



COVID-19 and your Economy
**Our Regular Round-up
For Strategic Place Leaders**

Edition 4: 12/07/20

For Strategic Leaders of Place

Our summary of what you need to know...on just one page!



Confidence data is increasing showing that purchasing is expected to increase from what was a record low. With business reopening and the number of CV-19 deaths decreasing there is a definite confidence in an economic recovery. This was articulated by the Bank of England economist who hinted that a 'V-shaped' economic recovery was looking increasingly likely.

Labour markets however remain the biggest concern – unemployment has still not risen significantly but hiring remains well below average and the continuation of the furlough scheme will be masking a rise in unemployment to come.

Government delivered a **Mini-Budget** last week. Key points:

- Actions to stimulate demand especially in the hospitality and associated sectors. This included VAT reductions as well as subsidised expenditure to use restaurants and other hot food alternatives.
- A change in the stamp duty threshold and promises of grants for investment in home insulation
- A range of labour market schemes including subsidies to employers to retain furloughed staff as well as support to appoint new apprentices

For Place Leaders the initiatives remain 'place-blind' and Local Government as a whole would have been disappointed with the lack of funds for the sector.

On July 10th, Government released the **Towns Fund** template – eligible towns have to select the tranche in which they submit and Town Investment Plans. The Towns Fund is the focus topic in this weeks release.

Key strategic considerations for places (what you need to think about!):

1. How to encourage people back to the high-street and supporting the resilience of local centres – high-street decline was an issue before CV-19 but as existing businesses (especially in retail, hospitality and food) are encouraged to restart, can you help make the right environment to assist?
2. 'Mitigating the spike' of business failures and the considerable increases in unemployment that will occur in the Autumn of this year when various Government support schemes (esp. furloughing) come to an end. This issue is not going to go away and there are now suggestions unemployment could reach a highest ever level. Recent days have seen a number of companies announce cost cutting and redundancy plans in retail but also large manufacturers so it is not a single sector issue.
3. Is there capacity in your unemployment (and benefits) support system and infrastructure – we expect the spike now to be in late Autumn. Is your local plan ready for this and are you putting the right capacity in place?
4. The future of property led redevelopment as a means for regeneration but also for commercial income generation. Govt. data suggests that commercial income represents just 10% of the total income lost by Local Authorities due to CV-19 but for some Councils it is far more significant. Are your plans now sound, do they need review?
5. An new consideration is the support people and families will need to access benefits and debt advice. The downstream implication of CV-19 on the economy are beginning to feed into such service areas and demand will grow.
6. **Eligible Towns needs to be preparing their Town Deal bid – the first tranche of bids are due within the month.**

Key economic intelligence

A quick overview of key economic intelligence available in the last two weeks



Survey Data giving rise to confidence...

The Purchasing Managers Index (PMI) records confidence of business in making an increase in purchases from one month to the next. Across all sectors, the PMI is showing increases after previously reaching record lows:

- The IHS Markit/CIPS UK Manufacturing PMI was confirmed at 50.1 in June 2020, up from 40.7 in the previous month, suggesting there was a stabilisation in operating conditions following the recent steep downturn. Manufacturing production rose slightly for the first time in four months.
- The IHS Markit/CIPS UK Services PMI stood at 47.1 in June 2020, little-changed from a preliminary estimate of 47.0 and compared to May's final reading of 29.0, still pointing to a deterioration in business conditions across the UK service sector.
- The IHS Markit/CIPS UK Construction PMI rose to 55.3 in June 2020 from 28.9 in the previous month, easily beating market consensus of 47.0. The latest data show the steepest increase in construction output since July 2018, due to the reopening of the UK construction supply chain.

These increases in confidence, as well as a return of retail sales, is increasing suggestions of a 'V shaped recovery'. Bank of England economist Andy Haldane gave a speech on July 7 in which he said the recovery in the UK and globally had come "sooner and faster" than expected. However, he sounded a note of caution on jobs in the wake of the pandemic, highlighting that any rise in unemployment could also cut future demand/consumer spending, leading to a challenging cycle of further risks.

The labour market as a whole remains a considerable concern.

The Institute For Employment Studies have been producing a weekly vacancies trend bulletin since the Covid-19 crisis began. The work is supported by Joseph Rowntree Foundation. The data it is based on is provided by Adzuna (www.adzuna.co.uk) – one of the largest online job search engines in the UK.

At the UK level there were 110 thousand new vacancies notified. This is a modest increase compared to the previous week, when fewer than 90 thousand new vacancies were advertised. This low figure suggests that the easing of lockdown has not yet led to any significant rebound in hiring. New vacancy notifications across the UK are 70 per cent lower than for the equivalent week last year, and 50 per cent lower than in the week before the crisis began.

This week's UK level vacancy data show that the fragile recovery seen a few weeks ago seems to have fizzled out, even as lockdown measures have been eased. This likely reflects both the continuing high uncertainty among employers and the significant spare capacity that many employers will have with employees starting to return to work from the Job Retention Scheme.

Policy considerations

A quick overview of key policy changes/insights available in the last two weeks



Government Initiatives

The Chancellor delivered a 'mini-budget' statement on July 8th. For Place Leaders the striking feature was an absence of support for Local Authorities in both responding to CV-19 but also, to support the recovery. There was no additional funding announced for LAs. A series of national measures were announced to try and stimulate most at risk aspects of the economy (hospitality) as well as employment support programmes. Initiatives included:

In terms of stimulating demand:

- Six-month VAT cut (from 20% to 5%) from July 15 to January 12 2021 for restaurants and hotels.
- Cut to stamp duty raising the threshold at which it must be paid from £125,000 to £500,000
- Grant funding for home insulation projects
- 'Eat out to help out' scheme offering a 50% discount for every diner, up to £10 per head – applying Monday to Wednesday for August

In terms of the labour market:

- £1,000 payment to employers who retain furloughed staff to January
- Kick-start scheme to fund six-month work placements for 16 to 24 yr olds
- £1,000 grant per trainee for employers who engage new employees aged 16 to 24yrs
- £2,000 grant for employers per apprentice under 25yrs, £1,500 for those over 25yrs
- Doubling the number of Job Centre Plus workers
- A series of other employment support programmes targeted at young people

Policy insights...

One of the key policy agendas of Government has been an intention to 'level-up' the economy. In 2020 it announced a **Towns Fund** accessible by 101 places in England. Guidance on this was released in late June and templates for completion by places were provided on July 10th. Place Leaders who are submitting bids need to be following the process closely if to capture any funding benefit for your local place. Our focus section later features the Towns Fund specifically.

These policy sections have referenced a number of reports highlighting the risks to young people from unemployment and a constrained labour market as we expect to have later this year. The mini-budget included measures specifically targeting this cohort although there has been a number of suggestions that the measures may not meet demand. Again, these measures are being introduced in a 'place-blind' way - Place Leaders need to understand what they will mean in their Place and whether they can act to support the initiative to get people into work.

Reports of note include: The Resolution Foundation. Summer Economic Update July 2020: Resolution Foundation overnight analysis provides a summary of the mini-budget and possibly further measures. This report by The Resolution Foundation explores these policies, providing analysis, recommendations, and predictions for Autumn.

Centre for Ageing Better. Back on track: Improving employment support for over 50s jobseekers. With over 3 million people aged 50-64 are out of work in the UK, 50s jobseekers face significant barriers to finding work. Unemployment of over-50s is particular common in 'left-behind' places and Place Leaders in these places must give this consideration.

Our view...

Towns Fund



This section of our report focusses on a key topic to help strategic place leaders focus in more detail on what is to come and support you in planning ahead. This week we look at the 'Towns Fund'. 101 Places in England are able to bid but it is the example of a 'typical' allocation process that is of interest to many.

Background to Towns Fund

- Announced in September 2020 – 101 Towns could 'bid' for up to £25m each
- Guidance required Towns to:
 - Create a Town Board inclusive of various stakeholders including the local MP
 - Develop a Town Investment Plan (TIP) - a strategy for the Town with usual requirements around evidence base etc.
 - Engagement plan including public consultation linked with the Govt. comms
 - Identify projects against a set of criteria included in the Guidance
- Each Town received c. £165k of capacity funds to help with this via a S31 Grant.
- Govt. have appointed (June 2020) a consultancy consortia, led by Arup to support places and Govt in undertaking assessments of bids
- Revised Guidance issued in June 2021
 - Applicants must nominate a 'tranche' in which they intend to submit (July, October, or January)
 - Two stage process – submit your TIP (inclusive of 'strategy', and of 'projects'), it is assessed, if deemed acceptable then you enter a Heads of Terms agreement with Govt., before you are then asked to do business cases for project funds as stage 2
 - Government approves funds if satisfied by the business case process

Key issues for Local Areas

New Guidance was issued in June – here we identify a series of issues that Place Leaders need to be thinking about with that Guidance now available.

1. Clarity over first stage requirements – places will be aiming to submit in July but the templates from Govt. was only made available on July 10th while it unclear just how much project detail is needed in Stage 1 for Govt. to be willing to progress such projects
2. Role of Town Deal Hub – the consultancy support commissioned by Govt is described as being able to support technical work by Towns yet, also, as being unable to produce bids or undertake cost-benefit analyses. There's a critical need for expectations to be clear about just what the Hub will and will not do.
3. Business Cases – a business case is typically expensive to produce but no additional revenue funds will be made available. Hence, Place Leaders need to have a budget in place for projects that pass through initial filtering to then fully assess them
4. Role of an LA as an applicant and potentially, as an Accountable Body – this is a risk area in our view. The Guidance implies that the local area will agree funding allocations to projects based on applying a Green Book compliant assurance test. CAs and accountable bodies of LEPs will be used to this but not necessarily anyone else – do Towns have the right skillsets in place to meet this task?
5. Over-run liability – S151 Officers may be interested in this. The Guidance implies the funding allocation for a project will be included in the HOTS agreement but this is ahead of the technical assessment for funding. So...if a project costs more than was initially thought before the HOTS who is liable for the cost difference? There are examples of this tripping-up programmes in England already so there is a need to be aware of risk.
6. Spot the politics! There was concern when the fund was announced that the list mapped against marginal constituencies and the Guidance explicitly states MPs must be involved. This is a risk and opportunity for areas – but you need to be aware.

Our view...

Framing your recovery plan – the frames



An increasingly 'typical' way of doing things...

The process of Town Deal replicates that of Growth Deals done with LEPs in c. 2014/15 and also follows a similar pattern to many City Deals and Devolution Deals done in the last few years.

The process begins with an announcement of 'flexible' funds with local areas required to develop a new institutional form and then strategy, based on a set of national determined parameters (Guidance).

This is then followed typically by the two stage process of 'agreeing' a heads of terms 'Deal' which is usually when an announcement occurs. This is then followed by actual assessments of projects which may be delegated to the local area for sign-off based on some form of assurance mechanism with central Government.

Hence, there are a series of hurdles to cross before any particular local priority might be funded. First, it must in some way fit with nationally set criteria within the Guidance. Second, it can be rejected at the point a strategy is submitted, and third, it can be rejected again if it doesn't meet the assurance framework which typically, requires a Green Book standard Cost Benefit Ratio to be achieved.

However, this way of doing things remains the only way discretionary project fund is allocated and made available to local places. Places Leaders must therefore interface with this process to try and maximise the benefits to their local area – if this is the game Govt, wants local areas to play then so be it...

A longer read available on the GCC website (see <https://gcc.growthco.uk/our-thinking/posts/2020/june/levelling-up/>) outlines how we have been doing economic development in this way in England for c. 40 years and that it remains inefficient and a barrier to longer-term planning. IF we are serious about a 'place led' approach to economic growth then we need a new era of working with local areas on such processes with greater certainty about expectations and a much better ability to allow local areas to lead for themselves without 'Guidance' acting as a constraint.

The 'typical' approach to fund allocations



Recent / Current Examples

Growth Fund, Growth Deals and Strategic Economic Plans

Town Deals, Town Boards, and Town Investment Plans

Actual flexibility for local areas to invest in local priorities diminishes through process and a central 'selection' process increases.

The places that will do best will recognise the process for what it is and will tactically seek to maximise the funding allocated while 'bending' a consistent and long-term plan to each initiative as it is announced. They play the game best...

Lists and References

Where to go to for further detail.



List A: Key Reports

Key Reports of possible interest issued in the last two weeks. List is not fully comprehensive due to volume of publications being issued.

Report	Organisation	Date
Preserving job matches during the COVID-19 pandemic: firm-level evidence on the role of government aid	Centre for Economic Performance	09/07/2020
Summer Economic Update July 2020 Resolution Foundation overnight analysis	The Resolution Foundation	09/07/2020
The challenges to higher education in the coming months and years by Glyn Davis	Higher Education Policy Institute	09/07/2020
Back on track: Improving employment support for over 50s jobseekers	Centre for Ageing Better	07/07/2020
Easing does it Economic policy beyond the lockdown	The Resolution Foundation	07/07/2020
Lockdown living Housing quality across the generations	The Resolution Foundation	03/07/2020
A green recovery for local economies	CLES	03/07/2020
Transforming the economy after Covid-19: A clean, fair and resilient recovery	IPPR	02/07/2020
Renting beyond their means? The role of living rent in addressing housing affordability	IPPR	30/06/2020

References

References and links to data/events referred to in this update.

- ONS GDP Data - <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/april2020>
- IES blog on understanding unemployment data - <https://www.employment-studies.co.uk/news/what's-going-unemployment-data>
- PMI data releases - <https://www.markiteconomics.com/Public/Release/PressReleases>
- Towns Fund Further Guidance - <https://www.gov.uk/government/publications/towns-fund-further-guidance>
- Resolution Foundation publications - <https://www.resolutionfoundation.org/our-work/coronavirus/>

About GCC



For a discussion about the content of this briefing or to discuss the potential support that GCC could provide please contact Michael Palin, MD of GCC.



Michael Palin
Managing Director

m. 07834 686 374
e. michael.palin@growthco.uk
w. gcc.growthco.uk

This 'Round-UP' is one of a suite of materials developed by GCC to support our clients and partners as they face the ongoing challenge of stimulating sustainable economic growth; from having the right economic strategies to having the right governance and structures that enable delivery.

The series includes features on CV-19 as well as Devolution, local collaborative working and governance for delivery. The series can be accessed at gcc.growthco.uk

Michael Palin has been a successful Local Authority CEX, Executive Director of a LEP and formerly worked at both an RDA and in specialist economic development consultancy. He has also been heavily involved in the emergence and negotiation of devolution in England, as well as integration of health and social care and has experience in housing policy in the North. Michael is Managing Director and leads our GCC team.