

Internal Scrutiny Committee

Meeting to be held on Friday, 22 April 2022

Electoral Division affected:
(All Divisions);

Corporate Priorities:
Supporting economic growth;

Economic and Social Recovery Post Covid and the Way Forward

Contact for further information:

Andy Walker, Tel: 01772 535629, Head of Service, Business Growth
andy.walker@lancashire.gov.uk

Summary

Since the declaration of the first UK lockdown in March 2020, the pandemic has provoked distinct waves of impact and response across Lancashire. Whilst persistent levels of COVID remain, the dropping of all formal restrictions is seeing a welcome recovery in economy, supported by local and national measures to stimulate activity and employment.

This report builds on data to illustrate:

- Those parts of the economy which were resilient to the pandemic or where COVID increased demand and innovation;
- The role played by furlough through the pandemic to protect employment;
- The sectors most impacted; and
- The longer term "scarring" issues still to be addressed in terms of employment levels, productivity, and investment.

Recommendations

The Committee is asked to:

- i) Note the analysis of the economic and employment impacts of the pandemic in Lancashire; and
- ii) Support Cabinet to progress the Council's objective Supporting Economic Growth through local measures and through the attraction of additional national resource to address longer standing impacts.

Background

Whilst clearly secondary to the direct health impacts of the COVID-19 pandemic, businesses, work and jobs across Lancashire have experienced their own immediate and longer-term changes through its duration. Parts of the county experienced some of the strictest and longest-lived restrictions in the UK and the county council, with

other partners, has played a key role in lobbying, responding and stimulating a recovery.

PHASE 1: Initial Impact – March 2020 to August 2020

On 23 March 2020 the Prime Minister addressed the country with the key message to "stay at home", followed by lockdown measures officially coming into law on 26 March 2020.

These announcements had been preceded by specific closures of hospitality and entertainment businesses on 20 March 2020, accompanied by the Chancellor announcing the Coronavirus Job Retention Scheme (CJRS), in which HM Revenue and Customs (HMRC) would cover 80% of a furloughed employee's wages, up to £2,500 per month.

Businesses were quick to take advantage of this offer, with almost nine million employees enrolled on the furlough programme by the end of the month.

Table 1- National Furlough Timeline



Other support included:

- Retail and hospitality businesses were able to register for business rates relief from 20 March 2020, followed on 22 March by nurseries.
- Launched on **23 March 2020**, the Coronavirus Business Interruption Loan Scheme (CBILS) was significantly expanded on 2 April 2020 along with changes to the scheme's features and eligibility criteria. The changes meant even more smaller businesses across the UK, impacted by COVID, could access funding.

- 4 May 2020, the Department for Business, Energy & Industrial Strategy launched the Bounce Back Loans Scheme, offering loans of up to £50,000, or a maximum of 25% of annual turnover, to support businesses during the pandemic.
- To support the self-employed through the coronavirus outbreak, in March 2020 the Government announced the Self-Employment Income Support Scheme (SEISS). Initially the Scheme paid taxable grants worth 80% of someone's average monthly trading profit, for a three-month period. Those claiming could receive a grant up to £7,500 in total. Subsequently the SEISS was extended to the end of September 2021. The first round opened for applications on 13 May 2020 and closed on 13 July 2020. Just over 2.6 million claims were received for this first grant, costing £7.6 billion.

Local Responses

Initially local activity was focused on responding to the health impacts of the pandemic and providing advice to businesses and individuals to allow them to access the local and national support offer. Locally, businesses organised and collaborated in response to the national call to fabricate new respirators and Personal Protective Equipment (PPE) to support the NHS. This activity came both from large organisations and small- and medium-sized enterprises, organised locally by the businesses themselves and by local Chambers of Commerce.

More formally, through this initial period, local authorities were asked to administer the following business support programmes:

- Small Business Grants Fund (SBGF) – closed August 2020
- Retail, Hospitality and Leisure Business Grants Fund (RHLGF) – August 2020
- Local Authority Discretionary Grants Fund (LADGF) – closed August 2020

As can be seen in the tables below, despite having to adapt quickly to these new duties, Lancashire districts and unitary councils were highly effective in distributing this grant resource to eligible businesses. Any underspends were returned to Government.

Services like *Boost – Lancashire's Business Growth Hub*, played its own role by helping businesses navigate the national and local business support offer and simply providing business owners, who were often in severe distress, a place to talk. The Boost social media campaign #AskforHelp which ran at this time, saw telephone and email enquiries double in volume.

Table 2 - Local Authority Discretionary Grants Fund – Allocation / Grants Paid

Local Authority	LADGF Initial Allocation	Number of grants paid as at 30 Sept	Value of grants paid as at 30 Sept*
Blackburn with Darwen Borough Council	£2,235,250	328	£2,105,000
Blackpool Council	£2,422,000	248	£2,422,000
Burnley Borough Council	£1,215,000	169	£611,207
Chorley Borough Council	£1,135,250	50	£1,130,237
Fylde Council	£1,011,250	181	£1,011,250
Hyndburn Borough Council	£978,750	144	£975,000
Lancaster City Council	£1,683,750	842	£1,683,750
Pendle Borough Council	£1,248,500	150	£1,248,500
Preston City Council	£1,570,250	214	£1,570,250
Ribble Valley Borough Council	£867,750	307	£788,500
Rossendale Borough Council	£877,750	109	£540,315
South Ribble Borough Council	£992,500	132	£992,470
West Lancashire Borough Council	£1,072,000	203	£1,071,450
Wyre Council	£1,596,500	142	£1,238,500

Table 3 – Small Business Grants Fund / Retail, Hospitality and Leisure Business Grants Fund – Allocation and Value of Payments

Local Authority	Initial Allocation	Number of hereditaments that the local authority has identified may be in scope to receive a grant as at 30 Sept	Number of grant payments made to hereditaments as at 30 Sept	Value of payments (£)
Blackburn with Darwen Borough Council	£46,448,000	3,986	3,706	£40,705,000
Blackpool Council	£59,124,000	3,959	3,959	£45,005,000
Burnley Borough Council	£26,510,000	2,271	2,023	£22,855,000
Chorley Borough Council	£24,784,000	2,506	1,916	£21,920,000
Fylde Council	£21,662,000	1,621	1,568	£18,275,000
Hyndburn Borough Council	£24,558,000	1,950	1,950	£21,405,000
Lancaster City Council	£37,616,000	3,053	2,673	£30,720,000
Pendle Borough Council	£26,432,000	2,050	2,022	£21,915,000
Preston City Council	£34,970,000	2,821	2,735	£32,420,000
Ribble Valley Borough Council	£18,926,000	1,543	1,543	£17,260,000
Rossendale Borough Council	£19,080,000	1,651	1,476	£15,825,000
South Ribble Borough Council	£20,888,000	3,062	1,676	£19,280,000
West Lancashire Borough Council	£22,450,000	1,899	1,754	£20,780,000
Wyre Council	£31,970,000	2,743	2,364	£27,420,000

It should be noted that despite this initial phase of lock down, many businesses remained resilient and even increased sales by pivoting or capitalising on the digital platforms they already used to respond to the unprecedented growth in e-commerce and the enhanced need to communicate through online platforms. Others were in sectors like health and care which faced enormous increases and in demand, coupled with new safe working practices which impinged on productivity.

The most severe impacts came in business sectors and their supply chains which were closed by legislation, or where markets disappeared as a result of the direct and indirect impacts on movement restrictions and/or the ability to gather.

PHASE 2: August 2020 to March 2021

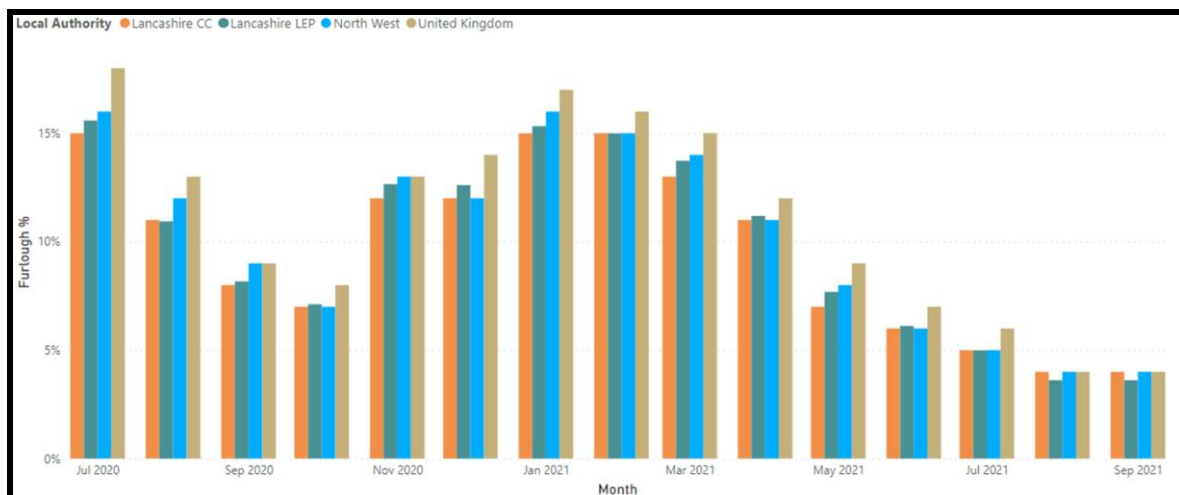
Despite some attempts to lift restrictions in August (Eat Out to Help Out, reopening of theatres, bowling alleys and soft-play areas), 22 September 2020 saw the announcement of new restrictions, a return to home-working and a 10.00 pm curfew for the hospitality sector. The new three-tier restriction system working across different geographical areas was formally introduced on 14 October 2020 with a more comprehensive lockdown applied at the end of the month. Initial attempts to lift some restrictions for Christmas were ultimately thwarted with a number of regions returning to Level 4 restrictions. By March 2021, delayed plans for young people to return to schools and college began to be realised.

This period coincided with a resurgence in "furlough" numbers, with approximately 15% of those eligible in Lancashire being charged to the programme (see Figure 1). This is estimated to equate to 101,000 employees.

Through this period, Lancashire local authorities were asked to administer further support to the business sector including,

- Additional Restrictions Support Grant (ARG)
- Restart Grant – closed June 2021
- Local Restrictions Support Grants (LRSB) and Christmas support payments

Figure 1 - Percentage of Eligible Employments Furloughed Each Month



By mid-2020, formal measures were in place for dialogue between the Government and Lancashire's local authorities. A task-force lead by Paul Scully MP, was charged with understanding both the health, social and economic impacts of the pandemic in the area and reporting these back into a Cabinet Office-led national hub.

The county council, upper tier authorities, Lancashire Enterprise Partnership (LEP) and stakeholders, including Marketing Lancashire, developed a campaign and submitted the "Redefining Lancashire" proposal to the Prime Minister, setting out how Lancashire as a whole, could play a key part in rebuilding the UK economy.

This report acknowledged the breadth and efficacy of the national support programme, however, the challenges were such in Lancashire that continued, targeted intervention as part of a local response to economic recovery was required alongside Government and other funding, to develop momentum to address the specific economic impacts of Covid-19 and help stimulate economic growth.

A strategy and priorities were set out within 'Redefining Lancashire' as part of an economic recovery and growth programme.

Economic Recovery and Growth Programme

As resolved by Cabinet in September 2020, £12.8million was allocated to support the formulation and delivery of a continued economic recovery and growth programme across the twelve district areas and a framework provided for targeted investment and intervention in key priority areas.

This framework set out the principles to tackle specific economic impacts of Covid-19 to stimulate economic growth in urban and rural areas, including targeted and pilot programmes, such as:

- 'Visit Soon, Safely' (including Tourism, Leisure, Hospitality & Town Centres);
- 'Made in Lancashire' (including Aerospace & Manufacturing); and
- Support to the longer-term economic potential of Lancashire's "development pipeline" and by unblocking strategic economic development and infrastructure projects, by funding a range of feasibility studies, masterplans, site investigations, and delivery and investment strategies.

Project Development

A comprehensive project development and management framework has been created to deliver the county council's programme with potential projects identified via established Economic Development mechanisms and structures, led by the county council aligned to the funding's 'Strategic Objectives'.

Expressions of Interest were received and reviewed against these Strategic Objectives, and eligible projects were invited to complete a Business Case template for review, which was based upon the main cases related to Strategic, Economic, Financial, Commercial and Management. Ineligible projects included those that were already fully funded, not able to be delivered against the programme timeframes, did not support the programme's strategic objectives, did not provide sufficient value for money, or were not sufficiently developed.

Programme Overview

A full programme of interventions has been established and funding allocations identified.

A range of projects has been identified across the whole of Lancashire straddling key strategic objective themes that support the full breadth of programme objectives. These projects are at various stages of contracting through the project governance structure. They include:

- Cross-cutting projects including manufacturing support (Aerospace Watchtower), skills support (Apprenticeship Grant Fund), and rural support (Rural Recovery Fund);
- Town Centre support projects through public realm investment (e.g. Ormskirk, Rawtenstall, Barnoldswick, Kirkham, Preston, Burnley);
- Visitor attraction projects (e.g. Morecambe Illuminations feasibility study);
- Business and Manufacturing support (e.g. Project access & infrastructure support);
- Masterplanning support (e.g. Heysham Gateway, The Island St Annes, Skelmersdale, Altham and Whitebirk masterplan);
- Business Case funding (e.g. South Fylde rail line, Chorley Town Centre);
- Regeneration schemes (e.g. Fleetwood Docks, Burnley Masterplan delivery); and
- Other projects are being considered and are at various stages of consideration/approval through the project governance process.

Governance arrangements

Robust governance arrangements have been established to appraise projects, and manage and monitor programme activity, which includes:

- Steering and Working Groups established with the focus of reviewing Business Cases;
- Recommendations for approval made by the Major Development Steering Group and Board including planning, commercial, legal and financial scrutiny; and
- Delegated Approval as per Cabinet approval.

Particular attention has been paid to new Subsidy Control measures and the responsibility that the county council has for establishing mechanisms/systems to monitor adherence to these principles.

Fund Management

Grant Funding Agreements are used for contractual arrangements with each project, with reporting and monitoring systems in place to audit spend, milestones, outputs and outcomes. A Monitoring and Evaluation Framework has been established to ensure funding compliance.

Communications

A Communications Plan has been established and protocols agreed with project applicants as part of Grant Funding Agreements. All funded projects have been supported by a Press Release and project summary Press Releases are made periodically.

PHASE 3: March 2021 to present

April 2021 saw the re-opening of non-essential retail, hairdressers, public buildings (e.g. libraries and museums). Outdoor venues, including pubs and restaurants, zoos and theme parks also opened, as well as indoor leisure (e.g. gyms). Self-contained holiday accommodation opened. Wider social contact rules continued to apply in all settings – no indoor mixing between different households was allowed.

Further relaxations set out within the Four Step Plan progress, though in June, Step 4 (most limits of social contact) is postponed for four weeks to July.

By September, "Plan B" for a winter upsurge in infections associated with the Omicron virus was announced. December saw a re-introduction of masks in public indoor venues, with NHS COVID passes required in nightclubs.

By 21 February 2022, the Prime Minister's statement on "Living with COVID" lifts remaining restrictions.

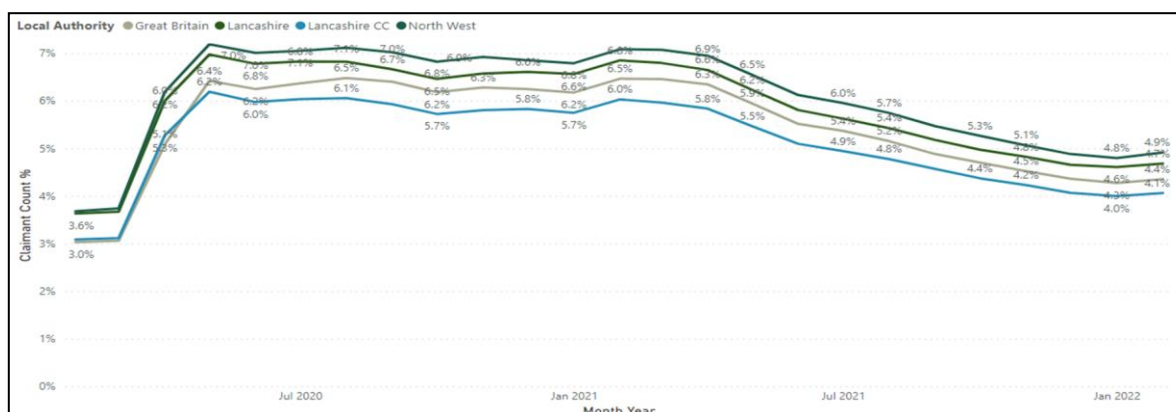
Local Responses and Issues

From mid-2022, local key performance indicators have started to register a tentative recovery in economic indicators around investment, jobs and new business start-ups.

The constituent projects with the Local Economic Recovery Programme continue to progress and are supporting the pace of recovery in businesses, places and employment.

Despite this, there remains work to do to return the local economy and labour market to pre-COVID levels.

Figure 2 - Claimant Count - Percentage of working age people claiming universal credit monthly – Lancashire CC, Lancashire LEP, North West and UK



The claimant count rate measures the percentage of people claiming unemployment benefits. The gap between the all-Lancashire rate and the UK rate has narrowed since the pandemic, with a 0.3% differential now (whereby the Local Enterprise Partnership rate is 0.3% above the national rate, compared to 0.6% pre-pandemic).

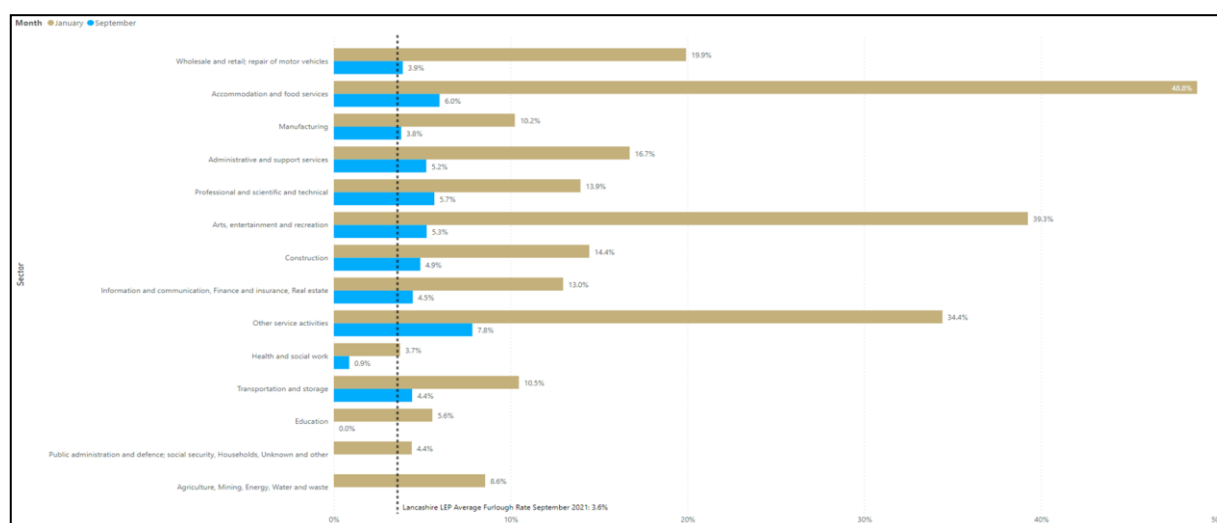
The rate spiked higher for young people during the pandemic but has fallen more quickly to recover. The Lancashire County Council rate was in line with the UK rate of 3.1% pre-pandemic, but is now below it at 4.1% as of February 2022, 0.3% below the UK rate.

Differing Sectoral Impacts

Clearly, some sectors have been more adversely affected than others, but as shown in Figure 3, even as late as January 2021 there were still large furlough rates, particularly in service sectors in Lancashire.

Invariably these were roughly in line with the national rates for these sectors, though notably Manufacturing's furlough rate in Lancashire was slightly higher than the national rate. This is an important consideration when one takes into account relative productivity differentials between sectors, particularly Lancashire's high value-added manufacturing sector.

Figure 3. Percentage furlough estimate by sector (2019 BRES vs Furlough by Sector) Lancashire



COVID Impact on Employment Levels

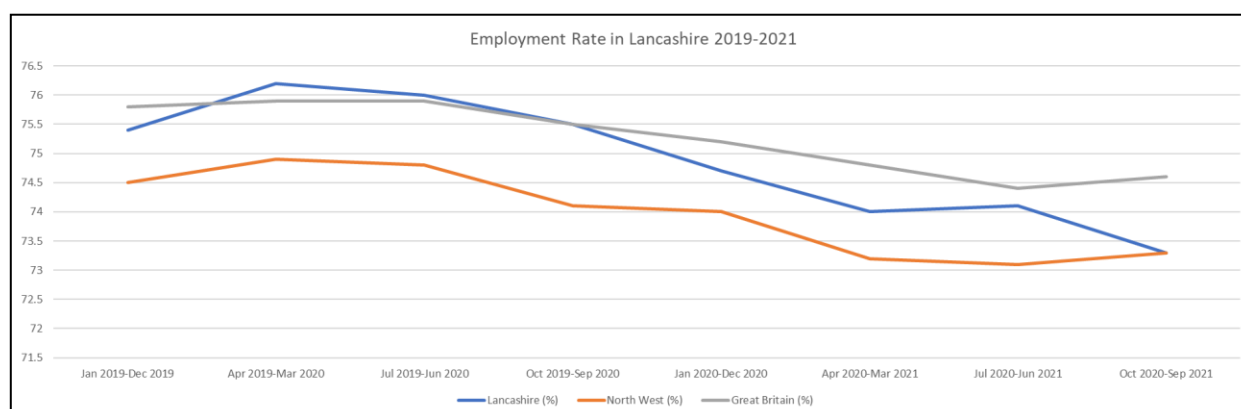
Nationally, regionally, and locally the employment rate has fallen since the start of the pandemic.

In the latest pre-pandemic quarter, Lancashire's (14 LAs) employment rate was growing, compared to reasonably static or slower growth regionally and nationally.

The pre-pandemic picture was that Lancashire had a higher employment rate than was typical nationally and regionally.

That is no longer the case. Lancashire's employment rate is now roughly in line with the North West rate, having been in excess of 1% higher pre-pandemic, and is ~1.3% below the national rate. This is summarised as a fall of 2.9% in Lancashire, and 1.6% in the NW, and 1.3% nationally – the equivalent of 25,700 fewer employed people in Lancashire compared to pre-pandemic.

Figure 4. Percentage of Working Age who are Employed – 2019 to 2021. Lancashire vs NW vs GB



Wider Business Impacts

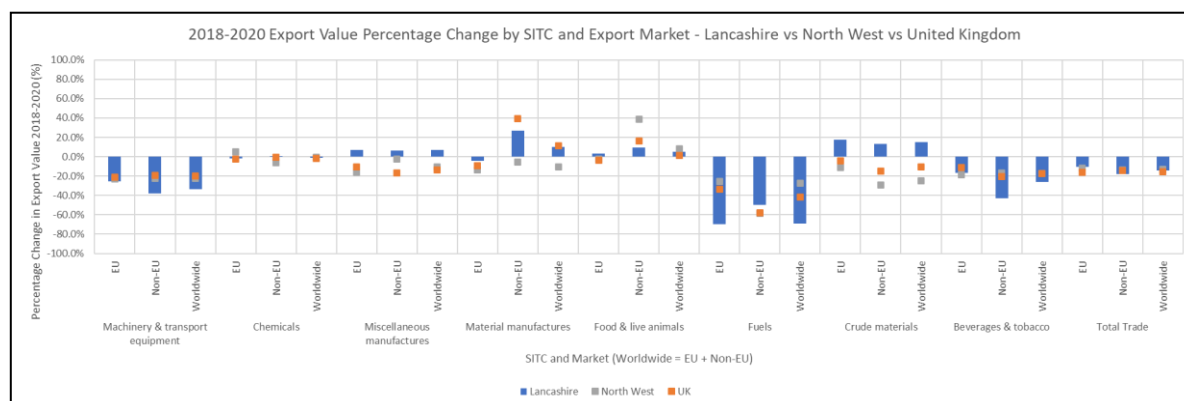
As noted previously, we are observing an uplift in the number of new start businesses whilst employment concerns have already moved from retaining staff to over-coming skills shortages. New and pre-existing pressures such as the need to decarbonise and recent increases in fuel and materials costs are replacing the impact of the pandemic as the main concern of businesses. Nevertheless, some lasting and less expected impacts from the pandemic remain.

Such was the impact of the Government's financial support to businesses (CBILS and BLS) that we are now seeing a reluctance for further borrowing. Similarly, as illustrated in Figure 5, COVID has impacted the extent to which the business community has been engaging in export markets. Between 2018 and 2020, data on the export of goods shows a reduction in the value of exports of 14.3% (compared to a 15.3% reduction nationally) – the equivalent of a decline of £824m.

This has been broadly driven by a third reduction in the value of exports of Machinery and Transport Equipment, the equivalent of a drop of £877m. There was a very modest drop in the value of chemicals exported (second biggest export sector in Lancashire in 2020), but some positive increases in the values of goods exported as Miscellaneous Manufactures (+6.7%) and Material manufactures (+9.7%). You can see above which sectors Lancashire has fared better or worse in compared to the North West and UK.

It will be unclear for some time how much of this can be attributed to difficulties during COVID, as the value of goods exported from Lancashire reduced consecutively in 2018 and 2019, being 1.06% and 9.78% down respectively compared to 2017 exports. Clearly this has accelerated into 2020 with exports down by 14.3% compared to 2018 levels. This could be a consequence of an accelerating change in export attractiveness, but equally we know the civil aerospace market has been particularly challenging during COVID. It should also be noted that these figures reflect the export performance on goods. Whilst service exports are less well measured, they will have remained easier to export through the pandemic period.

Figure 5. Lancashire's International Trade Performance – Exports

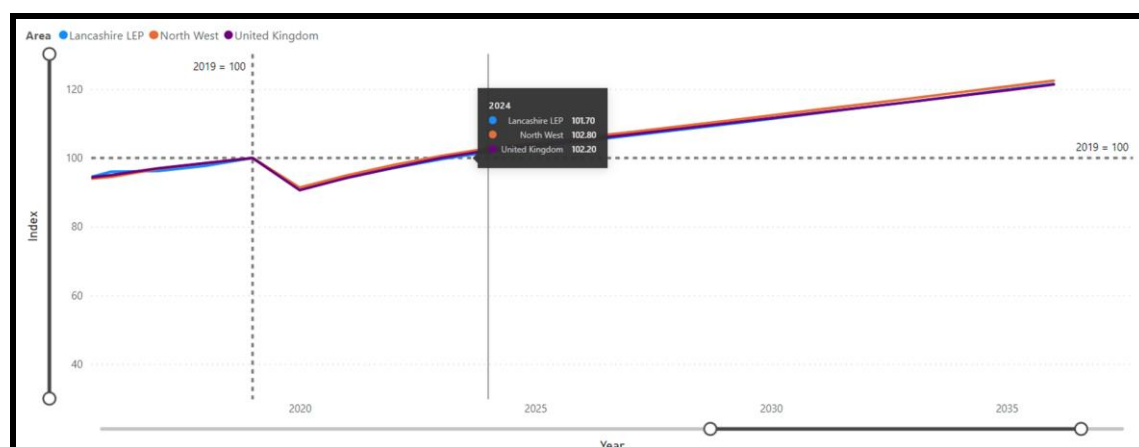


In overall terms, the setback to the local economy presented by the pandemic can be seen on its impact on Gross Value Added (GVA). This broadly equates to the sum of wages and profits within the local economy.

Looking at GVA in 2018 prices, expressed as a proportion of 2019 GVA, Lancashire is expected to see a reduction of 8.9% of GVA in 2020, compared to 8.6% in the North West, and 9.4% nationally.

The recovery is expected to take place at a similar pace to the North West and UK, but with Lancashire expected to be slightly slower in recovering GVA back to 2019 levels, first doing so in 2024, where GVA is expected to be 1.7% higher than 2019 levels, below the North West and UK expectation – this is a year later than the “Break Even Point” in the UK and North West, which is 2023 based on current projections.

Figure 6 - Lancashire’s Projected GVA Impact of COVID and Recovery from COVID



NEXT STEPS

Local partners have already set in train a range of actions to redress the impact of the pandemic on local employment and the economy. A significant pipeline of new development is in place, creating the space for new inward investors and the growth of indigenous businesses. Recent announcements include the decision to local the National Cyber Force at Samlesbury Enterprise Zone, continued efforts to realise the Eden North concept, and plans across Lancashire's local authorities to develop a shared vision for Lancashire moving forward to 2050.

Detail

This paper gathers a range of national and local data, gauging the impact of COVID on the Lancashire Economy and Labour market.

Consultations

The paper includes published materials from the Department for Business, Energy and Industrial Strategy, the Department of Levelling Up, Housing and Communities, the, the Department for International Trade, and the Lancashire Enterprise Partnership and has been consulted on with colleagues in Finance and Legal services.

Implications:

Whilst the county council has been actively promoting recovery measures, there remain some longer-term scarring issues around employment and business performance which will take further time to address and improve.

Risk management

The failure of the economy and labour market to bounce back quickly from COVID impacts will have wider impacts for both revenue and service demand within the county council.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		