 details the investment support that each Greater Brighton partner has provided to residents to address the cost-of-living crises within the region.

Name of finance officer consulted: Rob Allen, Principal Accountant
Date consulted 06/10/22.

8. Legal implications

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

Name of lawyer consulted: Wendy McRae-Smith, Senior Lawyer
Date consulted: 06/10/22.

9. Equalities implications

9.1 The impact of the cost-of-living crisis on businesses and individuals will directly entrench existing inequalities. The study will look to identify which individuals, sectors and geographic areas are potentially most at risk from current economic conditions. Any recommendations and actions taken by the Board will need to consider the equalities implications.

10. Sustainability implications

10.1 None directly arising from this report. Any interventions or actions taken by the Board as a result of the study will need to take into account the relevant sustainability implications.

Supporting Documentation

Appendices

1. None.