

EY & ADEPT

Local Economic Recovery & Renewal – Key Findings

May 2020



Local Economic Recovery & Renewal

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Local Economic Recovery & Renewal

Introduction

Local Economies Post Covid-19

Economic opportunities and risks face Local Authorities as they navigate a path through the Covid-19 crisis and toward local economic recovery and renewal. This document evidences three key emerging themes, namely;

1. The immediate impact of the pandemic will affect local economies differently as a result of their sector, business and workforce composition and capacity.
2. A locality focus will be necessary to achieve local recovery and renewal; a 'one size fits all' model would confine recovery.
3. In design of an evidenced, local and effective recovery strategy, leaders must be empowered with both a standardised, local evidence base and innovative success stories from other emerging economies.

For ADEPT members consideration, next steps in the creation of Local Strategies would be;

1. A granular understanding of their Local Demographics and Geographies through application of a standardised statistical base.
2. The evaluation of fiscal policy, market shaping and economic intervention toolkit for effectiveness and application in their areas.
3. Draw lessons from the experiences of those geographies more advanced in their economic response following Covid-19.
4. Shaping a local economic recovery and renewal strategy in a collaborative manner with all levels of local and regional Government to provide an ambitious, coherent and tangible growth plan for Citizens, Regional Stakeholders and Government.

Approach

Working in collaboration, EY and ADEPT have created a statistical database, and have sought to employ this dataset to;

1. Arm ADEPT members with valuable analytics and interventions that underpin the restarting and redefinition of their local economic response.
2. Identify material variances in members' response to the survey and the consensus of analysis undertaken about the likely or potential economic impact of the Covid-19 pandemic.

Giving consideration to the structure proposed by the Government's working group, this document is structured through consideration toward two timeframes; a short-term (one year to 18 months) timeframe where strategies focus on restart and recover. Secondly, a medium-term timeframe (up to five years) where local economies rebound and renew.

Within each of these timeframes, an assessment has been made of impact on Sectors, Business and People.

Data employed was drawn from a variety of sources;

Theme	Detail
Sector Analysis	<ul style="list-style-type: none"> • Sector GVA Contribution • LIS Code Sector Breakdown • Employees Per Sector
Business Demographics	<ul style="list-style-type: none"> • Average Turnover & Employees Size • Business Resilience • Number of Businesses Per Sector
Workforce Demographics	<ul style="list-style-type: none"> • Employment Participation • Working Age Profile • Average Pay Per Sector • Educational Participation (Skills)
Business Innovation and Attractiveness	<ul style="list-style-type: none"> • Number of new businesses • Number of patents • Foreign Direct Investment

Local Economic Recovery & Renewal Overview

Local Economies Post Covid-19

The evidence base and associated analysis has established a number of proposed conclusions that should be considered at a local, regional and national level, with respect to the economic impact of the Covid-19 pandemic. These are categorised into:

- Short term outlook – the impact being incurred from the current crisis at present and over the course of the remainder of the year
- Medium to longer term outlook – the impact likely to take effect from the start of 2021 and beyond

Short term outlook
The sectoral composition of local authorities will result in diverse short term economic impacts from Covid-19
The variety of business demographic profiles across local authorities and in particular, business composition, will require a variety of responses to provide support
Existing business resilience rates differ across local authorities, likely to lead a difference in how business in local areas can withstand the short term economic shock
The impact on employment will be more acutely felt in certain sectors, meaning sector composition will be a key driver to the variance in employment impacts. These impacts will accelerate as Government support pares back

Medium to longer term outlook
Over the next five years, output is not expected to recover to 2019 levels across all sectors, leading to unequal rebound and renewal across local authorities
Over the medium-term authorities will experience differing types of growth ranging from consistent evolutionary growth across a majority of sectors to experiencing significant leaps in growth in a minority of sectors and large declines in others
Proxies for innovation demonstrate some local authorities will need to nurture an increasingly innovative environment to recover from the current crisis
Certain sectors are likely to achieve productivity gains more readily than others, meaning local authorities will need to be proactive in ensuring healthy productivity improvements across local areas.
Covid-19 is forecast to create permanent workforce change; employment to 2019 levels will not be achieved by all sectors and hence skills redistribution will need to be a key focus for local authorities in their recovery plans.
Once lockdown restrictions are lifted, many sectors are unlikely to be able to remobilise in an effective manner, leaving some businesses stranded and unable to re-engage with the economy.

Local Economic Recovery & Renewal

Case Studies; Shorter-term Restart

Domestic Tourism

With European and Domestic Travel confidence low, local economies must turn toward domestic travel to ensure a 'lost summer' doesn't materialise into three winters.

The experience in China, with sentiment tracked through the *Covid-19 Travel Sentiment Survey* has found;

- Local, outdoor scenic attractions are identified as the most popular destinations travel between now and September in China.
- Group and guided tour packages have been replaced by self-guided and self-driven tours.
- Aggressive pricing promotion has been adopted by the vast majority of China's leading travel and travel-booking sites.
- Propensity to travel is inversely correlated with age; meaning targeted marketing could be focussed on the young, middle class.

Local Case studies

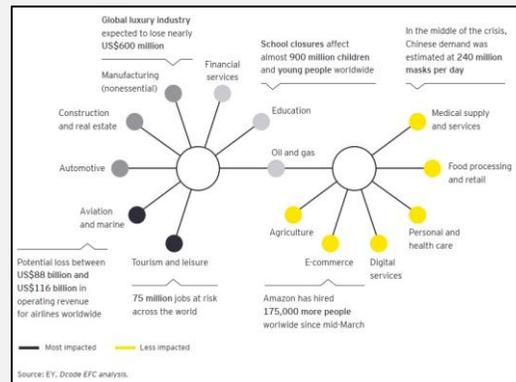
The National Trust are reopening sites through advance pre-booking to pilot opening tourist sites.

Sheffield are evaluating how their targeted volunteer recruitment campaign, which initially focussed on community hubs and action plans can be shifted to supporting the restart of local economies.

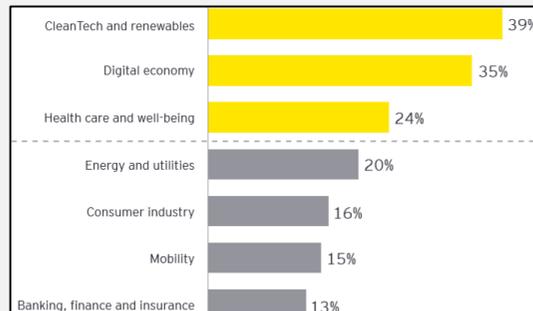
'Visit Wales. Later.' initiative allows you to pre-book at tourism attractions around Wales and proposes alternative virtual and online festivals and experiences ongoing during this period.

Skills Transition

International evidence that sectors trends are accelerated needing differing fiscal, policy and economic interventions to survive the crisis.



With consumer confidence around 40% down and long-term retail shifts looking likely the importance of technology and sustainability sectors in driving economic growth is key, and LA need to explicitly understand skills gaps to transition employment and remapping skills to sectors that are expected to flourish through equitable policy interventions such as an adjustment fund or access to investment capital;



Keynesian Local Economics

Whilst a major infrastructure plan is likely within the Autumn Budget, timeframes and uncertainty exist on Major Projects for Local Authorities. More localised spending stimulus can incorporate;

Local Infrastructure Spending

Through focussing on more localised projects with higher Benefit Cost Ratio's Local Authorities can stimulate local construction markets through Road and Highways Improvements, Housing, Flood Defences (funded through the Environment Agency, and local connectivity such as active travel infrastructure (National Cycle Network, Sustrans Scotland).

Restarting Construction

Cabinet Office procurement guidance is being leveraged by innovative Local Authorities to both provide further security to suppliers and leverage further Social Value from their Supply Chain. Through granting contract extensions on multi-year contracts, strategic supplier relationships are being developed helping businesses gain bridging and emergency finance.

Social Value

Enterprising authorities are granting conditional contract extensions that further local social value. Typically these add further obligations on the supplier to utilise local SME's and local labour to restart construction, particularly in light of labour supply risks emerging for large developers.

Local Economic Recovery & Renewal

Case Studies; Medium-term Sector Demand

Green Economy

As focus moves toward a longer-term sustainable future, industry voices are advocating a green growth economy, policy advocates include;

Renewable Energy Transition

Renewable energy has so far been the energy source most resilient to Covid-19 lockdown measures. Renewable electricity has been largely unaffected while demand has fallen for other uses of renewable energy. Renewable electricity generation increased by almost 3%, mainly because of new wind and solar PV projects completed over the past year and because renewables are generally dispatched before other sources of electricity
 Source; IEA Global Energy Review 20202

Tourism dependant countries such as the Carribean are shifting to focus on Renewable energies for employment opportunities

<http://newenergyevents.com/coronavirus-the-caribbean-is-the-first-domino-to-fall-but-there-is-hope/>

WWF – Greener City Life

Reflecting on case studies to enhance clean air and clear skies the WWF recognises;

- Increased dedicated space for bicycles and pedestrians by reducing car access or providing preferential access to cyclists.
- Local Governments role in allocating space and skills development in food self-sufficiency and healthier diets.
- Role of City Networks such as C40 Cities and Global Resilient Cities Network (<https://www.resilientcitiesnetwork.org/tools-resources>) in driving urban action to protect vulnerable communities from climate change

Physical Infrastructure

With the acceleration of home-working enabled by technology, the 'death of the office' is an emergent scenario where the expected organic demand for flexible working space does not materialise leaving commercial infrastructure under utilised and ultimately obsolete.

Stock prices of Commercial Real Estate Funds show optimism around a residential rebound.



*Source; FT

Relaxed Commercial to Residential planning regulations or 'nesting' of use classes offer opportunity to repurpose unused office space to meet Housing demand, an entrenched issue in the UK concentrated in the major cities.

Office space could provide the needed capacity for authorities to adopt lifestyle and residential trends; less direct retail or office space transitioned to meet modern residential requirements for increased experience community spaces and leisure.

Inward Investment Attractiveness

EY research in April 2020 shows that executives making location decisions expect three megatrends to drive their European investment plans in a post-COVID world:

1. The acceleration of technology for cost reduction and customer access
 2. A sharper focus on climate change and sustainability in investment decisions
 3. A reconfiguration of supply chains, with a new mix of reshoring, nearshoring and offshoring
- Authorities, working with their regional and national stakeholders, who articulate a potent vision for these three trends backed by a clear skills agenda will position themselves attractively for inward investment

https://www.ey.com/en_gl/attractiveness

Local Business Taskforces and Labour Markets

Many authorities are developing local business taskforces to understand impacts of CV-19 on output and the workforce to collate key insights on how labour markets can be reset. The World Economic Forum recommends five steps

1. Double down on upskilling and reskilling
2. Identify the jobs of tomorrow
3. Prioritise redeployment and reemployment
4. Revalue essential work
5. Map a collaborative recovery

<https://www.weforum.org/agenda/2020/05/the-future-of-work-is-here-5-ways-to-reset-labour-markets-after-coronavirus-recovery>

Section Two

Short-term Outlook

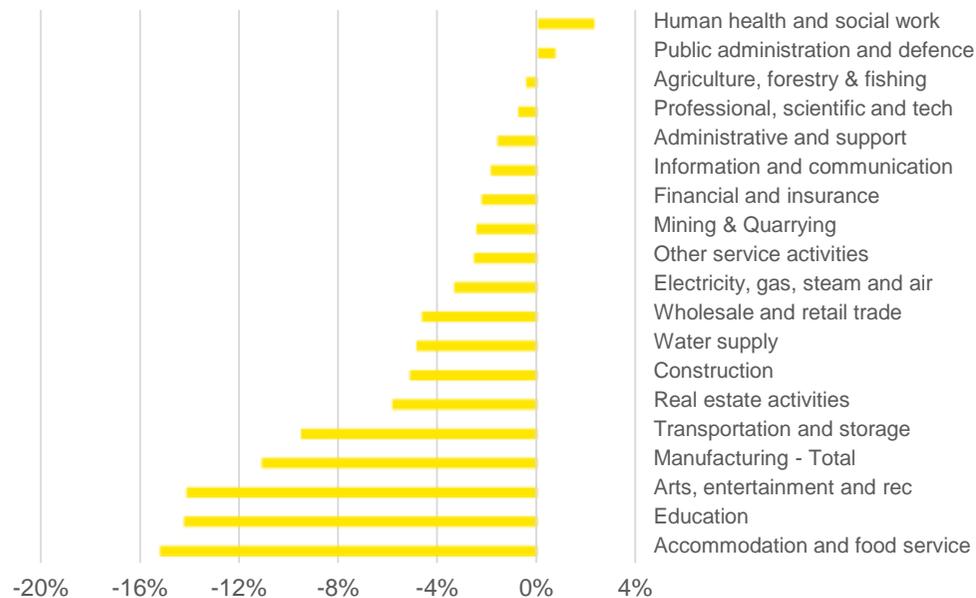
Local Economic Recovery & Renewal

The Short-term Outlook for Local Economies; Impact on Sectors

The sectoral composition of Local Authorities will result in diverse short-term economic impacts of Covid-19

The impact of Covid-19 on economic activity is significant. The demand shock caused means the majority of sectors are forecast to retract Gross Value Added (GVA) in the next year;

Fig. 1 – Forecast GVA Change by Sector 2019 to 2020



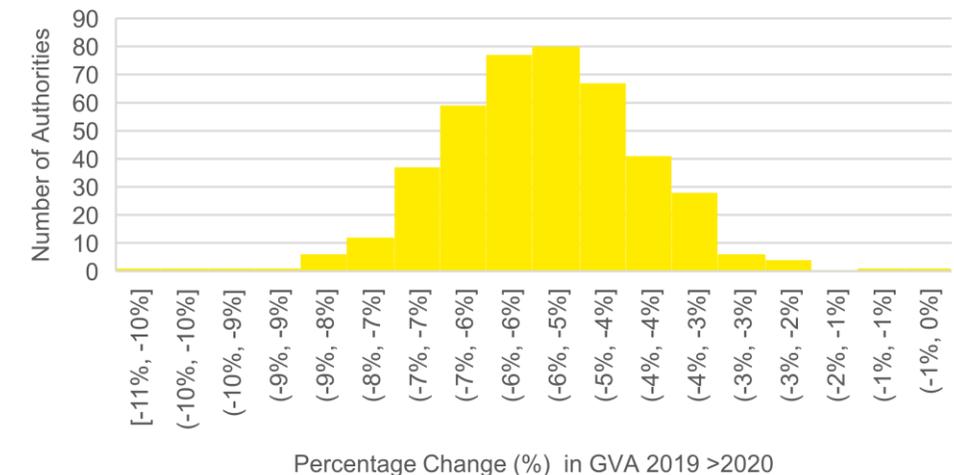
Across Local Authorities the specific GVA sectoral impact varies depending on the relative strength and size of the sector in that area.

As shown in Fig 2, the overall impact on the GVA of Local Authority areas is most commonly forecast to be between a 5% - 6% reduction in GVA, however there is a significant range of -1% through to -11%

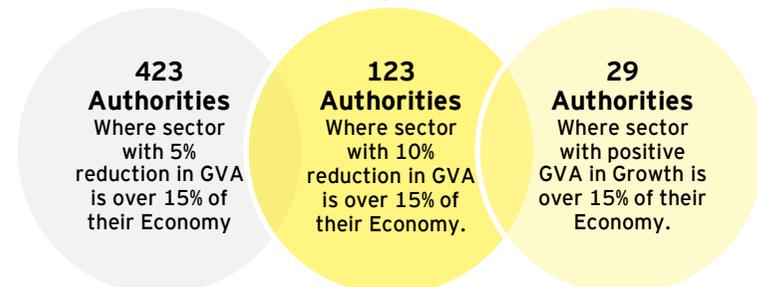
The forecast impact for the United Kingdom as a whole is for a reduction in GVA of 5%.

As demonstrated in Fig 2, there are consequently forecast to be 284 Local Authority areas, that suffer a more pronounced impact than the overall impact for the United Kingdom.

Fig. 2 – Forecast Reduction in GVA by Percentile Decrease



Often this retraction is driven by a dominant sector, determining over 15% of the total local sector GVA, has suffered a significant GVA reduction (above 10%). 123 Local Authority areas where identified where this is the case, with 92% of these authorities with a reliance on Manufacturing;



Local Economic Recovery & Renewal

The Short-term Outlook for Local Economies; Impact on Business

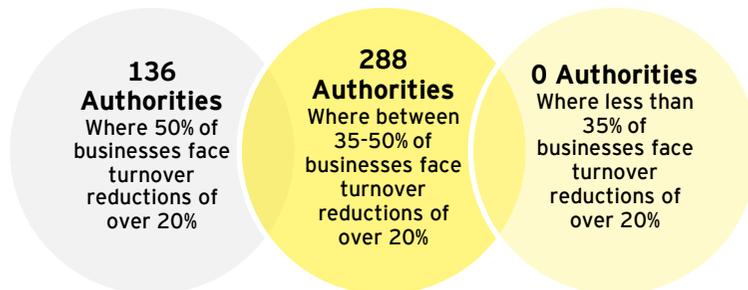
The variety of business demographic profiles across local authorities and in particular, business composition, will require a variety of responses to provide support

Business survey data provides key insights into the number of businesses that are at risk of facing significant reduction in turnover during 2020. It is forecast that for 32% of Local Authority areas are at high risk, with over half of all businesses in their area forecasting a reduction in turnover of or exceeding 20% during 2020.

The remaining 68% fall within the Medium Risk category. This means up and down the country, every Local Authority is faced with a minimum of between 35 – 50% of businesses facing a reduction in turnover of over 20% during 2020.

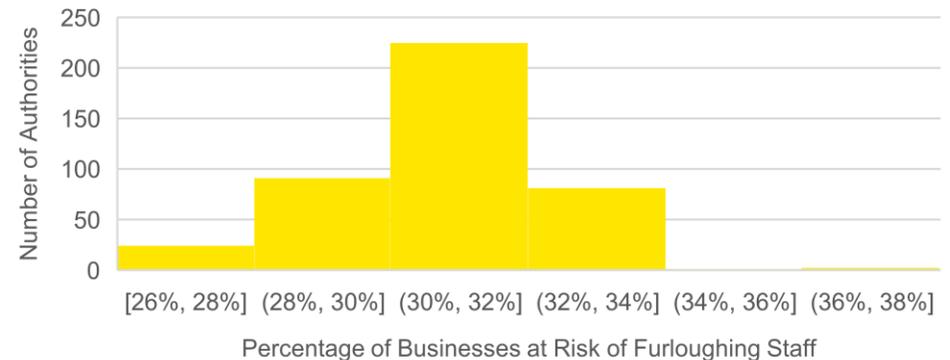
Fig. 3 – Negative Financial Performance Risk – Short Term

Risk	Interval	Percentage
High	Over 50% of Businesses	32.0%
Medium	Between 35 – 50% of Businesses	68.0%
Low	Less than 35% of Businesses	0.0%



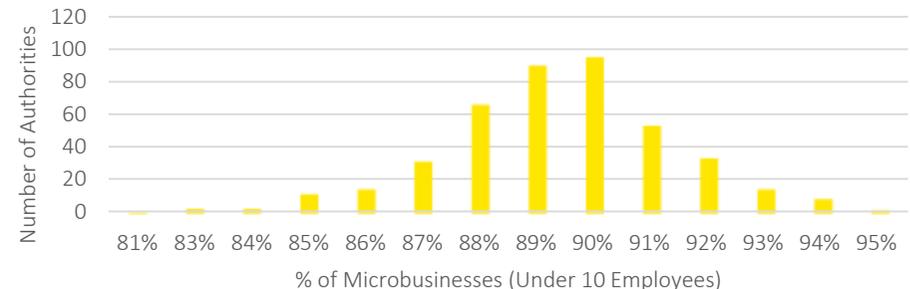
Furlough data is more uniform across Local Authorities based on the Covid-19 Business Survey, on average 30% of businesses are at risk of placing employees on furlough during the crisis, however the range is less affected by the sector composition in Local Authorities than financial performance.

Fig. 4– Percentage of Businesses at risk of furlough by Local Authority



Business composition is dominated by microbusinesses, which are acknowledged as having lower cash reserves and reduced access to capital than larger businesses. Variation exists within Local Authorities as to their exposure to these smaller, less resilient businesses;

Fig. 5 – Percentage of Microbusinesses



Local Economic Recovery & Renewal

The Short-term Outlook for Local Economies; Impact on Business

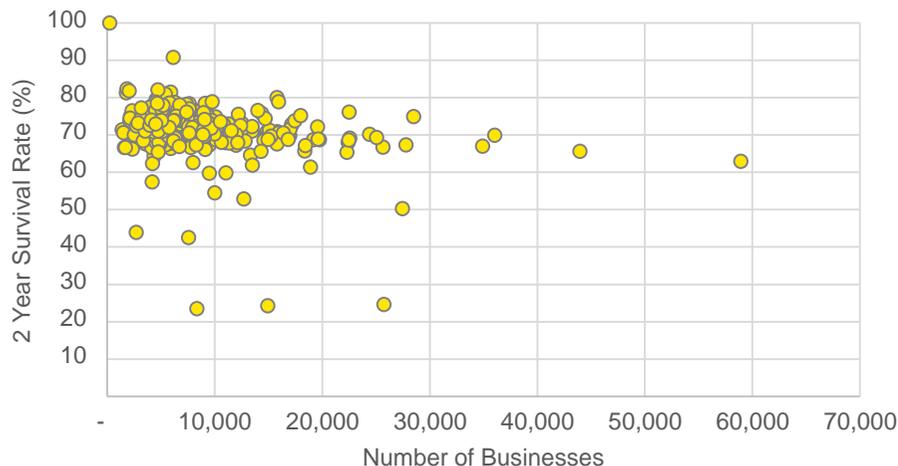
Existing business resilience rates differ across local authorities, likely to lead a difference in how business in local areas can withstand the short term economic shock

To ensure that Local Areas can recover a policy, investment and attractiveness environment must be developed where new businesses can thrive. Authorities have differing and entrenched survival rates that must be reset and disrupted to foster creative growth;



Survival rates give a strong indication of the local authority environment for New Business; within rebound or renew phases of the strategy authorities will need to understand Business Resilience in their areas, and those with poor survival rates to proactively intervene.

Fig. 6 – Business Survival compared to Number of Businesses



Authorities where a Business Survival rate is below 70%, and a low number of Businesses exist will require localised interventions to fostering business creation, innovation and confidence in entrepreneurs, and likely require a longer tail of business support to develop thriving, sustainable businesses.

In the short-term there are four sectors which manage to evidence some productivity gains in 2020;

Fig. 7 –Productivity growth rate of the resilient sectors 2019 to 2020

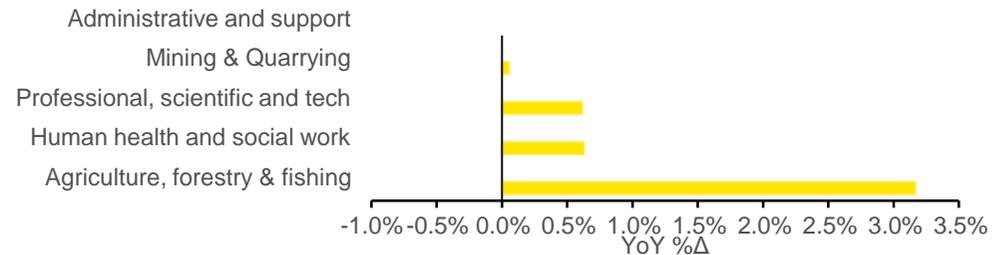


Fig. 7 –Productivity growth rate of the resilient sectors 2019 to 2020

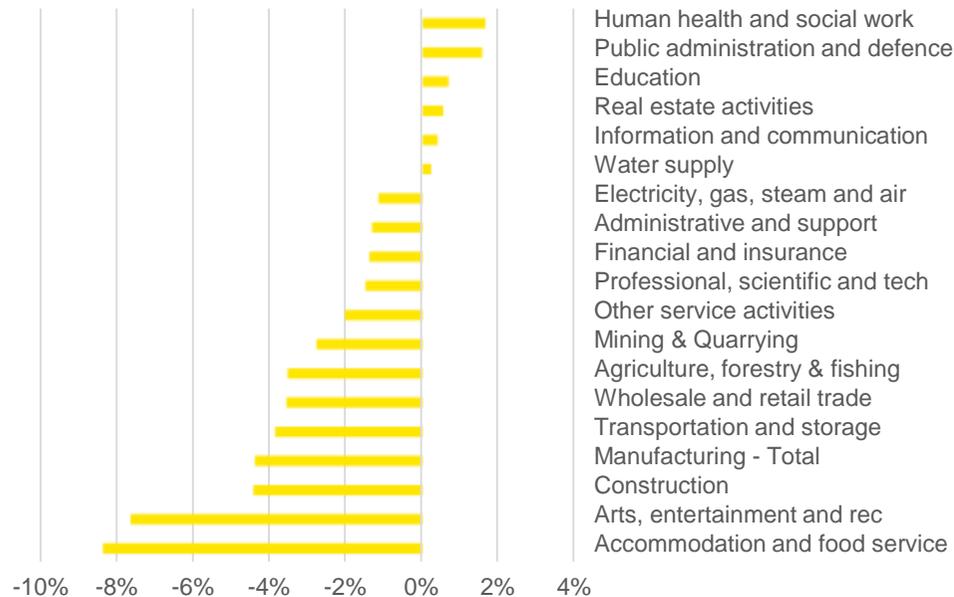
Local Economic Recovery & Renewal

The Short-term Outlook for Local Economies; Impact on People

The impact on employment will be more acutely felt in certain sectors, meaning sector composition will be a key driver to the variance in employment impacts. These impacts will accelerate as Government support pares back

With movement restrictions, consumer demand and supply chain impacts having varied implications for sectors, employment forecasts also vary by sector, with most industries forecast to fall in 2020, aligned to with economic output forecasts

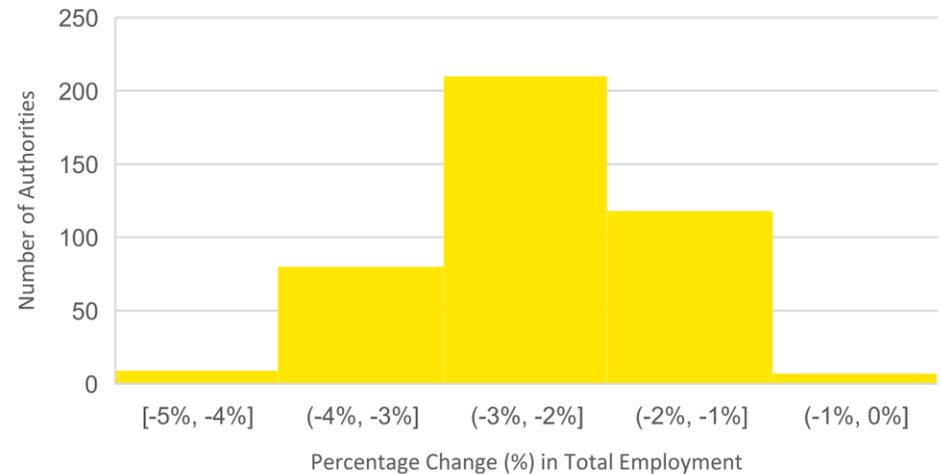
Fig. 8 – Employment Change by Sector 2019 to 2020



The impact on employment appears to have a particularly widespread impact on authorities where Accommodation and Food Services make up a large portion of their economy.

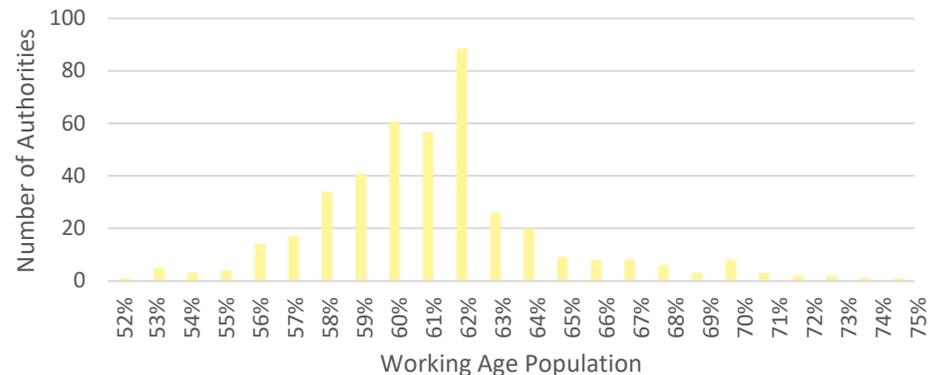
Employment is forecast to drop in 2020 for all Local Authorities, in 9 authorities this is forecast to lead to a reduction as high as 1 in 20 of the current workforce. Employment has knock-on impacts on welfare, social and cohesion indicators within Local Authorities, and industry observers note that the impact on younger adults seeking to enter the labour market at this time may be more pronounced.

Fig. 9 - Local Authority – Relative Employment Change 2019 to 2020



Authorities have differing working age profiles; determined by active 16-64 year olds within their populations able to work, ranging between 52% and 75% of the total. With differing total labour capacity in local markets, authorities with higher proportions of working age individuals who leverage productivity will restart and recover quicker;

Fig. 10 - Local Authority – Working Age Population



Section Three

Medium-term Outlook

Local Economic Recovery & Renewal

The Medium-term Outlook for Local Economies; Impact on Sectors

Over the next five years, output is not expected to recover to 2019 levels across all sectors, leading to unequal rebound and renewal across local authorities

For the majority of these sectors recovery is forecast within 2021, however as demonstrated below, forecast GVA growth varies across sectors between 2019 and 2025 and not all sectors recover to 2019 levels.

Fig. 11 – GVA Change by Sector 2019 to 2025

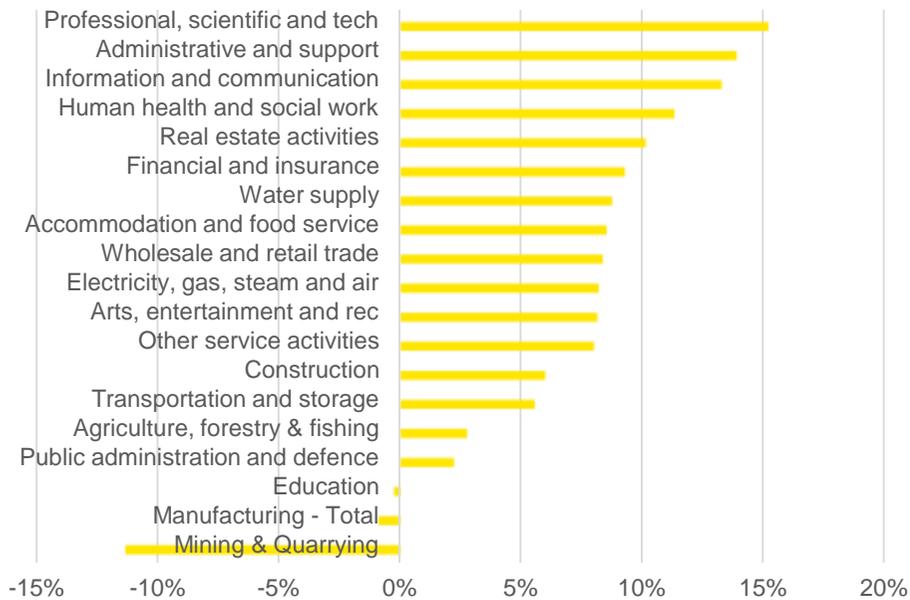
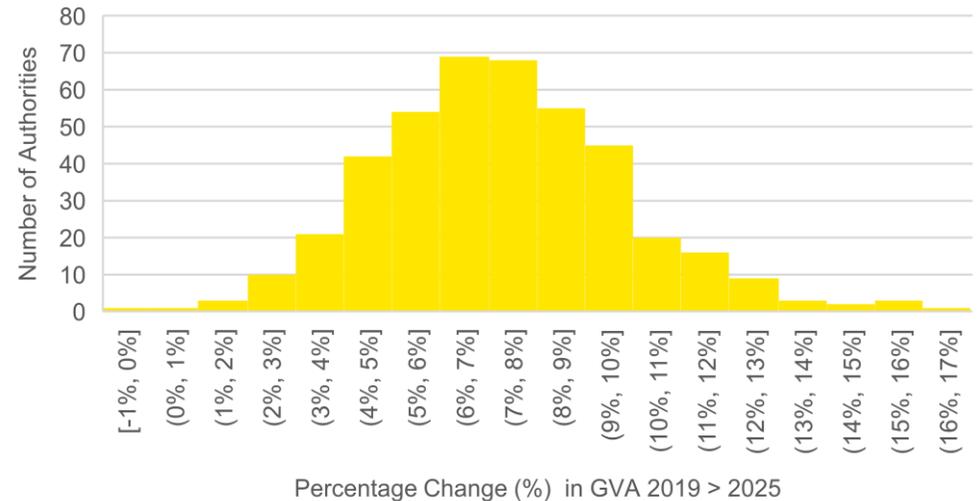


Fig. 12 – Forecast Change in GVA by Percentile 2019 to 2025



129 Local Authority areas have been identified whereby a sector with a forecast GVA increase of over 10% makes up over 15% of their Local Economy, of these authorities 57% of those identified were a result of their reliance on the Real Estate sector.

100 Local Authority areas were identified whereby a sector with negative GVA growth makes up over 15% of their Local Economy, of these authorities 96% were included due to their reliance on the Manufacturing sector.

As shown in Fig 4, the overall impact on the GVA of Local Authority areas is most commonly forecast to be between a 6% - 7% increase in GVA..

The forecast impact for the United Kingdom as a whole is for an increase in GVA of 8%.

It is therefore forecast that there will be 290 Local Authority Areas where the overall impact on GVA will be lower than that for the United Kingdom as a whole.



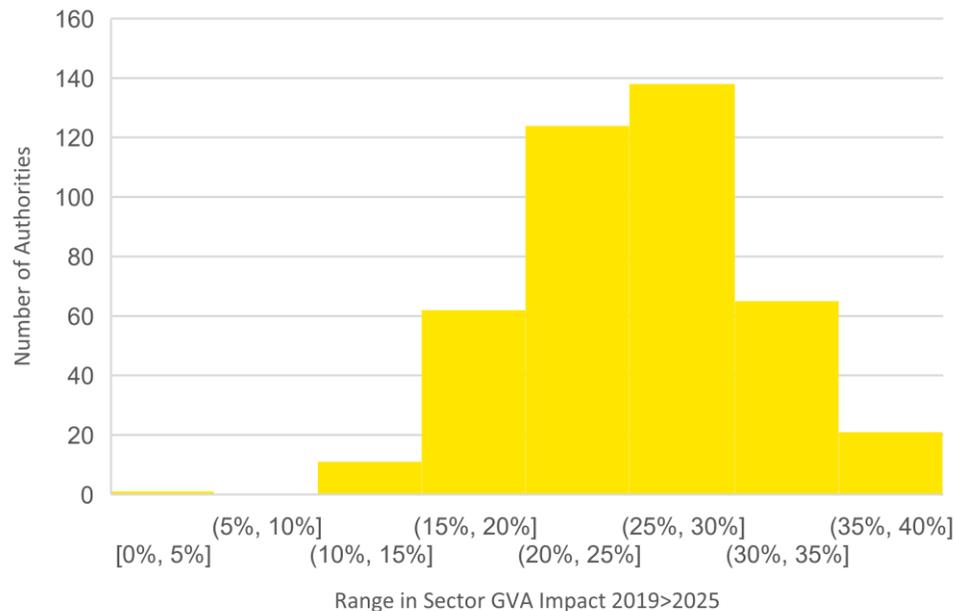
Local Economic Recovery & Renewal

The Medium-term Outlook for Local Economies; Impact on Sectors (Variability)

Over the medium-term authorities will experience differing types of growth ranging from consistent evolutionary growth across a majority of sectors to experiencing significant leaps in growth in a minority of sectors and large declines in others

Figure 11 below evaluates the difference between the lowest and highest sector growth GVA within Local Authority areas to evidence the volatility between authorities. Those within the first tranche (5-10%) see more consistent growth across all sectors. The authorities within the 30 to 40% tranche see far large differences, which should influence the sector focus of economic strategies.

Fig. 13 – Range in Sector GVA Impact 2019 to 2025



Local Economic Recovery & Renewal

The Medium-term Outlook for Local Economies; Impact on Business (Innovation)

Proxies for innovation demonstrate some local authorities will need to nurture an increasingly innovative environment to recover from the current crisis

As a relative proxy for local innovation figure 7 demonstrates the New Businesses per 1,000 population. Authorities above 5 can take confidence that shifts toward new economic capabilities will be quickly adopted due to the innovation of their local areas.

Fig. 14 – New Businesses per 1,000 population

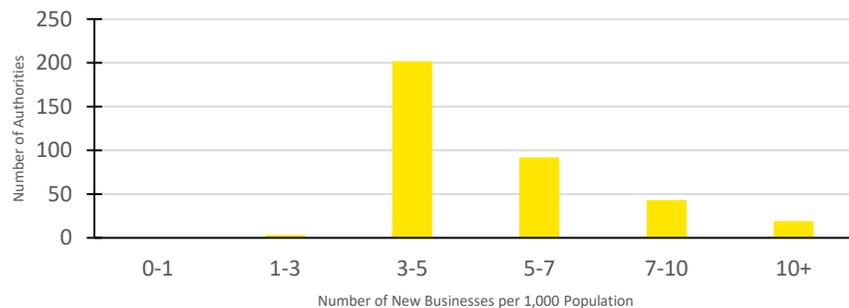


Fig. 15 – Lowest 20 concentration of new business by 1,000 Population

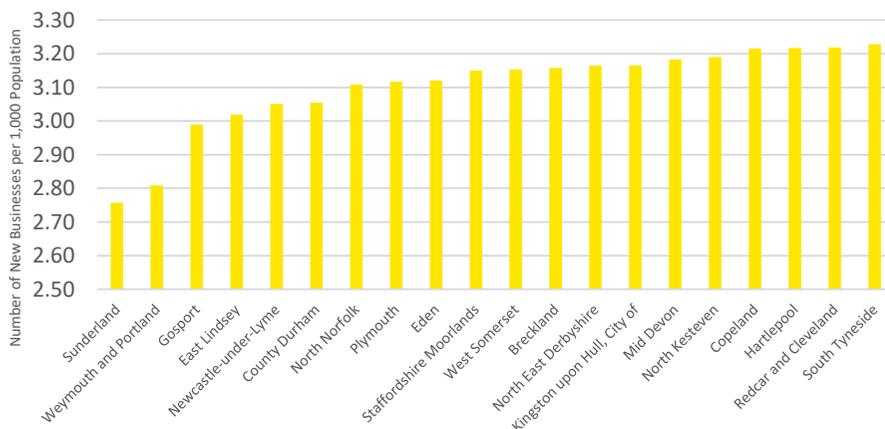


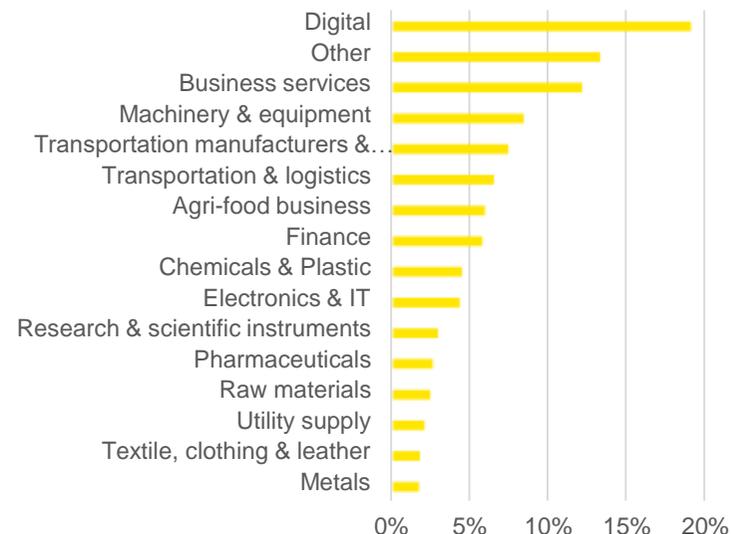
Figure 16 – Approved Patents by Region (2017)



2017 approved patent data provides insight into the concentration of technology, electrical, chemical and engineering entrepreneurs. Patents also correlate with university regions, which foster research and development and stronger networks with local business.

Areas such as the West Midlands and South-east demonstrate a track record in innovation, and will have stronger infrastructure to pursue innovation.

Figure 17 – UK FDI Market Share by Top 15 Sectors



The UK competes on an international stage for FDI attractiveness in a number of sector, warranting the prioritisation of FDI levers amid relevant sectors.

Local Economic Recovery & Renewal

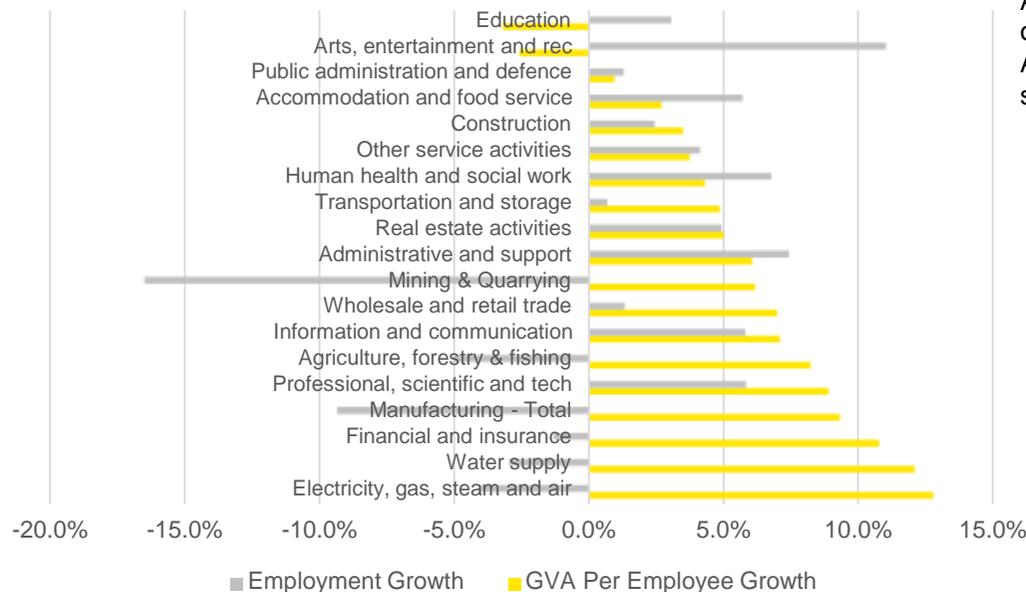
The Medium-term Outlook for Local Economies; Impact on Business (Productivity)

Certain sectors are likely to achieve productivity gains more readily than others, meaning local authorities will need to be proactive in ensuring healthy productivity improvements across local areas.

A proxy for productivity, cautiously applied, is GVA growth per employee between 2019 and 2025 is shown below. This analysis assumes productivity as affected by two main factors: first, the output measured across different sectors; and, secondly, the number employed by each market.

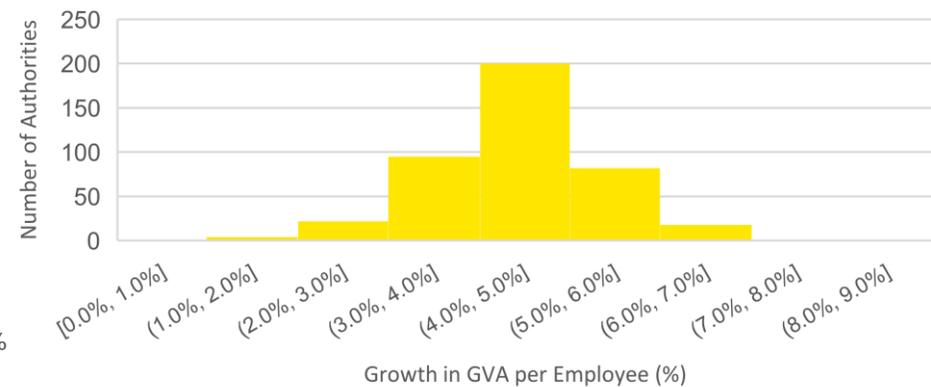
The effects demonstrated that for some industries increased automation will continue to increase GVA per employee as growth increases whilst employment decreases. It also demonstrates that for some industries such as Scientific industries and Information and Communication, GVA growth will outstrip employment growth resulting in productivity increases.

Fig. 18 – GVA per Employee Growth - 2019 to 2025



As demonstrated in Fig 16, GVA growth per employee is consistent for the majority of Local Authorities sitting between 4-5%, there are however 28 Local Authority Areas where GVA growth per employee is 3% or less suggesting productivity is sluggish and will potentially require direct intervention to accelerate.

Fig. 19 – GVA per Employee Growth – Local Authorities- 2019 to 2025



As shown in the diagram below for utility sectors where employment is forecast to fall but GVA is forecast to increase the resulting impact is growth in GVA per employee over the medium term. Notably both the mining and quarrying sector and the manufacturing sector are forecast to incur large drops in employment meaning that despite low growth figures, measures of productivity remain reasonable.

Local Economic Recovery & Renewal

The Medium-term Outlook for Local Economies; Impact on People

Covid-19 is forecast to create permanent workforce change; employment to 2019 levels will not be achieved by all sectors and hence skills redistribution will need to be a key focus for local authorities in their recovery plans

Sector employment is forecast to recover in line with the rest of the economy, growing by 3% in the period 2019 to 2025. However, as noted in figure 13 below, there will be a significant displacement in employment between sectors.

The consequence of this displacement, is that whilst total sector employment is forecast to rise by 3% in the United Kingdom between 2019 and 2025, the impact across Local Authority areas varies significantly.

As displayed in **Fig 8**, for the majority of Local Authority Areas total employment will increase between 2-3%.

However, there are also a large number of areas where there will be negative impacts on employment.

Fig. 21 – Percentage Change in Total Employment 2019 to 2025

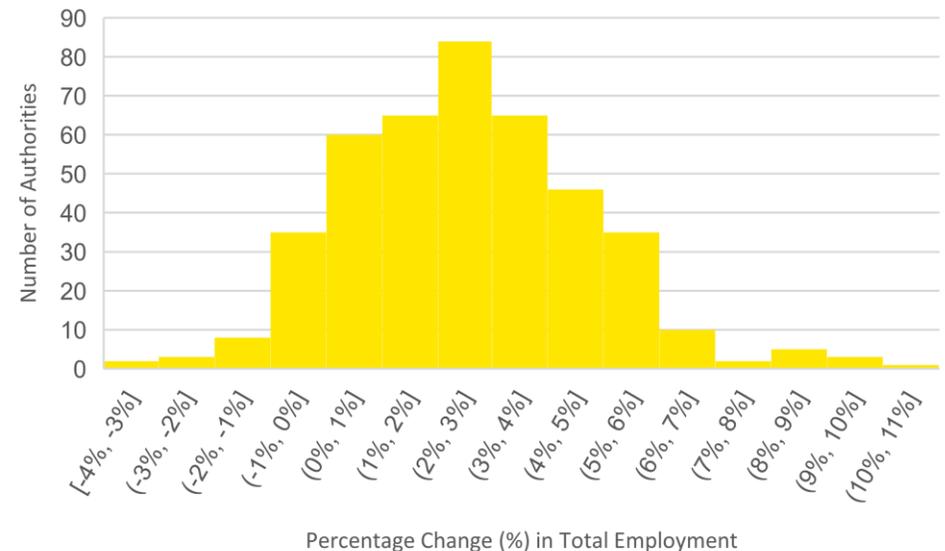
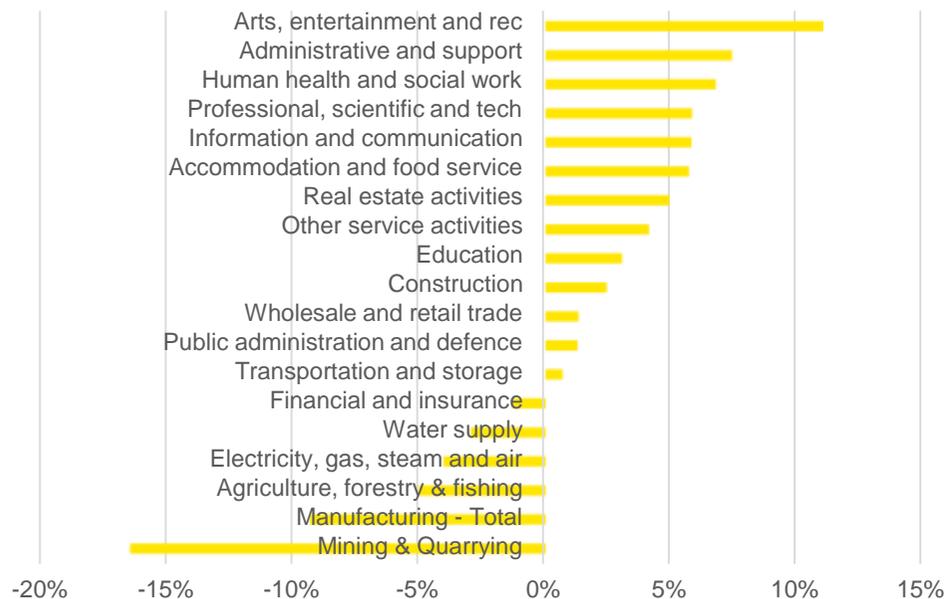
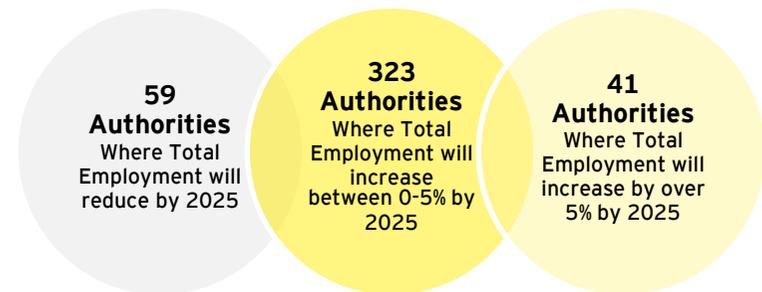


Fig. 20 – Employment Change by Sector 2019 to 2025



Where the current employment of sectors is currently largely concentrated in sectors where it is forecast that there will reductions in employment, the result is that the area faces forecast reductions in employment.



Local Economic Recovery & Renewal

The Medium-term Outlook for Local Economies; Impact on People

Once lockdown restrictions are lifted, many sectors are unlikely to be able to remobilise in an effective manner, leaving some businesses stranded and unable to re-engage with the economy.

For many sectors the GVA impact actually outstrips the employment impact, suggesting that these sectors are high productivity. Professional, Scientific and Technology, Real Estate Services, and Information Communication are all sectors where this is the case.

Whereas for Arts, Entertainment and Recreation, Employment growth actually outstrips GVA growth, suggesting that productivity is lower in this sector.

Local Growth strategies should seek to focus on sectors with high productivity levels, and therefore should focus on sectors where GVA growth is forecast to outstrip employment growth.

Table; Percentage Change in GVA and Employment 2019 to 2025

Sector	Employment Change 2019 to 2025	Sector GVA Contribution 2019 to 2025	GVA Composition
1 - Mining & Quarrying	-16%	-11%	0%
2 - Manufacturing - Total	-9%	-1%	10%
3 - Agriculture, forestry & fishing	-5%	3%	1%
4 - Electricity, gas, steam and air	-4%	8%	1%
5 - Water supply	-3%	9%	1%
6 - Financial and insurance	-1%	9%	7%
7 - Transportation and storage	1%	6%	4%
8 - Public administration and defence	1%	2%	5%
9 - Wholesale and retail trade	1%	8%	11%
10 - Construction	2%	6%	6%
11 - Education	3%	0%	6%
12 - Other service activities	4%	8%	2%
13 - Real estate activities	5%	10%	13%
14 - Accommodation and food service	6%	9%	3%
15 - Information and communication	6%	13%	7%
16 - Professional, scientific and tech	6%	15%	8%
17 - Human health and social work	7%	11%	7%
18 - Administrative and support	7%	14%	5%
19 - Arts, entertainment and rec	11%	8%	2%

Fig. 22– Percentage Change in GVA and Employment 2019 to 2025

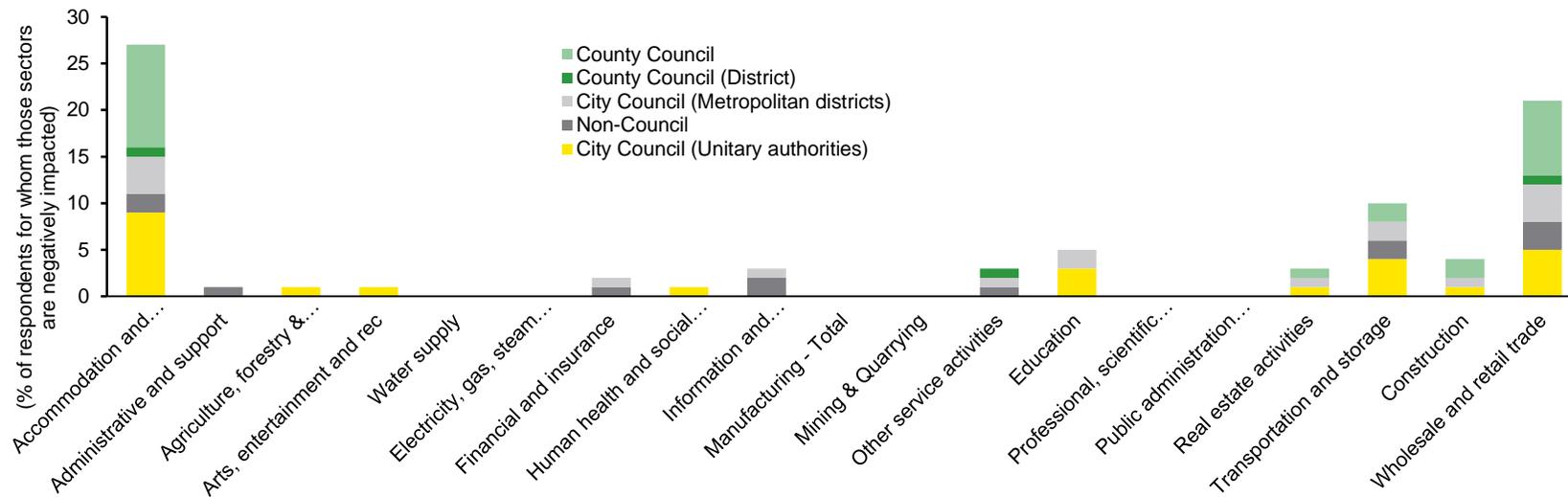
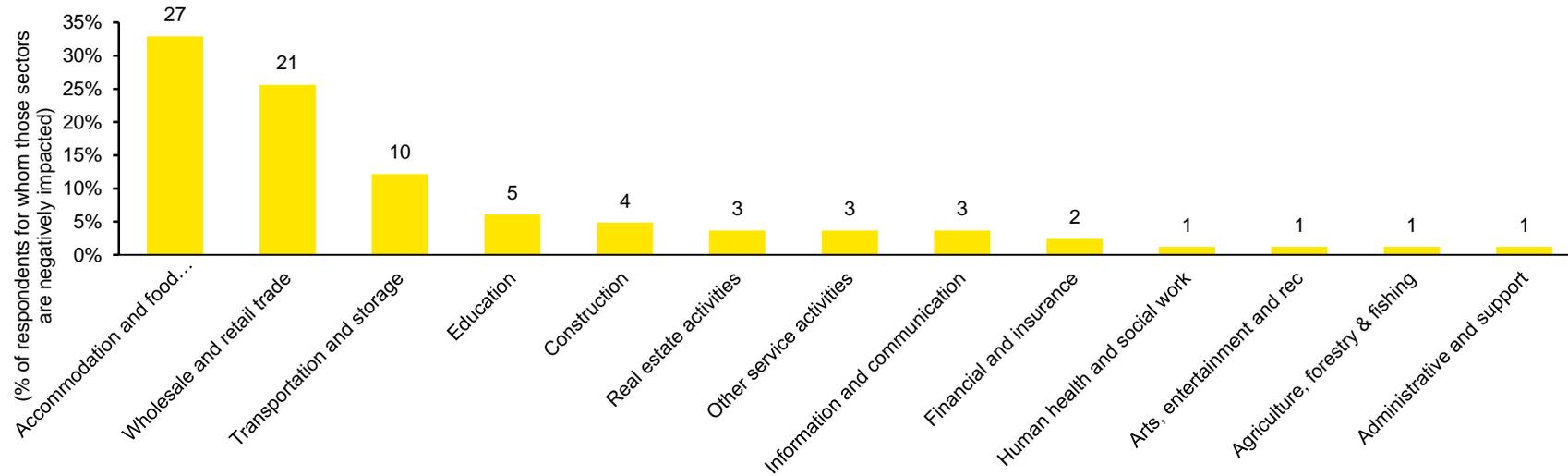


Appendix

ADEPT Survey Results

Local Economic Recovery & Renewal

Negatively Impacted Sectors



Local Economic Recovery & Renewal

Sectors positively impacted by the crisis

