North East
Local Enterprise Partnership

Our Economy:

insights into the impact of COVID-19 and EU transition on the North East economy

September 2021

Authors:

New Skills Consulting Ltd: Peter Graham, Helen Joicey, Claire Graham
Ortus Economic Research Ltd: Andrew Rowell, Andrew Graves, Lucy Walker
North East LEP: Eddie Smith, Emma Ward, Richard Baker, Paul Carbert

Contents

North East
Local Enterprise Partnership

Introduction

North East
Local Enterprise Partnership

Introduction

The economic shock caused by COVID-19 has been unprecedented. The pandemic has had a significant impact on the North East economy, with falls in business activity, consumer spending and employment on a scale rarely seen in modern times, and rising unemployment, insecurity and hardship experienced by many households, communities and businesses across the region.

While some sectors of the economy have been hit extremely hard, others have been able to continue trading almost as normal and some have benefitted from new opportunities, illustrating the highly uneven impacts of the pandemic. These changes coincided with the UK's exit from the European Union (EU), which has further impacted on some sectors.

As the vaccine roll out continues, restrictions are being removed and the economy and society begin to gradually return to growth, notwithstanding the likelihood of ongoing outbreaks and responses, it is now an opportune time to take stock, and to assess the post-COVID-19 'new normal'.

This summative report attempts to understand the impacts of the pandemic, alongside EU exit, on the regional economy, assess what has changed, and identify the key challenges and opportunities that lie ahead in planning a successful economic recovery in the North East.

It synthesises intelligence gathered by the North East LEP at regular intervals throughout the pandemic, covering the entire period from the first national lockdown in March 2020, up to date. It aims to summarise in a single document the key impacts of the pandemic on the North East economy. The intelligence gathered has been used by the North East Economic Response Group and the North East LEP to inform and support the region's economic response and recovery planning throughout the pandemic.

As the region looks forward and plans for the recovery, the report will be used to help shape future economic policy development. This insights report is being published alongside our annual state of the region report – 'Our Economy' as a key source of regional evidence. Our Economy 2021 tracks performance of the North East LEP economy across almost 100 economic indicators.

It will inform future strategy development and policy asks and investment proposals to UK Government to support the regional recovery. This will help to ensure the regional economy is best placed to emerge better and stronger from the pandemic.

The report considers the impacts of the pandemic and EU exit on the follow aspects of the North East economy:

- Business activity and growth
- Labour market, employment and skills
- Innovation
- Connectivity
- Infrastructure and finance
- Places and local authority areas
- Sectors and areas of opportunity.

The report has been prepared by New Skills Consulting and Ortus Economic Research, working in partnership with the North East LEP. It draws on a range of official economic and labour market statistics and other datasets, sector intelligence from regional and national surveys, with the latest available data up until mid-July. Regular consultations with sector and Local Authority representatives were conducted throughout the pandemic, the latest of which took place during July and August 2021. It should be noted that the consultation feedback presented throughout the report represents the views of the consultees, rather than those of the North East LEP.

The full report is available on the North East Evidence Hub. A full list of organisations involved in the consultations and key themes explored are presented in the full report. .

Headline Indicators

North East
Local Enterprise Partnership

Key messages

The UK was officially in a recession following two consecutive quarters of negative growth in Q1 and Q2 2020, reflecting significant declines in household spending and business investment activity caused by the national lockdown implemented in response to the emerging COVID-19 pandemic.

Initial recovery was rapid, but was interrupted by further national lockdowns in November 2020 and January 2021. There have been four consecutive months of growth since January 2021 as the latest restrictions have eased, though UK GDP remains 3.1% below the pre-pandemic levels seen in February 2020.

The pandemic had a similar impact on North East region's economy to that seen nationally. Regional output in Q4 2020 was 6.0% below the level seen in Q4 2019, compared with a difference of 6.8% in England.

NatWest PMI data shows that business performance was hit very hard at the start of the pandemic. Performance bounced back rapidly as firms reopened and ramped up operations following the initial lockdown, but this has been followed by fluctuating performance which reflects the changing nature of business conditions, driven by the pandemic and the restrictions that have been introduced periodically in order to suppress transmission.

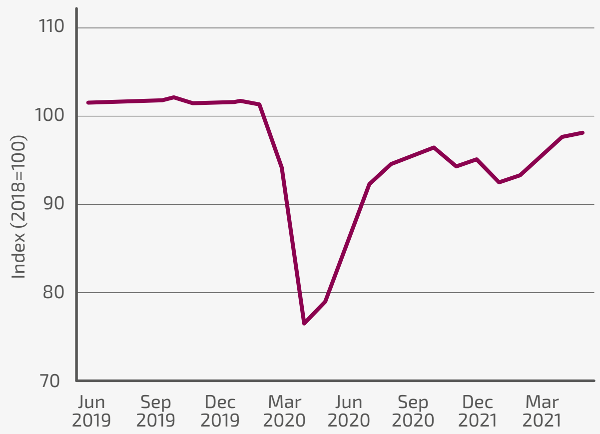
Economic forecasters generally expect the economy to recover to pre-Covid levels relatively quickly, with confidence underpinned by the successful rollout of COVID-19 vaccines. However, there remains some uncertainty about the economic outlook.

UK economic output

The UK was officially in a recession following two consecutive quarters of negative growth in Q1 and Q2 2020. Around a quarter of gross domestic product (GDP) was lost in Q2 2020, due to significant declines in household spending and business investment activity, caused by the national lockdown implemented in response to the emerging Covid-19 pandemic. Initial recovery was rapid, but was interrupted by further national lockdowns in November 2020 and January 2021as shown in Figure 1. The latest data[1] shows that as at May 2021, there had been four consecutive months of growth as the latest restrictions eased, though UK GDP remained 3.1% below the pre-pandemic levels seen in February 2020.

Output by sector has varied considerably during the pandemic, as public health restrictions forced the closure of non-essential businesses and travel restrictions between areas of the UK and internationally have impacted on related sectors[2]. In particular, service sector output has been constrained by restrictions on retail, hospitality and tourism businesses; in contrast, the recent reopening of pubs and restaurants to indoor customers saw output in food and beverage serving activities grow by 34% between April and May 2021. Overall manufacturing output has been constrained by weakened consumer demand for many products,

Figure 1: UK gross domestic product: monthly index, seasonally adjusted, June 2019 to May 2021



Source: ONS GDP monthly estimate, UK: May 2021

as well as supply chain issues. Output in the manufacture of transport equipment fell by 16.5% between April and May, for example, as global microchip shortages disrupted car production. At the same time, demand in some sectors, such as healthcare services and manufacture of basic pharmaceuticals (including hygiene and cleaning products) has remained strong throughout the pandemic.

More recent anecdotal evidence suggests recovery continues to be constrained in some sectors. A so-called 'pingdemic' in July 2021[3] led to staffing issues and disruption in some sectors where people cannot easily work from home, including retail and transport, as staff were required to self-isolate following contact with someone with Covid-19 (from 16 August, fully vaccinated people are no longer required to isolate and this impact has since receded).

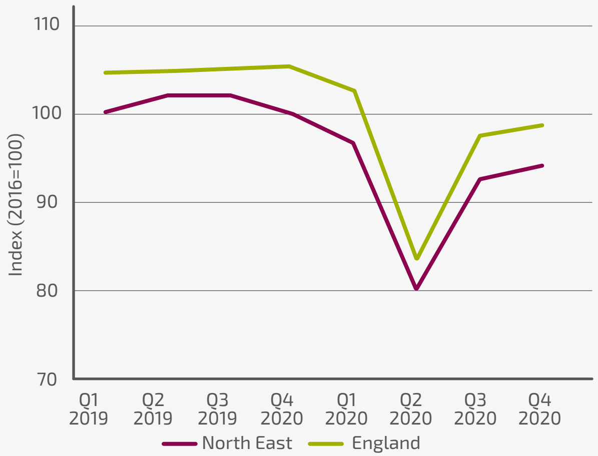
Meanwhile, a number of sectors are reported to be experiencing labour shortages, though it is difficult to unpick the effects of Covid-19 from EU Exit. For example, recruitment difficulties are reported in food production, hospitality and tourism following EU Exit, although the Covid-19 pandemic was a key driver for furloughed EU workers to leave their jobs. Another reason for the current difficulties – besides the tightness of the labour market in sectors where businesses are all trying to reopen at once – is that many staff who were furloughed during the pandemic have found jobs in other sectors, often with better terms and conditions[4]. These are also factors in transport and logistics, with a reported shortage of 100,000 HGV drivers across the UK following Covid-19 and EU Exit which is causing supply chain disruptions in other sectors[5]. It is not yet clear whether these are short-term issues, or whether they might continue to act as a constraint on UK economic growth over the longer term.

1 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2021
2 Civil Aviation Authority data, for example, shows that passenger numbers at Newcastle airport fell by 80% in 2020 compared with 2019, from 5.20 million to 1.06 million.
3 https://www.ft.com/content/1bdef6b5-672d-46e0-9502-492a432a51af
4 https://www.bbc.co.uk/news/business-57817775
5 https://www.bbc.co.uk/news/57810729

North East economic output

ONS data[6] suggests the North East economy (including North East and Tees valley LEP areas) showed little growth in output in the years prior to the Covid-19 pandemic. North East GDP grew by just 0.3% between Q4 2016 and Q4 2019, compared with growth of 5.1% in England as shown in Figure 2.

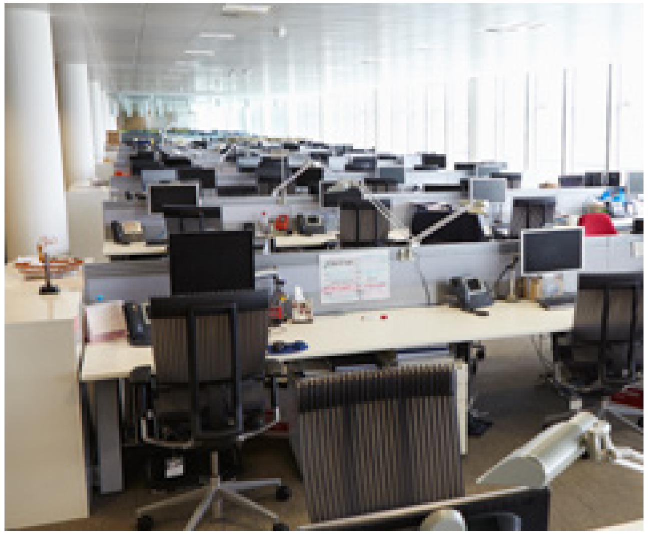
Figure 2: North East and England gross domestic product: indexed, Q1 2019 to Q4 2020



Source: ONS Quarterly country and regional GDP, August 2021

The pandemic had a similar impact on the North East region's economy to that seen nationally, though a decline in regional output between Q3 and Q4 2019 is notable as this predated the Covid-19 pandemic, whose impacts are seen in the subsequent two quarters. Regional output in Q4 2020 was 6.0% below the level seen in Q4 2019, compared with a difference of 6.8% in England. While this implies a slightly faster recovery from the impacts of the pandemic in the region than seen nationally, this should be seen in the context of historically slower long-term growth of North East GDP relative to England.

Table 1 illustrates the impact of the Covid-19 pandemic on North East regional GDP by sector, showing the change in output in each quarter compared with the previous quarter (and net change between Q4 2019 and Q4 2020). Shading shows sectors which experienced particular volatility (the darker the shading, the more volatile it was). The table shows that the region experienced a downturn in the first half of the year, most notably in Q2, rapid recovery was apparent in Q3 which subsequently slowed in Q4 as public health restrictions intensified again. While, broadly speaking, many sectors show a similar pattern, the extent to which different sectors have been affected is clear.



6 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/octobertodecember2020

Table 1: Impact of Covid-19 on economic outputs by sector, North East region, 2020

	% change in GDP compared with previous quarter				
Sector	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Net change
Agriculture, forestry and fishing	-2.1	-1.8	-1.7	0.7	-4.8
Mining & quarrying	-14.2	-8.2	9.5	-4.2	-17.4
Manufacturing	-7.6	-20.9	23.6	7.3	-3.1
Electricity, gas, steam and air	-3.7	-6.4	-0.6	-2.2	-12.4
Water supply, sewerage	4.3	-2.2	2.2	-2.1	2.1
Construction	-3.5	-32.6	27.5	1.8	-15.6
Wholesale, retail; repair of motor vehicles	-0.7	-19.8	23.6	-0.1	-1.7
Transport and storage	-9.1	-15.9	12.7	9.3	-5.8
Accommodation and food services	-8.1	-75.7	275.2	-21.2	-34.0
Information and communication	3.8	-15.0	28.6	3.7	17.7
Financial and insurance activities	-0.4	-3.5	-2.0	5.3	-0.8
Real estate activities	-1.2	-4.2	3.1	0.2	-2.2
Professional, scientific and technical	5.6	-20.8	10.3	3.6	-4.4
Administrative and support services	-1.3	-19.3	14.8	6.5	-2.6
Public administration and defence	0.8	-1.3	2.8	0.1	2.4
Education	-10.2	-21.6	18.2	0.9	-16.0
Human health and social work activities	-7.0	-17.6	14.1	0.5	-12.1
Arts, entertainment and recreation	-8.3	-16.6	1.8	3.5	-19.4
Other service activities (including membership organisations and personal services)	0.8	-18.1	8.8	-1.0	-11.1
North East region (all sectors)	-3.4	-17.3	15.7	1.6	6.0

Source: ONS Quarterly country and regional GDP, August 2021. Shading shows sectors with particular volatility in output over the year.

In particular, the data shows a significant impact on output in accommodation and food service activities in Q2 2020, followed by growth in Q3 as parts of the hospitality trade were able to (partially) reopen, with a further fall in Q4 as national and local lockdowns took effect. Some sectors, such as financial and insurance activities and real estate activities, did not experience such large downturns as others, presumably because it was easier to pivot to online services and staff working from home. The arts, entertainment and recreation sector, meanwhile, shows little recovery from its downturn in Q1 and Q2 2020, as many venues remained shuttered during the second half of the year.

Overall, throughout 2020 the most notable fall in output was in accommodation and food services, where output in Q4 2020 was 34% below the level in Q4 2019. Despite a fall in output early in the pandemic, the information and communication sector grew during the year, with output 17.7% higher in Q4 2020 than in Q4 2019.

Output fell in both Q1 and Q2 2020 in the manufacturing sector, the largest sector in the North East in terms of its contribution to regional output, but showed recovery in Q3 and slower growth in Q4. Manufacturing output in Q4 2020 was 3.1% below its level in Q4 2019.

North East private sector output

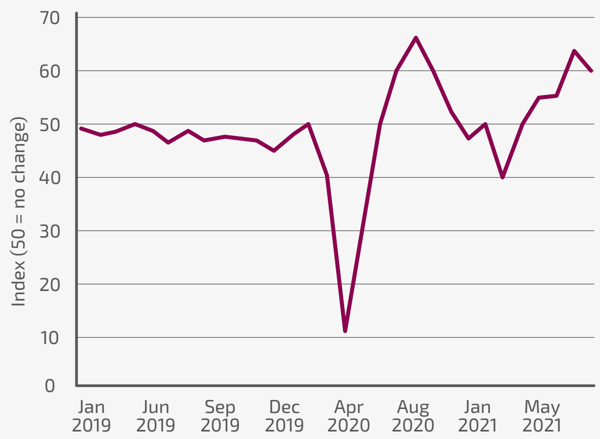
The NatWest UK Regional PMI report tracks the monthly change in output of goods and services across the private sector. The data are compiled from responses to IHS Markit's UK PMI Surveys. Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A reading below 50 signals contraction, while a reading above 50 signals growth; a reading of 50 signals no change on the previous month.

The latest report[7] describes the monthly change in output in the North East region (including North East and Tees Valley LEPs) between May and June 2021. Data has been collated for all months back to January 2019 in order to show the patterns and trends in business performance and outlook both prior and during the pandemic.

The past 30 months of PMI data (Figure 3) show a very significant fluctuation in the business performance of firms in the North East. Three distinct periods can be seen:

- Prior to the pandemic, businesses reported neutral performance, with the index hovering just below 50 (signalling mild contraction) up to February 2020 when the index increased to 50.
- Once the pandemic hit in March 2020, business performance was hit very hard, with the index dropping from 50 to 11 between February and April

Figure 3: NatWest PMI: Business Index, North East, January 2019 to June 2021

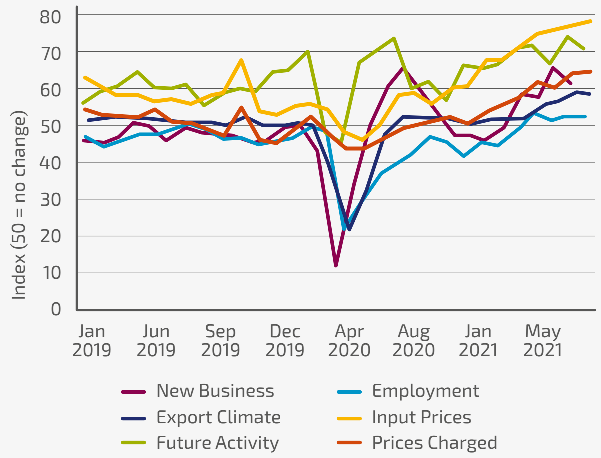


Source: NatWest PMI surveys

reflecting the initial uncertainty and business impact brought about by the pandemic and the initial lockdown restrictions.

- Following the nadir of April 2020, performance bounced back rapidly, with the index returning to 50 in June and rising to a peak of 66 in August 2020 as firms reopened and ramped up operations following the initial lockdown. This has been followed by fluctuating performance which reflects the changing nature of business conditions, driven by the pandemic and the restrictions that have been introduced periodically in order to suppress transmission (notably a full national lockdown from January to March 2021). February 2021 saw the index return to 50 and since, North East businesses have reported four consecutive months of growth.

Figure 4: NatWest PMI: Other indices, North East, January 2019 to June 2021



Source: NatWest PMI surveys

Figure 4 shows that other indicators contained within the dataset demonstrate very similar trends to the main business index.

The new business index shows drastic variation across the period, similar to the main business index. This fell to 11 in April 2020 and reached a

7 https://natwestbusinesshub.com/articles/pmi-survey-north-east

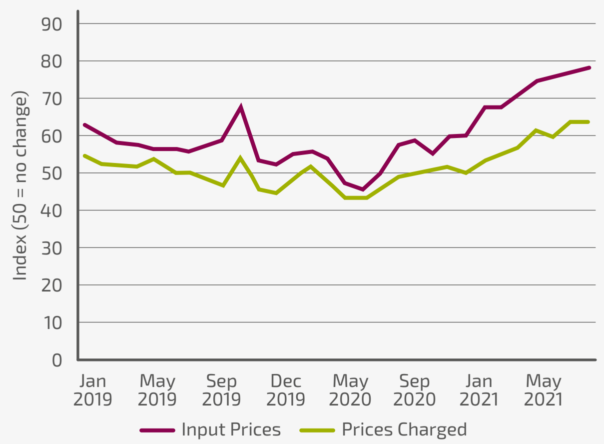
peak of 66 in August 2020, since then it declined steadily to January 2021 before recovering to reach 66 again in May 2021. The latest data signalled a renewed increase in the amount of new business received in March, ending a sequence of four consecutive monthly declines. The pace of growth was the fastest recorded since September 2020. Survey respondents highlighted an improvement in demand and preparations for the lifting of national restrictions.

Firms in the North East private sector have remained optimistic regarding the 12-month outlook (i.e. the Future Activity index). Only in the months of March and April 2020 – when the first lockdown was introduced – has the index dipped below 50. Sentiment in June 2021 is slightly below that in May (which was a 2-year peak) but still remains very strong at 70. Anecdotal evidence suggests that optimism across Spring 2021 was underpinned by expectations that COVID-19 restrictions would be lifted, supporting a recovery in demand.

At 58.2 in June 2021, the Export Climate Index has indicated a steady improvement in export opportunities for local companies throughout between January 2021 and May 2021. Despite a slight dip between May 2021 (58.9) to June 2021 (58.2), the expansion remained strong overall and was the second sharpest in 15 years. Economic growth eased from record highs in the Netherlands and US, the two largest export markets for the North East. Strong output growth in the next three largest markets (Germany, Spain and Italy) also helped support strong export growth for North East businesses.

Private sector firms in the North East increased employment levels in each of the four months from March 2021 to June 2021, reflecting their response to an increase in demand driven by the lifting of restrictions. Having said that, the rate of growth in June was comparatively modest overall and the softest of all 12 UK regions.

Figure 5: NatWest PMI: Price indices, North East, January 2019 to June 2021



Source: NatWest PMI surveys

Figure 5 shows that in June 2021, private sector firms operating in the North East faced a rapid rise in average input prices. Moreover, the rate of inflation quickened from May 2021 to the fastest since the series began in January 2001. This marked the fourth consecutive month that a record rate of input price inflation had been reported. Anecdotal evidence suggest that this can be attributed to rising raw material and freight costs amid shortages.

Average prices charged for goods and services in the North East rose for the tenth month in a row in the latest survey period. The upturn was marked overall and the fastest on record (since January 2001). The rate of inflation also outpaced that seen in the UK as a whole, and was the fourth fastest on a regional basis. Local businesses often linked the rise in prices charged to increased input costs, indicating that these cost increased are being passed on to customers.

Economic outlook

The coronavirus pandemic has delivered the largest peacetime shock to the global economy on record. It has required the imposition of severe restrictions on economic and social life, driven unprecedented falls in national income, fuelled rises in public deficits and debt surpassed only in wartime, and created considerable uncertainty about the future. The UK economy has been hit relatively hard by the virus and by the public health restrictions required to control it.

On 19 July 2021, the UK Government announced the removal of outstanding legal restrictions in relation to social contact, live events and the reopening of settings that remained closed (known as 'Step 4' in the Government's Covid response strategy[8]), though some restrictions on international travel remain. This means that all businesses are now free to open, though some continue voluntarily to operate conditions of entry (e.g. requirements to wear face masks, to check in with NHS Test and Trace) and urge customers to respect social distancing and sanitisation measures. That said, the UK economy is now effectively fully 'open for business' and this aligns to the assumptions made in many of the most recent forecasts of future economic and employment performance.

In its most recent *Monetary Policy Report* (May 2021)[9], the Bank of England acknowledges that the actions taken to contain Covid-19 have continued to have a dramatic and rapidly changing impact on the United Kingdom and countries around the world. Whilst in February 2021, the MPC report indicated an expectation that UK GDP may fall by around 4% in Q1 2021, this was revised in May 2021 to 1.5%, suggesting an improvement in the economic outlook for 2021 overall.

Based on the falling UK cases through spring 2021 (and therefore not accounting for the growth in cases associated with the Delta variant through early summer 2021), the progress made in the vaccination programme and an expectation (which became reality) that restrictions would be eased, the report indicates that GDP was expected to rise sharply in Q2 2021 (though economic activity in that quarter is likely to remain on average around 5% below its level in 2019 Q4).

In its March 2021 *Economic and Fiscal Outlook*[10], the Office for Budget Responsibility expected UK GDP to return to pre-pandemic levels by the middle of 2022, six months earlier than previously forecast, though in five years' time GDP levels will remain 3% smaller than expected in March 2020.

KPMG's most recent UK Economic Outlook (June 2021)[11] indicates the expectation that the recovery will be robust, based on the lifting of pandemic restrictions. However, the report suggests that shifts in patterns of work and how products and services are consumed (i.e. a further shift towards online shopping) will be permanent. The recovery is also likely to be uneven from a sectoral and spatial point of view. For example, manufacturing and construction have recovered much of the ground lost last year, whilst hospitality and personal services are seeking to build their recovery in the coming periods. The report sets the expectation that regions such as the West Midlands, London and the East of England will experience the strongest growth. KPMG expect the economy to grow by 6.6% in 2021 and by 5.4% in 2022, with a potential deceleration in growth thereafter, meaning that the economy will reach its pre-COVID level by the first quarter of 2022.

Similarly, forecasts from the EY Item Club[12] predict solid recovery in Q2 2021 based on the easing of pandemic restrictions and vaccine roll-out continues. They predict that the UK economy will return to Q4 2019 levels in Q2 2022, three months earlier than forecast and that GDP growth in 2021 will be 6.8%, revised up from the 5.0% growth predicted in January 2021. It also expects that the pandemic will have a smaller long-term impact on the UK economy than initially expected.

Finally, HM Treasury compiles a summary of forecasts for the UK economy undertaken by independent forecasters. 22 new forecasts were received between 1 and 16 July[13] from which the following key findings are drawn:

- the average (mean) of the new forecasts was that UK GDP will grow by 7.1% in 2021; this is a slightly more optimistic view than the average of forecasts received in February (4.3%)
- the range of all independent forecasts for 2021 was that UK GDP will grow by between 5.7% and 8.1% (significantly up from the February range of 0.5% to 4.4%)
- independent forecasts for 2022 suggest that UK GDP will grow by between 4.5% and 8.2% (again, significantly higher than the range stated in the February report, of between 1.4% and 5.7%).

8 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/999419/COVID-19_Response_Summer_2021.pdf
9 https://www.bankofengland.co.uk/monetary-policy-report/2021/may-2021
10 https://obr.uk/efo/economic-and-fiscal-outlook-march-2020/
11 https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/kpmg-uk-economic-outlook-june-2021-report.pdf
12 https://www.ey.com/en_uk/news/2021/04/uk-growth-prospects-significantly-brighter-as-ey-item-club-publishes-upgraded-economic-forecast
13 https://www.gov.uk/government/collections/data-forecasts

Business growth

North East
Local Enterprise Partnership

Business impact of COVID-19

A higher proportion of businesses in the North East region have continued trading through the COVID-19 pandemic than in England. Only around 90% of businesses in the region were trading from mid-November 2020 to early April 2021. This had risen to 98% of businesses in the two weeks to 11 July 2021.

During the pandemic, businesses in the North East region have had more confidence of surviving the next three months than businesses in England as a whole.

Just over 41,000 self-employed people in the North East LEP area had made Self-Employment Income Support Scheme (SEISS) 4 claims as of 6 June 2021, a take-up rate of 59%. Both the number of SEISS claims and take-up among the population estimated to be eligible by HMRC has fallen in each tranche.

Patterns of SEISS take-up by sector have been broadly similar in each tranche, with most claims from self-employed people working in construction, transportation and storage or the other services sector (including self-employed beauticians and hairdressers, for example).

Although only proxy indicators for the number of business starts are available, the data suggest an increase in the number of new business formations in 2020 compared with 2019.

There is some evidence of a 'COVID-19 economy', with increases in the number of new company registrations in manufacturing and retail of medical equipment, pharmaceutical goods, specialist clothing and PPE, and cleaning supplies, as well as cleaning and disinfecting services.

The value of exports and imports from and to the North East region showed strong recovery to pre-Covid levels in the second half of 2020, but have declined in Q1 2021, possibly as a result of EU exit. The North East England Chamber of Commerce reports that its members have experienced increased difficulties trading with the EU since January 2021.

There have been sharp rises in visits to retail and recreation venues as the Government has followed its 'routemap' out of the third national lockdown. But footfall remains slightly below pre-Covid levels.

The impacts of the pandemic on business activity in the region have been very mixed and uneven, with some sectors continuing to trade at close to pre-pandemic levels, while others have suffered a significant and sustained drop-in activity which will take a long time to recover.

While business activity across the economy has been below pre-pandemic levels, the overall impacts have not been as severe as first feared, and the regional economy has begun to bounce back strongly. Generally, the region's businesses have proven to be resilient through the pandemic.

As the economy recovers, businesses across many sectors are reporting intensifying supply chain problems, including difficulties in sourcing the supplies they need, long delays in delivery timescales, and increasing supply costs. These pressures could hamper the recovery.

Business and financial support

There has been a very high take-up among North East businesses of the financial support on offer from UK and local government. This has been crucial in safeguarding the regional economy, avoiding potentially thousands of business closures and job losses.

Overall, business confidence in the region is stronger now than at any time in the pandemic, although confidence and growth intentions vary widely between sectors.

Although business activity is now reaching more normal levels across many sectors, there is uncertainty about the extent to which activity will be sustained as Government financial support for the economy is withdrawn. There is some concern that the regional economy may be less strong than it appears, with the risk of additional business closures and job losses in late 2021 into 2022.

In many sectors, business investment has slowed down or halted. Businesses have suffered significant damage to their balance sheets, holding back investment, particularly among SMEs.

However, there are several sectors in which confidence is sound and investment is holding up well including low carbon energy, digital, health and life sciences, construction, and larger OEMs in automotive manufacturing.

Impact of leaving the European Union

The initial impacts on North East businesses of the UK's exit from the EU are gradually becoming clearer, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects of EU exit from the impacts of the pandemic. Key impacts to date are:

- some firms facing additional costs and delays because of the new administrative systems required for trade between the UK and EU
- businesses facing uncertainty about the new UK regime for financial incentives and legislative requirements that will replace the previous EU arrangements
- recruitment difficulties and skills shortages, due in part to increased difficulties in recruiting EU workers.

Opportunities for North East businesses from EU exit include firms planning to relocate some production activities back in the North East; increasing use of UK suppliers, and opportunities to grow export sales through new trade deals, including with Australia, Asia Pacific, and South America.

Opportunities

There have been a series of major investment announcements in the region during the pandemic, helping to build optimism about the potential for a strong recovery, including the investments by Nissan and Envision, Britishvolt, and Equinor and SSE Renewables.

The North East is receiving a healthy pipeline of inward investment enquiries, providing optimism about the prospects for new investment and job creation as the economy recovers.

There is some evidence of the region benefitting from north shoring (the re-location of jobs from the south of the UK to the north) as the economy emerges from the pandemic.

During the pandemic, there has been an increase in the number of new business starts in the region. The North East Growth Hub is seeing an increase in the volume and quality of new startups seeking advice and finance for growth.

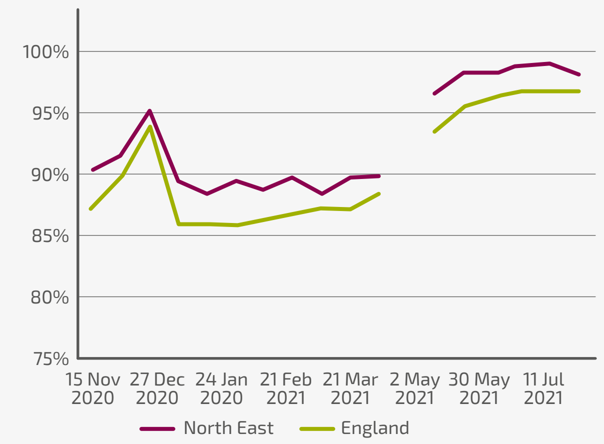
Business impacts of Covid-19

ONS introduced a voluntary fortnightly survey of businesses[14] early in the pandemic, to capture their views on trade and business resilience in the context of the Covid-19 pandemic. Initially, the survey only provided results at national level, but the sample was redesigned in November 2020 to provide results at regional level. Questionnaire changes during the pandemic, intended to focus on relevant topics at each point, mean that time series data cannot always be collated at regional level (for example, questions relating to exports and imports change during the series) but a number of questions give an indication of the changing impacts of the pandemic over time. Questions may not be included in all waves of the survey, meaning that there are gaps in the time series (reflected by gaps in the data shown in the charts below).

Figure 6 shows the proportion of businesses trading in the two week period to 15 November 2020, to the two weeks to 21 July 2021. The proportion of businesses trading was higher in the North East region (including the North East and Tees Valley LEP areas) than in England throughout this period. Nevertheless, only around 90% of businesses in the region were trading from mid-November 2020 to early April 2021, though there was an increase during December 2020 which may reflect the relaxation of lockdown restrictions around Christmas.

Figure 6 also shows the increase in the proportion of businesses that were trading during the period

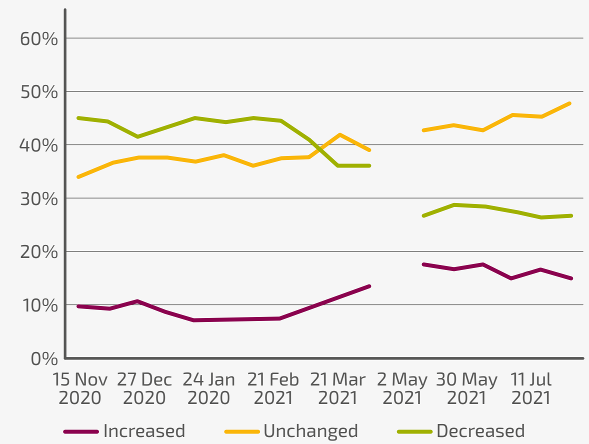
Figure 6: Proportion of businesses currently trading, North East region and England, two weeks ending 15 November 2020 to 11 July 2021



Source: ONS Business insights and impact on the UK economy. The gap reflects missing data.

from mid-April to early July (note the relevant question was not asked for the two weeks to 18 April 2021). Despite the relaxation of restrictions in the third national lockdown at this point, a small proportion of businesses remained closed. Nightclubs did not reopen until 19 July, for example. Some small businesses have been forced to pause trading as staff have isolated in response to contact to someone with Covid-19, and this may also be reflected in the figures. Some 98% of businesses in the North East region were trading in the two weeks

Figure 7: Proportion of businesses experiencing turnover effects, North East region, two weeks ending 15 November 2020 to 11 July 2021



Source: ONS Business insights and impact on the UK economy. The gap reflects missing data. The chart does not show the proportion of businesses who were unsure whether turnover had changed.

to 11 July 2021, compared with 99% in the previous two weeks.

Figure 7 shows that from early November 2020 to mid February 2021, around 10% of businesses in the North East region (including the North East and Tees Valley LEP areas) reported higher turnover than normal for the time of year. This proportion rose between mid February and early May 2021, to almost 20% of businesses.

14 https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/previousReleases

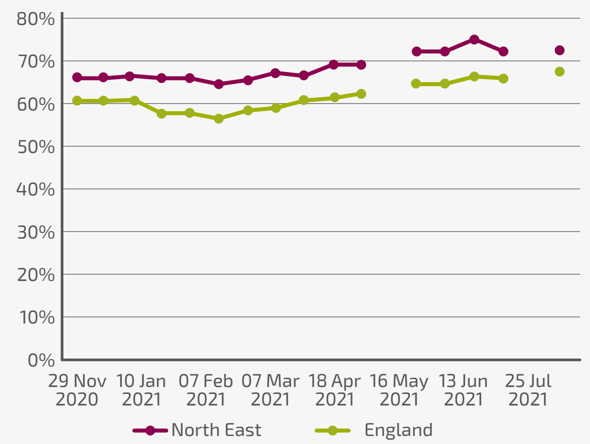
Meanwhile, around 45% of businesses in the region reported lower than normal turnover in the period from early November 2020 to February 2021. This proportion fell between mid February and early May 2021 (note that the question was not asked in the period to 18 April 2021), reflecting the gradual lifting of lockdown restrictions and (fuller) reopening of many businesses. Nevertheless, since early May 2021 almost 30% of businesses have continued to report lower than normal turnover.

The data suggests turnover may gradually be returning to more normal levels. Indeed, since May 2021 the proportion of businesses reporting normal levels has risen, to almost half. This is reflected in slight falls in the proportion reporting higher or lower turnover than normal for the time of year. Nationally, businesses in the accommodation and food services sector remain most likely to report higher than normal turnover, but – along with businesses in the arts, entertainment and recreation and in other service activities (including membership organisations and personal services such as hairdressers and dry cleaners) – are also more to report decreased turnover than other sectors.

Business confidence

In the period from the two weeks to 29 November 2020 to the two weeks to 25 July 2021, businesses in the North East region (including the North East and Tees Valley LEP areas) had more confidence of surviving the next three months than businesses in England as a whole. As Figure 8 shows, businesses in the North East region were more likely to express high confidence in their survival than businesses in England. Most other businesses had moderate confidence, and few had little or no confidence in their survival. Reflecting the degree of high confidence in the region, the proportions of businesses in the North East region with moderate confidence or little to no confidence in their survival were each smaller than in England (the proportion who were unsure was similar).

Figure 8: Proportion of businesses with high confidence of surviving the next three months, North East region and England, two weeks ending 29 November 2020 to 25 July 2021



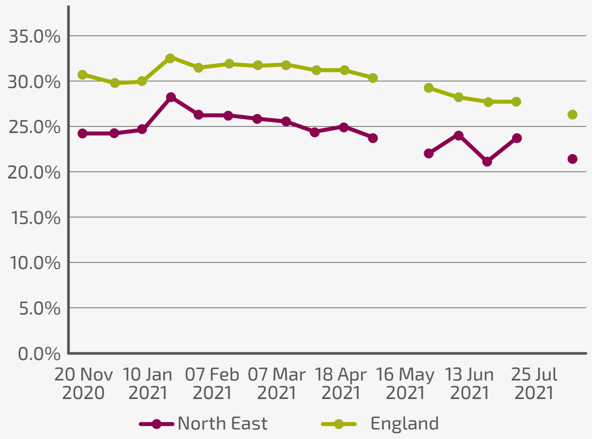
Source: ONS Business insights and impact on the UK economy. The gaps reflect missing data.

The proportion of businesses with high confidence in their survival rose between mid-April and mid-May, most likely reflecting the relaxation of lockdown restrictions. This measure of confidence peaked in the North East region in early June (at 75%), before falling slightly; this may reflect a local increase in Covid-19 cases related to the Delta variant at the time.

In the two weeks to 25 July 2021, 72% of businesses in the region had high confidence of surviving the next three months (compared with 67% in England), while 19% had moderate confidence (25% in England) and 1% had low or no confidence (2% in England; the remainder were unsure).

Nationally, businesses in the construction; accommodation and food service activities; transportation and storage or education sectors were least likely to report high confidence in their survival. Businesses in the real estate sector were most likely to report high confidence.

Figure 9: Proportion of businesses with less than three months' cash reserves, North East region and England, two weeks ending 29 November 2020 to 25 July 2021

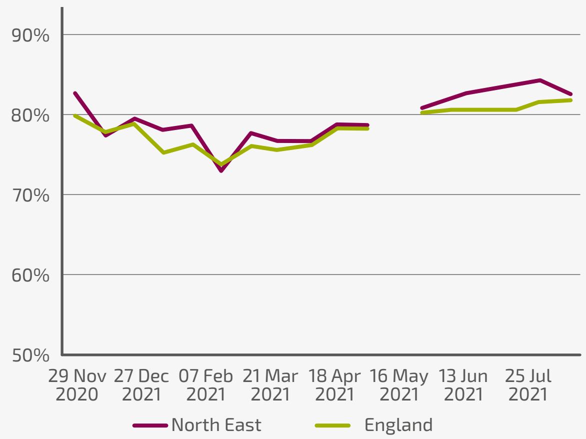


Source: ONS Business insights and impact on the UK economy. The gap reflects missing data.

Reflecting confidence levels, businesses in the North East region (including the North East and Tees Valley LEP areas) were less likely to report that they had less than three months' cash reserves than businesses in England as a whole. The introduction of the third national lockdown in January 2021 appears to have caused some businesses to use their reserves. Since then, the proportion reporting that they lack reserves has gradually fallen, although there was some fluctuation in the North East region during May and June 2021; the reasons for this are unclear. In the two weeks to 25 July 2021, 21% of businesses in the North East region said they had less than three months' cash reserves, compared with 26% in England. Nationally, businesses in the other services sector (which includes membership organisations and personal services such as hairdressers and dry cleaners) and the construction sector were most likely to report that they had limited cash reserves.

As Figure 10 shows, the proportion of businesses reporting that they have no or low risk of insolvency during the period from the two weeks to 29 November 2020 to the two weeks to 25 July 2021 was similar in the North East region (including the North East and Tees Valley LEP areas) and England. There was a fall in the proportion in the region in late January/early February which probably reflects the rise in the proportion of businesses reporting limited cash reserves seen in Figure 9.

Figure 10: Proportion of businesses with no or low risk of insolvency, North East region and England, two weeks ending 29 November 2020 to 25 July 2021



Source: ONS Business insights and impact on the UK economy. The gap reflects missing data.

The proportion of business reporting no or low risk of insolvency has risen since, slightly more noticeably in the North East region than in England between May and early July. In the two weeks to 25 July 2021, 83% of businesses in the North East said they were at no to low risk of insolvency (compared with 82% in England), while 7% said they were at moderate risk (9% in England). Around 1% said they were at severe risk (the same percentage as in England; the rest were unsure).

Self-Employment Income Support Scheme

The Government introduced the Self-Employment Income Support Scheme (SEISS)[15] to provide financial support to self-employed individuals or members of a partnership whose trade has been impacted by reduced demand, or who have been temporarily unable to trade, due to Covid-19. There have been four tranches of the scheme so far, with a fifth tranche recently opened to claims:

- SEISS 1 claims could be made from 13 May until 13 July 2020.
- SEISS 2 ran from 17 August to 19 October.

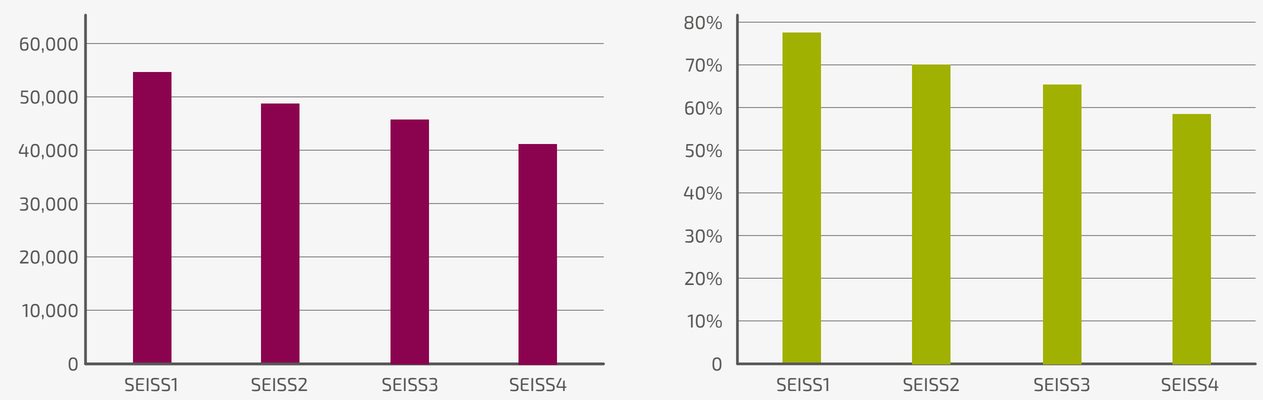
15 https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics#self-employment-income-support-scheme

- SEISS 3 opened on 30 November and closed on 29 January 2021.
- SEISS 4 ran from 27 May to 1 June 2021.
- SEISS 5 opened on 28 July and remains open.

The first three tranches of the scheme were eligible to self-employed people who had traded in both the 2018/19 and 2019/20 tax years (and who continued to trade). The fourth tranche extended eligibility to people who became self-employed in the 2019/20 tax year[16]. Nationally, 5,010,000 people were assessed by HMRC for eligibility for SEISS 4, with two thirds (67%) considered to be eligible. Most who were ineligible had a trading income from self-employment that was lower than their non-trading income. In the North East LEP area, some 70,600 people were assessed by HMRC as potentially eligible for SEISS 4, compared with an average of 112,600 adults aged 16 and over who considered themselves to be self-employed in the 12 months to June 2020[17].

As Figure 11 shows, both the number of SEISS claims and take-up among the population estimated to be eligible by HMRC has fallen in each tranche, though the extent to which this is due to self-employed people's trade no longer being affected or because they have ceased trading is not entirely clear. HMRC expect to undertake a full evaluation of the SEISS scheme in 2022, when the necessary Self Assessment tax returns become available.

Figure 11: Number of SEISS claims and take-up among the eligible population, North East LEP



Source: HMRC Self-Employment Income Support Scheme statistics

Just over 41,000 self-employed people in the North East LEP area had made SEISS 4 claims as at 6 June 2021. This was a take-up rate of 59%, compared to 58% in England. Patterns of take-up of SEISS support by sector have been broadly similar in each tranche. 29% of SEISS 4 claims in the North East region (including the North East and Tees Valley LEP areas) were made by self-employed people working in construction, 12% by self-employed people working in transportation and storage, and 11% by self-employed people in the other services sector (which includes self-employed beauticians and hairdressers, for example).

Similarly, patterns of take-up by gender and age have been broadly similar, with males accounting for 70% of all SEISS 4 claims in the North East region, and 55% of claims made by self-employed people aged 45 and over.

16 To be eligible for the first three tranches, self-employed people must have traded in the 2018/19 tax year and submitted a Self Assessment tax return on or before 23 April 2020 for that year, with trading profits of no more than £50,000 and at least equal to non-trading income, and with trading income higher than non-trading income. They must also have traded in the 2019/20 tax year, and must declare that they intend to continue to trade, and that they reasonably believe there will be a significant reduction in their trading profits due to Covid-19. The fourth tranche extended SEISS support to self-employed people who had first submitted a 2019/20 Self Assessment tax return (provided it was submitted on or before 2 March 2021).

17 New Skills Consulting & Ortus Economic Research, *Impact of Covid-19 on business start up and self-employment in North East LEP area*, February 2021

Business starts

BankSearch data is collected from the main suppliers of business banking services (Barclays, Co-operative Bank, HSBC, Lloyds Banking Group, Royal Bank of Scotland Group, Santander, TSB Bank and Neobanks). It counts a 'business start' as the opening of a first current account from a small business banking product range. The data therefore represents businesses new to banking or those previously operated through a personal account. The data excludes businesses operating through personal accounts, those without banking relationships or those banking with other institutions. As well as businesses, clubs, charities, societies and other 'non-profit institutions serving households' which use business banking products are also included.

Because it is only available commercially, limited BankSearch data is available to this research. The available data[18] suggests that 1,126 small businesses were started in the North East in November 2020. This was a slightly lower number than in October, but was 8.5% higher than in November 2019. Similarly, year-to-date figures show that the number of business starts in January to November 2020 was 13.9% higher than in the corresponding period in 2019. In comparison, business starts in England in November 2020 were up 17.9% on November 2019, while business starts in January to November 2020 were up 16.2% on 2019. The BankSearch reports note that the expected effect of more job losses, combined with redundancy payments, plus opportunities for entrepreneurial activity have enhanced the number of business starts during the Covid-19 pandemic.

These findings are supported by research from the Centre for Entrepreneurs (CFE), which analyses Companies House registrations to examine trends in business formations across the UK. Its Business Startup Index[19] does not explicitly identify new business formations, because only limited companies or limited liability partnerships (LLPs) are legally required to register with Companies House (sole traders are not required to register) but provides another useful proxy.

Across the UK, 770,002 new businesses were registered with Companies House in 2020, a 13% growth on 2019. January 2020 saw around 1% fewer businesses launched than in 2019. By April, as lockdown took hold, formations had fallen 29% year-on-year. By June, business formations returned to year-on-year growth, which averaged 47% across the UK. From June onwards, all English regions and devolved nations experienced continual growth in business starts despite further lockdowns. However, growth is uneven, and the North East region (including the North East and Tees Valley LEP areas) continues to experience the lowest business formation rate per capita in England (6.4 per 1,000 people, compared with the national average of 12.4).

The Index shows evidence of the 'Covid-19 economy'. The pandemic has led to major increases in the number of new company registrations in 2020[20] compared with 2019 in manufacturing and retail of medical equipment, pharmaceutical goods, specialist clothing and PPE, and cleaning supplies. It has also boosted cleaning and disinfecting services. Consumer businesses increased significantly, with new company registrations in the wholesale and retail industry growing 61% year-on-year. Online retail starts more than doubled. New businesses retailing computers, sporting goods, games and toys also grew strongly in 2020.

On the other hand, ongoing restrictions in the fight against Covid-19 have severely harmed existing hospitality businesses, and in most hospitality subsectors have led to fewer new company registrations in 2020 than in 2019. Clubs, pubs, hotels and restaurants all saw a year-on-year fall in business formations in 2020, as did conference organisers and tour operators. However, takeaway food shops and mobile food stands grew significantly, in response to restaurant closures. With international travel restricted, many new camp sites, chalets, guest houses and B&Bs launched to cater for UK holidays.

18 New Skills Consulting & Ortus Economic Research, *Impact of Covid-19 on business start up and self-employment in North East LEP area*, February 2021
19 https://centreforentrepreneurs.org/cfe-research/business-startup-index/
20 Note that this section reviews CFE data which covers the full year for 2020, compared to 2019. Comments made in the desk research section relate to analysis of the March-June 2020 period only (compared to the same period in 2019).

International trade

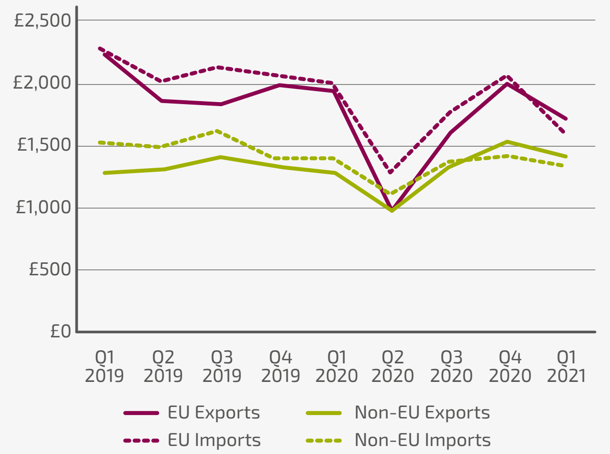
Regional trade in goods data from HMRC is available on a quarterly basis for the nine English regions and three devolved nations. The latest available data[21] covers Q1 2021.

Figure 12 shows the impact of the Covid-19 pandemic on the North East region's (including the North East and Tees Valley LEP areas) international trade, and trade with the EU in particular. The value of exports and imports to/from the EU both fell sharply between Q1 and Q2 2020. Exports and imports to the EU subsequently recovered by late 2020, but their value fell again in Q1 2021; this may be related to the impacts of EU Exit, though it is impossible to distinguish these effects from Covid-19.

Similarly, the value of Non-EU exports and imports also fell between Q1 and Q2 2020, continuing a trend apparent since Q3 2019. Non-EU exports have since recovered to earlier levels, though imports have not recovered to the same extent. The value of Non-EU exports and imports both also showed slight falls in Q1 2021.

The North East England Chamber of Commerce recently reported[22] that its members have experienced increased difficulties trading with the EU since January 2021. 75% of respondents to a survey of members undertaken from late April to late May said they had experienced difficulties in trading post EU Exit, reporting it had a negative or very negative impact on their companies. 38% of respondents said their EU sales had reduced since the start of the year, compared with 45% who said it had stayed the same and 17% who reported an improvement.

Figure 12: Value of exports from and imports to the North East region, Q1 2019 to Q1 2021



Source: HMRC UK Regional Trade in Goods Statistics, Q1 2021

Businesses reported increased paperwork, while tariff and administrative customs costs have also caused problems with only 5% of respondents saying they were able to absorb the new costs. The logistics of trading with the EU has also proved challenging, with 67% of respondents reporting that they had been impacted by port congestion, delays or a shortage of hauliers since January. In addition, there were reports of price inflation for containers and shipping, impacting cashflow and lead times for manufacturing supply chains.

Footfall

The Google mobility index is based on data from users who have opted into location history for their Google account[23]. For each day it compares the number of visits to different types of venue with the average for that day during the first five weeks of 2020. To provide data for the North East LEP area, weighted indices for County Durham, Northumberland and Tyne and Wear were calculated based on their population size and then combined.

The retail and recreation mobility index provides information about visits to shopping centres, restaurants, cafés, theme parks, museums, libraries and cinemas but excludes visits to supermarkets and pharmacies. The latest data is for the period to Friday 30th July and includes the first 12 days after the Government's removal of national lockdown restrictions on 19th July.

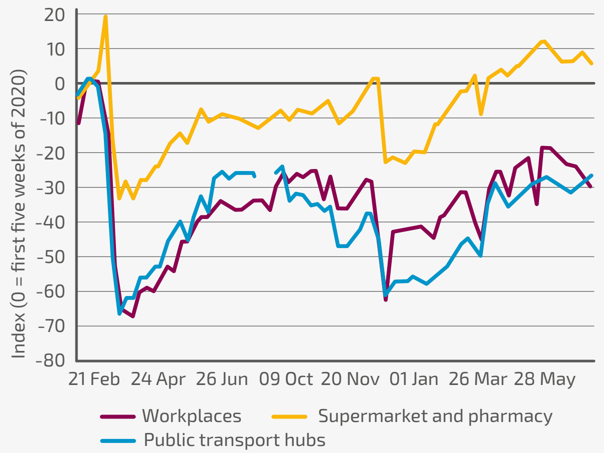
21 https://www.gov.uk/government/statistics/uk-regional-trade-in-goods-statistics-first-quarter-2021
22 https://www.neechamber.co.uk/chamber-survey-shows-devastating-impact-of-brexit-on-eu-trade/
23 https://www.google.com/covid19/mobility/

Figure 13: Retail and recreation mobility index, weekly average since Feb 2020, North East LEP area

Source: North East LEP analysis of Google Covid-19 Community Report, August 2021. The number of visits is expressed as an index compared to the average during the first five weeks of 2020. The North East LEP area index is based on a weighted combination of indices for Northumberland, County Durham and Tyne and Wear, with the weights based on population size.

Figure 13 clearly shows the impact of lockdowns on visits to retail and recreation locations, and the sometimes gradual recovery in footfall as lockdown restrictions have eased – though it is worth commenting on the apparent recovery in visits to retail and recreation venues in December 2020, while the North East was under local Tier 4 restrictions between the national lockdowns in November and from January 2021; it is likely that this is related to the run-up to Christmas (an increase is also apparent in late October, while local restrictions were also in place; this increase is likely to reflect school half term holidays). Sharp rises in footfall as the Government has followed its 'routemap' out of the third national lockdown, which began in January 2021, are particularly notable. Nevertheless, footfall remains slightly below pre-Covid levels.

Figure 14: Workplace, supermarket and pharmacy and public transport hub mobility indices, weekly average since Feb 2020, North East LEP area



Source: North East LEP analysis of Google Covid-19 Community Report, August 2021. The number of visits is expressed as an index compared to the average during the first five weeks of 2020. The North East LEP area index is based on a weighted combination of indices for Northumberland, County Durham and Tyne and Wear, with the weights based on population size.

A similar index of visits to supermarkets and pharmacies shows a peak in March 2020 which reflects the rush of panic buying which was widely reported at the time. Visits fell sharply after, but recovered to a level just below the immediate pre-Covid average until Christmas 2020, when the third national lockdown then reduced visit levels again. The number of visits to supermarkets and pharmacies has exceeded the immediate pre-Covid average since mid-April 2021.

Visits to workplaces and public transport hubs have each followed broadly similar trends, though there are notable gaps between the two during the summer holiday period in 2020, and during the second and third national lockdowns. Again, the indices show the third lockdown in particular led to a downturn in the recovery, with some further interruptions since as progress in lifting restrictions has sometimes been slowed. The recent reduction in visits to workplaces is likely to reflect the start of the 2021 summer holidays, but the reported increase in the number of people self-isolating as a result of exposure to the Covid-19 virus identified by the NHS Covid-19 app may also be a factor. The end of isolation for fully vaccinated people from 16 August is expected to help enable people to return to the workplace[24].

Nevertheless, as KPMG notes[25], we are unlikely to see a return to old commuting habits post-Covid, with a significant proportion of those able to work

24 https://www.gov.uk/government/news/self-isolation-removed-for-double-jabbed-close-contacts-from-16-august
25 KPMG, The future of towns and cities post Covid-19, January 2021

from home continuing to do so for at least part of the week. At the same time, the collapse in high street retail will exacerbate the fall in footfall. The implications for businesses support services – from taxis to gardening to security services – may be significant as businesses cut back on office space and demand is reduced, with a likely fall in the number of support businesses as a result. The fall in commuter footfall will hit town-centre personal services such as hairdressers, and other businesses such as those offering food to go for lunchtime office crowds as well as shoppers venturing to the high street. At the same time, displacement effects may lead to opportunities for businesses elsewhere, including more local businesses, mobile or online services. Town and city centres may transform into more mixed environments, combining retail, leisure and entertainment facilities with residential redevelopments.

Key findings from consultations

The **impacts of the pandemic on business activity in the region have been very mixed and uneven.** While business activity generally across the economy has been below pre-pandemic levels, the **overall impacts have not been as challenging as was first feared in the early months of the pandemic.** Business insolvencies to date have been much lower than expected, and a high proportion of businesses have been able to continue trading to some extent. This is due to a number of factors including:

- the positive effects of Government financial support in enabling businesses to continue trading and safeguard employment;
- the ability of many sectors to adjust quite quickly to new ways of working enabling them to maintain a viable level of activity throughout the pandemic;
- and the periodic relaxing of restrictions during the pandemic which provided short-term boosts for some sectors (e.g. hospitality, tourism).

In spring and summer 2021, the regional economy bounced back quicker than was previously expected, as restrictions eased and the economy re-opened. This has helped build optimism about future recovery prospects.

Some sectors have experienced continuous strong demand throughout the pandemic and are moving into the economic recovery phase in a strong position For example, digital and tech, professional services, health and life sciences, online retail, energy, agriculture, transport and logistics, and some parts of the manufacturing sector, such as food and beverage.

For some sectors, the impacts have varied considerably over time. For example, automotive manufacturing activity dropped to near zero during the first national lockdown in spring 2020, but has since recovered strongly as demand for private vehicles has picked up and a number of major new investments have been announced. Similarly, the construction sector suffered a sharp decline in activity during the first lockdown, but recovered strongly and is now operating close to pre-pandemic levels.

Other sectors have experienced a severe contraction in activity which is only now beginning to return to something like normality, for example hospitality and leisure, and tourism. Other sectors, such as arts and culture, and high street retail, have **suffered impacts that are so significant they may have long lasting effects well after the pandemic.**

The **rapid adoption of safe working and social distancing measures enabled some sectors to quickly resume activity,** after an initial hiatus during the first national lockdown. This included agriculture, food production and distribution, energy, health and life sciences, construction, and some parts of the manufacturing sector.

There has been a very high take-up among North East businesses of the support on offer from UK Government and local authorities to assist firms through the pandemic (including the Coronavirus Job Retention Scheme, grant schemes, rates relief, business loans, VAT reduction for hospitality businesses). Sector representatives report that this support has been crucial in safeguarding the regional economy, avoiding potentially thousands of business closures and job losses that would have occurred in the absence of the support. This will minimise the long-term scarring on the economy. However, there are some concerns that the support may have only delayed the impacts on some businesses, and further closures and jobs losses are expected in late 2021 and early 2022 as the support is withdrawn and businesses are required to repay loans. Nevertheless, **the region's businesses have proven to be resilient through the pandemic, and the impact so far on the business base has been far less severe than first predicted.**

While the Self Employment Income Support Scheme (SEISS) has had a positive impact in safeguarded self-employment in the region, delays in its implementation resulted in some micro businesses closing that otherwise may have continued trading.

In many sectors, business investment has slowed down or halted, and for many businesses investment plans remain on hold. Despite the success of the vaccine roll-out and the ending of restrictions, a great deal of caution remains and many businesses (especially smaller firms) are uncertain about the future, continuing weighing on investment activity in the economy. **Many businesses have suffered significant damage to their balance sheets,** spending money on implementing Covid safe working practices, and taking on debt in order to survive the pandemic. **This is a further important factor holding back business investment.**

However, there are several sectors in which confidence is sound and **investment is holding up well including low carbon energy, digital, health and life sciences, construction, and larger OEMs in automotive manufacturing.**

Economic development agencies report a **continuing healthy pipeline of inward investment enquiries to the North East** during recent months, providing further evidence of growing business confidence and strengthening investment intentions in some parts of the economy. Enquiries are across a range of sectors including digital, professional services, contact centres, health and life sciences, and manufacturing. This provides optimism about the prospects for new investment and job creation as the economy begins to return to more normal conditions.

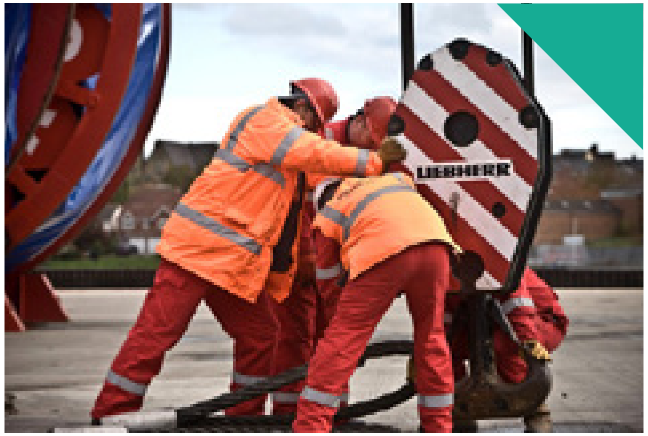
There is **some evidence of north shoring** (the re-location of jobs from the south of the UK to the north) taking place as the economy emerges from the pandemic. There have been several such projects in recent months, particular in the digital industries where the sector in London and the south east is overheating.

There have been a **series of major investment announcements in the region during the pandemic,** helping to build optimism about the potential for a strong recovery. This includes: the investments by Nissan and Envision AESC in new electric vehicle battery manufacturing facilities in Sunderland, creating 1,000 new jobs; the announcement that Britishvolt are to invest £2.6bn to create an electric vehicle battery Gigafactory in Blyth, with potential to create up to 8,000 jobs; and the investment by Equinor and SSE Renewables in a new offshore wind maintenance base at the Port of Tyne, creating hundreds of jobs.

Overall, **business confidence in the region is stronger now than at any time in the pandemic,** founded on the success of the vaccination programme, the removal of restrictions in July 2021, and the gradual strengthening of economic activity in the preceding months. The North East Growth Hub is seeing an increase in enquiries from businesses seeking advice, support and finance to grow, rather than just to survive. However, confidence and growth intentions vary widely between sectors.

During the pandemic, there has been an increase in the number of new business starts in the North East, driven by a number of factors including: employees on furlough having the time and opportunity to plan and start new business ventures for themselves; people starting businesses to achieve a better work / life balance; new business opportunities opening up as a result of the pandemic (e.g. online retail, digital businesses, delivery and logistics); and necessity entrepreneurs starting-up businesses as a means to earn an income after redundancy. A potential surge in business start-ups was anticipated in spring 2021 when the furlough scheme was originally due to end and potentially thousands of redundancies were feared. However, this did not materialise as the furlough scheme was subsequently extended to September 2021, and the number of redundances in the intervening months has remained relatively low. However, the pandemic has changed many people's attitudes to employment and work / life balance and there is clear evidence of greater than normal interest in entrepreneurship which is likely to result in additional business start-ups in the region in the coming months. The North East Growth Hub High Potential Start-up Programme has recently seen an increase in the volume and quality of start-ups enquiring about support and investment. This presents a real opportunity for the region to grow a high-quality, sustainable business base.

Although business activity is now reaching more normal levels across many sectors, there is **uncertainty about the extent to which activity will be sustained as Government financial support for the economy is withdrawn.** Representatives of many sectors feel that current business and household spending is being buoyed artificially by Government support (e.g. Coronavirus Job Retention Scheme, business grants and loans, VAT reduction for hospitality businesses). As this support is withdrawn and the residual funding is spent by businesses and households, there is a concern that the regional economy may be less strong than it appears be currently. This may result in additional business closures and job losses in late 2021 into 2022.



Businesses across many sectors are reporting intensifying supply chain problems, including difficulties in sourcing the supplies they need, long delays in delivery timescales, and increasing costs of supplies. This is being driven by a complex combination of factors including:

- production backlogs for many supplies resulting from lockdowns earlier in the pandemic;
- intense regional, national and global competition for scarce logistics, shipping and container capacity;
- driver shortages impacting on the capacity of the logistics sector;
- interruptions to some supplies caused by flooding and natural disasters;
- and delays and additional costs associated with the new post-EU Exit trade administrative systems.

The sectors most impacted include automotive manufacturing, construction, agriculture, and food and drink manufacturing. Businesses expect that these pressures will ease in time but are anticipating continued disruption for the remainder of 2021 as a minimum.

Inflationary pressures, due to the combined impacts of scarce supplies and staff shortages, are increasing the cost base for businesses in many sectors. Combined with continuing supressed demand and turnover, many businesses are struggling to operate profitably and the commercial landscape remains very difficult for many.

The initial impacts on North East businesses of the UK's exit from the EU are gradually becoming clearer, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects on businesses of EU Exit from the impacts of the pandemic. **The effects appear to be concentrated in a relatively small number of sectors and business types,** including:

- **Those that rely on trade with the EU,** such as agriculture, food and drink manufacturing, and other manufacturing sectors (such as automotive). These firms have faced additional costs and delays associated with the new administrative systems required for trade between the UK and EU. The impacts vary widely. There is a cohort of firms that have now adjusted successfully to the new systems and are operating largely as normal after an initial period of disruption. These are most commonly larger businesses who had the resources to prepare and absorb the changes. There is another cohort who have been impacted very significantly, to the extent that they have ceased importing from / exporting to the EU. This tends to be smaller businesses for whom the costs and delays outweigh the benefits of trade.

- **Those that were previously governed heavily by EU regulations**, including agriculture, fisheries, and food and drink. There remains significant uncertainty about the new UK regime for financial incentives and legislative requirements that will replace the previous EU arrangements. This is causing significant disruption for some businesses and acting as a brake on investment, as businesses are uncertain about what the future holds.
- **Those that previously employed a significant number of EU workers.** Sectors such as agriculture, food and drink manufacturing, hospitality, construction, and health care are now beginning to experience recruitment difficulties and skills shortages, due in part to increased

difficulties in recruiting EU workers. However, some of these effects are also a result of Covid travel restrictions. The region's higher education institutions have also lost experienced teaching and research staff, where EU citizens have returned to their home nations as a result of EU Exit and Covid travel restrictions. The North East has a lower proportion of non-UK born and non-British population than the UK average. If there is a tightening of the labour market in other regions, as a result of EU workers leaving the workforce, this may still have an impact on North East sectors' ability to recruit.

There have been **some early indications of re-shoring activity as a response to EU exit,** including some businesses planning to relocate some production activities back in the North East, or increasing their levels of domestic production. Make UK feedback suggests that up to a quarter of manufacturing businesses intend to re-shore activity back to the UK in order to address weaknesses in their global supply chains, as well as to increase production and protect jobs and skills domestically. While this could be positive for the North East economy, this will be a long-term trend with benefits felt gradually over a period of several years, rather than immediate impacts. It is expected that Rules of Origin requirements for tariff-free trade, as part of the UK-EU trade deal, will increasingly drive the need for more UK content.

North East businesses have identified other opportunities arising from EU exit, including opportunities for agriculture and food and drink businesses, and firms in a number of manufacturing sectors, to grow export sales through new trade deals, including with Australia, Asia Pacific, and South America.

Labour market, employment and skills

North East
Local Enterprise Partnership

Employment, unemployment and economic inactivity

The number of payrolled employees rose slightly (by around 1%) between February 2019 and February 2020, before falling sharply between March and April 2020, and continuing to fall to a low in November 2020. Employment has risen since January 2021, particularly as lockdown restrictions have eased, and there were 801,680 payrolled employees in the North East LEP area in June 2021. This was actually 940 higher than in February 2020, an increase of 0.1%.

Jobs growth is uneven by sector, with accommodation and food service activities; wholesale, retail and repair of motor vehicles; manufacturing and arts, entertainment and recreation shedding payrolled employees nationally between February 2020 and June 2021. In contrast, several sectors have seen employment growth during the pandemic, including health and social work, public administration and defence, administrative and support services and education.

The number of people claiming unemployment-related benefits in the North East LEP area rose by 65% between February 2020 and May 2020. After remaining relatively unchanged for several months, the claimant count has fallen since January 2021, with the rate of decline appearing to quicken in May and June.

Some 76,080 people were claiming benefits in June 2021; this remained 40% more than in February 2020.

The unemployment rate in the North East region was 5.8% in the period March to May 2021, compared with 5.0% in England. An estimated 74,500 people in the region were unemployed and actively seeking work. This was 5,600 more than the number in March to May 2020, an increase of 8%.

Women have been affected by a larger rise in unemployment in the North East region (and nationally) than among men during the COVID-19 pandemic. Between January to March 2020 and March to May 2020, the number of women who were unemployed rose by 33% (to almost 690,000) compared with a rise of 10% among men (to 735,000).

In March to May 2021, an estimated 383,300 people in the North East region were economically inactive. This was 24,000 more than in March to May 2020, an increase of 7%. The number of economically inactive women in the North East region rose by almost 16,600 in the same period (8%), compared with a rise of 7,400 (5%) among men.

Unemployment impacts have fallen most heavily on young people, and on the poorest communities, where low wage employment in the worst hit sectors is concentrated, such as retail and hospitality.

Although regional unemployment has risen, this has been well below the levels first feared. Employment has held up much better than expected, due to a number of factors including furlough, demand in the economy being supported by Government spending, the successful transition to home working, and businesses quickly putting Covid safe working in place.

Support Interventions

Since January 2021, the number of employments furloughed under the Coronavirus Job Retention Scheme has fallen, as lockdown restrictions have gradually lifted. At end June 2021, provisional data show 50,800 employment furloughed in the North East LEP area, compared with 126,900 in July 2020.

In total, 39.5% of eligible employments in the North East LEP area have been furloughed at some point the scheme. At the end of June 2021, 6% of eligible employments in the North East LEP area were furloughed. These proportions are similar to those seen nationally.

There has been a high take-up of the Coronavirus Job Retention Scheme (CJRS) in the region, with around one-third of North East workers benefiting. This has had a significant impact, protecting many thousands of jobs that would otherwise have been lost during the pandemic. The take-up of CJRS has varied greatly between sectors, with most take-up in hospitality and leisure, tourism, aviation, arts and culture, non-essential retail, construction, and parts of the manufacturing sector. The use of furlough has reduced significantly since Spring 2021, as growing business activity has enabled businesses to bring staff back to work.

Despite the success of the furlough scheme, the regional labour market has seen some redundancies, albeit not at the very high levels first feared. **More redundancies are expected in the late 2021 and early 2022, when the furlough schemes ends.**

Skills supply and demand

ONS analysis shows that the number of online job vacancies in the North East region at end July 2021 was 165% of their level in February 2020 (in comparison, vacancies in England were at 127% of their February 2020 level). Demand varies by sector.

Reflecting the national picture, there was a significant spike in redundancies in the North East region in late 2020. An estimated 13,600 people were made redundant in the period September to November 2020, a higher number than in any period on record. This is likely to be a result of the expected end of the CJRS in October 2020, while the immediate fall in the number of redundancies in the period following this spike may reflect the subsequent extension of the scheme.

Job losses have been concentred in sectors least able to operate through the pandemic, including high street retail, hospitality and leisure, arts and culture, and travel and tourism.

Nationally, redundancies have been concentrated in wholesale and retail, manufacturing, accommodation and food services, administrative and support services and professional, scientific and technical activities.

Despite the challenges faced by the labour market, the regional economy is now experiencing a period of strong job creation. Vacancy numbers are rising quickly in a number of sectors, including hospitality, tourism, retail, adding to the opportunities that were already being created by strongly performing sectors including digital, food and drink manufacturing, transport and logistics, healthcare, and energy.

However, as recruitment activity picks up, many North East businesses are experiencing skills shortages. The worst effects are being felt in hospitality, tourism, logistics, healthcare, construction, agriculture, and food and drink manufacturing.

In sectors experiencing skills shortages, there is evidence that people have voluntarily left during the pandemic to take up jobs in other sectors offering better pay, conditions, or work / life balance.

Impact on skills, training and workforce investment

The pandemic has had a significant disruptive impact on the education of the region's young people at school, college and university, impacting on their learning, attainment, well-being, and prospects.

DfE data shows that to date in 2020/21, the number of apprenticeship starts in the North East LEP area is at 76% of the number in 2019/20, while nationally the figure is 78%. Starts among women aged under 19 year olds, and starts among 19 to 24 year old men, are both lower in the North East than in England.

Apprenticeship recruitment has also reduced, running at around 20% below pre-pandemic levels, although there are early signs that this may begin to recover.

Businesses have reported a significant reduction in investment in staff training during the pandemic.

The shift to homeworking brought about by the pandemic is expected to become a permanent feature, although the approach is not consistent across all businesses. Some are committed to a full return to the office phased in during late 2021, others have decided to close their offices and shift to a permanent homeworking model, while most will employ a hybrid approach.

Some firms have begun to recruit staff from outside the region on a homeworking business, which is helping to open up access to a larger skills pool, although they are also facing competition for North East staff from businesses outside the region.

The shift to homeworking, home learning and digital delivery of services has highlighted the importance of digital skills, while also exposing severe problems of digital exclusion in the region. One in three employers (29%) who responded to a Make It Click survey said that digital skills had never been more important in their organisation than during the COVID-19 pandemic.

Impact of exiting the European Union

The UK's exit from the EU has affected the regional labour market, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects of EU exit from those of the pandemic. The key impact appears to be staff shortages in sectors that previously employed a significant number of EU workers (such as agriculture, food and drink manufacturing, hospitality, construction, and health care).

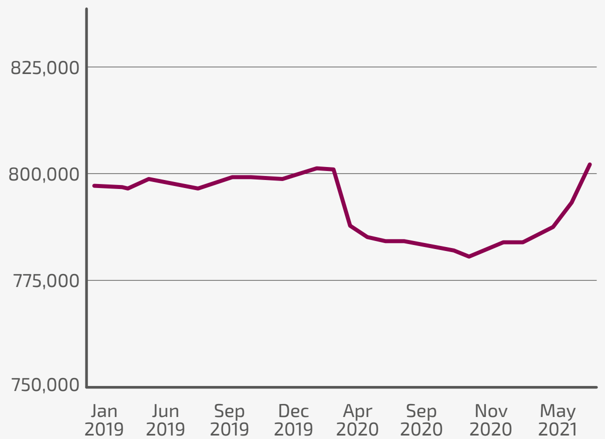
Employment, unemployment and economic inactivity

Employment

The impact of COVID-19 on employment has not been fully captured in a timely manner by existing labour market statistics. To provide additional information, ONS and HMRC have produced statistics[26] based on Pay As You Earn (PAYE) records which count the number of people on employers' payrolls ('payrolled employees').

The data in Figure 15 shows that the number of payrolled employees rose slightly (by around 1%)

Figure 15: Payrolled employees, North East LEP area, January 2019 to June 2021



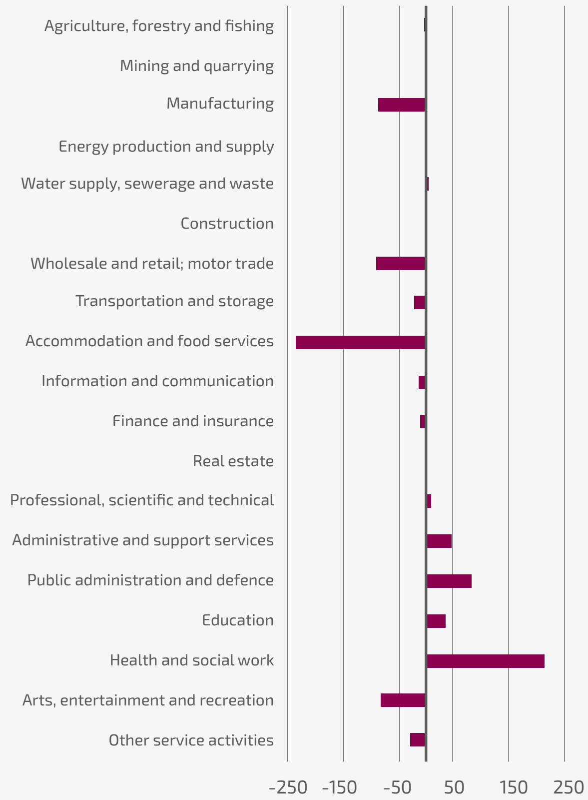
Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK, July 2021

between February 2019 and February 2020, before falling sharply between March and April 2020, and continuing to fall to a low in November 2020. There were 780,223 payrolled employees in the North East LEP area in November, around 20,500 (3%) fewer than in February 2020.

Employment has risen since January 2021, particularly as lockdown restrictions have eased, and there were 801,680 payrolled employees in the North East in June 2021. This was actually 940 higher than in February 2020, an increase of 0.1%. Nationally, the number of payrolled employees in June 2021 was still 0.7% lower than pre-Covid.

Statistics about the number of payrolled employees by industry and by age group are only available at national level. Figure 16 shows the change by sector between February 2020 and June 2021. It is clear that a number of sectors have been particularly affected by job losses, most notably accommodation and food service activities (236,000 fewer payrolled employees) but also wholesale, retail and repair of motor vehicles (almost 92,000 fewer), manufacturing (88,000 fewer) and arts, entertainment and recreation (84,000 fewer). In contrast, several sectors have seen employment growth during the pandemic, including health and social work (215,000 more payrolled employees), public administration and defence (83,000 more), administrative and support services (48,000 more) and education (35,000 more).

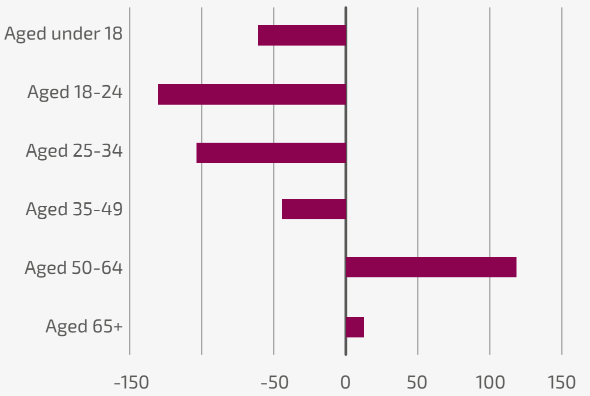
Figure 16: Change in number of payrolled employees (thousands) by sector, UK February 2020 to June 2021



Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK, July 2021

26 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/previousReleases

Figure 17: Change in number of payrolled employees by age, UK, February 2020 to June 2021



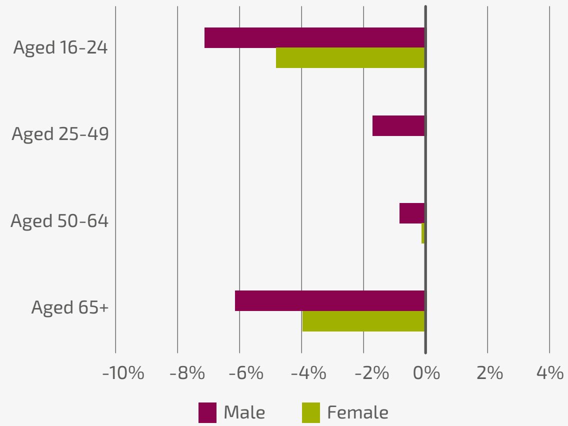
Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK, July 2021

Figure 17 shows the change in the number of payrolled employees by age between February 2020 and June 2021. There is a clear contrast between a fall in the number of payrolled employees aged under 50, and an increase in the number aged 50 and over: the largest falls were seen among 18 to 24 year olds (130,700 fewer payrolled employees) and 25 to 34 year olds (103,700 fewer), while the largest increase was among 50 to 64 year olds (120,100 more payrolled employees). Employment fell among all age groups in the period February 2020 to early 2021, and has recovered in all age groups since – but in June 2021, remained below February 2020 levels among those aged under 50.

The negative impacts on employment during the pandemic are also shown by the Annual Population Survey, which is less timely than the PAYE data above. At national level[27], this shows large falls in employment among men in the period March 2020 to April 2021 compared with the previous year, particularly among 16 to 24 year olds (an estimated 113,700 fewer people in employment) and those aged over 65 (40,600 fewer). Relatively speaking, the fall in employment among men aged 25 to 50 years old was less significant, but in absolute terms this accounted for a much larger number of jobs (145,100 fewer people in employment).

Similarly, women's employment fell most notably in the youngest and oldest age groups (an estimated 75,600 fewer women aged 16 to 24 years old and 19,200 fewer women aged 65 and over in employment). In contrast to the picture among men, the total number of women aged 25 to 49 in employment was hardly affected, falling by just 0.01% over this period (an estimated 900 fewer people in employment).

Figure 18: Change in number of payrolled employees by age and gender, England, March 2019–April 2020 to March 2020–April 2021



Source: ONS Annual Population Survey, via Nomis

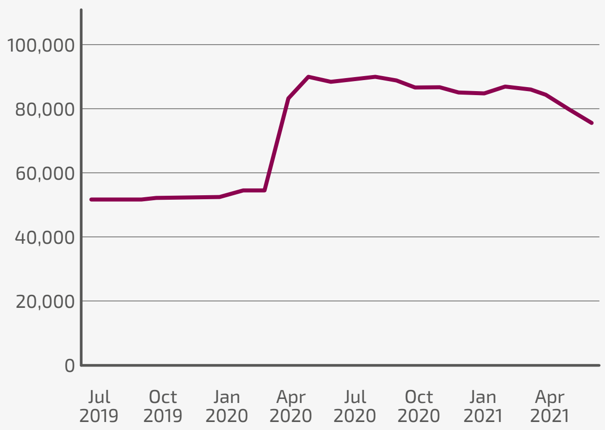
Claimant count

ONS produces a monthly count[28] of people claiming benefits because they are seeking work or are required to seek a new job. This provides a more up-to-date indicator of changes to the local labour market than headline unemployment figures (though it should not be considered a definitive measure of unemployment, as some people who are unemployed and actively seeking work are ineligible for benefits). The claimant count includes

27 Data for the North East LEP area is subject to considerable uncertainty at this level of disaggregation.
28 https://www.nomisweb.co.uk/query/select/getdatasetbytheme.asp?theme=72

people claiming Universal Credit (UC) who are required to search for work (including some people in low-paid jobs seeking higher paid work), as well as people claiming earlier unemployment-related benefits such as Jobseekers Allowance (JSA). The count usually takes place on the second Thursday of the month.

Figure 19: Claimant count, North East LEP area, July 2019 to June 2021



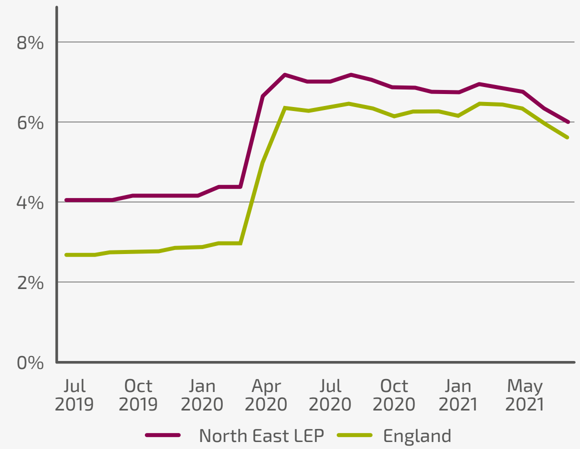
Source: ONS Claimant count by sex and age, via Nomis

The data shows a slight upward trend in the claimant count prior to the Covid-19 pandemic (Figure 19). The number of people claiming unemployment-related benefits in the North East LEP area rose by 6% between July 2019 and February 2020, to 54,390.

The claimant count rose in each of the next three months, with a particularly sharp rise in April 2020, and peaked in May 2020 at 89,935 – an increase of 65% in the three month period since February. The claimant count remained at a similar level for several months, before a slight fall between October 2020 and January 2021, despite this period including the second national lockdown and local Tier 4 restrictions.

The third national lockdown led to a further slight increase in the claimant count in February 2021 compared with January 2021, but the number of people claiming unemployment-related benefits has fallen since, with the rate of decline appearing to quicken in May and June. Some 76,080 people were claiming benefits in June 2021; this remained 40% more than in February 2020.

Figure 20: Claimant count rates, North East LEP area and England, July 2019 to June 2021



Source: ONS Claimant count by sex and age, via Nomis

The claimant count rate shows a similar pattern, and illustrates that the North East trend reflects that seen nationally (Figure 20). Historically, the claimant count rate has been higher in the North East than in England (4.4% in February 2020, compared with the national rate of 3.0%) but the gap has narrowed during the Covid-19 pandemic, and has continued to narrow in recent months as the claimant count rate has begun to fall. In June 2021, the North East rate was 6.1%, compared with 5.7% in England.

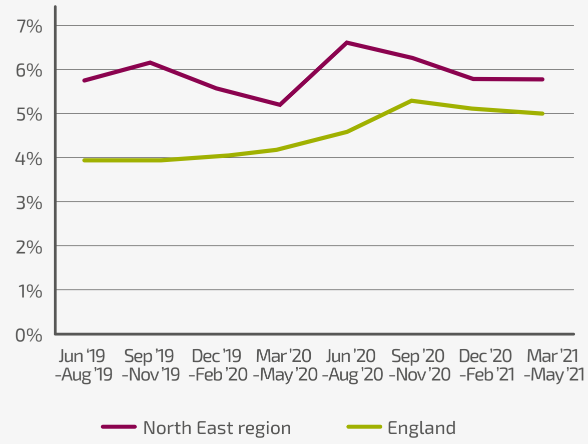
Overall, the Covid-19 pandemic has had a similar impact on the North East claimant count by gender. Between February 2020 and June 2021, the number of men and women claiming unemployment-related benefits each rose by 40%. Male claimants continued to outnumber female claimants, with men accounting for 61% of all North East claimants in June 2021 and women 39%. The largest increases in the North East claimant count between February 2020 and June 2021 have been among 25 to 49 year olds (a rise of 43%) and those aged 50 and over (39%), compared with 16 to 24 year olds (33%).

Unemployment and economic inactivity

The most up to date headline sub-national labour market statistics in England are available for the North East region, including both the North East and Tees Valley LEP areas. The data are released monthly, and relate to a three-month period that ended six to seven weeks earlier; the latest data available at the time of writing relate to the period March to May 2021. The equivalent releases for LEP and local authority areas provide statistics for a 12-month period and are only available quarterly, with a greater time lag[29].

The unemployment rate measures the percentage of economically active adults aged 16 and over who are unemployed and actively seeking work. It differs from the claimant count rate, because it does not take eligibility for unemployment-related benefits into account (it is also based on survey responses, rather than administrative data, and is therefore subject to some uncertainty). Historically, the unemployment rate in the North East region has been above the national average. Men are historically more likely to be unemployed than women.

Figure 21: Unemployment rate, North East region and England, Jun to August 2019 to March to May 2021



Source: ONS Labour Force Survey, via Nomis

The unemployment rate rose later in response to the Covid-19 pandemic than the claimant count, and later than the number of payrolled employees fell. Because of its survey-based nature, the unemployment rate (along with other labour market indicators derived from the same source) is considered a lagging indicator of the economy and labour market, while the claimant count and data on payrolled employees is intended to be more timely.

Figure 21 depicts the downward trend in the unemployment rate in the North East region between September to November 2019 and March to May 2020 is notable in its contrast to the slight upwards national trend. The subsequent rise in the unemployment rate was sharper and faster in the region than nationally. The unemployment rate peaked at 6.6% in the North East region in the period June to August 2020, a rise of 1.4 percentage points over the previous period, compared with a peak of 5.3% in the period September to November 2020 in England, a rise of 0.7 percentage points in the same time frame (and a rise of 1.4 percentage points over the previous five periods).

The unemployment rate in the North East region was 5.8% in the period March to May 2021, compared with 5.0% in England. An estimated 74,500 people in the region were unemployed and actively seeking work. This was fewer than the peak in June to August 2020 (84,500) and, in fact, a similar number as in June to August 2019, but was 5,600 more than the number in March to May 2020 (an increase of 8%).

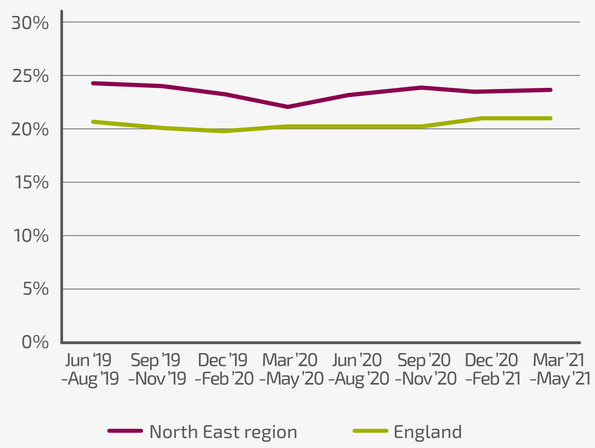
Women have been affected by a larger rise in unemployment in the North East region

29 The latest LEP and local authority statistics are delayed.

(and nationally) than among men during the Covid-19 pandemic. Between January to March 2020 and March to May 2021, the number of women who were unemployed rose by 13% (to 25,000) compared with a rise of 4% among men (to almost 44,400)[30].

Over the same period, the number of 16 to 24 year olds who were in unemployed in the North East region fell by 38% (to 19,700), though the downward trend appears to have begun in early 2021. Unemployment has risen among other age groups: by 47% among 25 to 34 year olds (to 17,300), by 72% among 35 to 49 year olds (to 15,300) and by 59% among 50 to 64 year olds (to 16,100).

Figure 22: Economic inactivity rate, North East region and England, Jun to August 2019 to March to May 2021



Source: ONS Labour Force Survey, via Nomis

The economic inactivity rate measures the proportion of the population aged 16 to 64 who are unemployed and not actively seeking work (though they may want a job). People may be economically inactive because they have a long-term illness or disability, due to caring responsibilities, being a full-time student or early retirement. Historically, the economic inactivity rate has been higher in the North East region than in England. Women are historically more likely to be economically inactive than men.

The economic inactivity rate in the region rose from a low of 22.0% in the period March to May 2020 to a peak of 23.9% in September to November 2020; it has since fallen back to 23.6% in the period March to May 2021 (Figure 22). In comparison, the rate in England rose from a low of 19.7% in January to March 2020, to a peak of 20.9% in December 2020 to February 2021, where it remained in March to May 2021.

In March to May 2021, an estimated 383,300 people in the North East region were economically inactive. This was 24,000 more than in March to May 2020, an increase of 7%. Much of this was due to a rise in economic inactivity among women. The number of economically inactive women in the North East region rose by almost 16,600 in the same period (8%), compared with a rise of 7,400 (5%) among men.

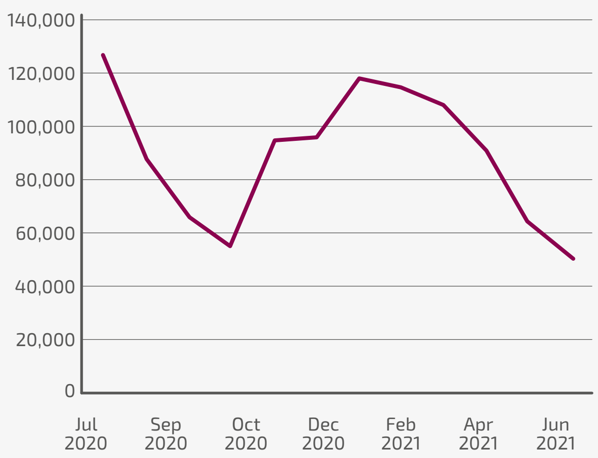
Coronavirus Job Retention Scheme

The Government launched the Coronavirus Job Retention Scheme (CJRS)[31] on 20 April 2020. Employers were able to claim CJRS support for employees furloughed from the start of March. Between 1 July and 31 October 2020, staff who had not already been furloughed under the scheme could not be included in claims for support except in certain exceptional circumstances. The Government then announced an extension to CJRS starting in November 2020, with a further extension from May 2021 until end September 2021. The CJRS covers 80% of each furloughed employees' earning for the hours they did not work, up to a monthly total of £2,5000. Until July 2021, the Government paid the full amount. In July 2021, the Government's contribution reduced to 70% of earnings up to £2,500, with employers required to contribute (at least) 10%. In August 2021, the Government's contribution reduced to 60% while the contribution required from employers rose to (at least) 20%.

30 ONS Table X02 Regional labour market: Estimates of unemployment by age, September 2021. It should be noted that estimates are subject to some uncertainty due to sampling variability.
31 https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics#coronavirus-job-retention-scheme

Figure 23 shows the number of employment furloughed under the CJRS, from end July 2020 to end June 2021. The number of furloughed employments fell over the course of the initial scheme (running to end October 2020), partly reflecting the relaxation of public health restrictions over this period, and partly reflecting an increase in the number of redundancies made in response to the expected end of the scheme (see below).

Figure 23: CJRS furloughed employments, North East LEP area, end July 2020 to end June 2021

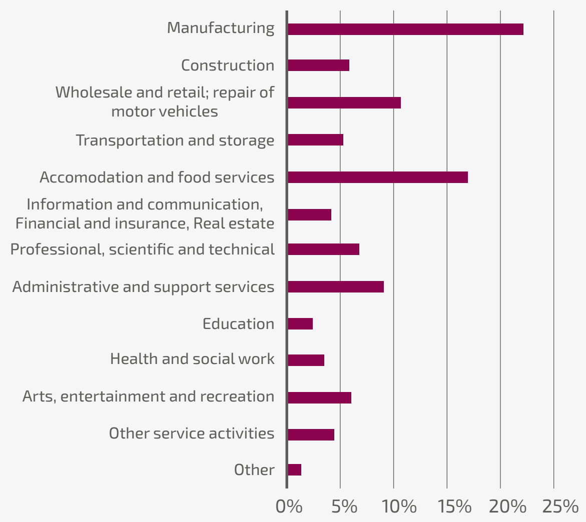


Source: HMRC Coronavirus Job Retention Scheme statistics, 29 July 2021. June 2021 data is provisional.

There was then an increase in furloughed employments following the announcement of the scheme's extension in early November and coinciding with the second national lockdown; the third national lockdown beginning in January 2021 then led to a further increase, with the number of furloughed employments reaching a similar level to that seen in July 2020. Since January, the number of furloughed employments has fallen, as restrictions have gradually lifted. At end June 2021, provisional data show 50,800 employment furloughed in the North East LEP area.

This trend is reflected in the proportion of eligible jobs which have been furloughed, which has fallen during this period. In total, 39.5% of eligible employments in the North East LEP area have been furloughed at some point in the scheme, compared to 39.0% in England. At end June 2021, 6% of eligible employments in the North East LEP area were furloughed, compared to 7% in England. Alongside the fall in the number of furloughed employments, there ha also been an increase in the proportion that were partially, rather than fully, furloughed. Almost half of furloughed employments in the North East region (including the North East and Tees Valley LEP areas) were partially furloughed on 30 June, up from 30% three months earlier.

Figure 24: CJRS furloughed employments by sector, North East LEP area, end June 2021 (provisional)



Source: HMRC Coronavirus Job Retention Scheme statistics, 29 July 2021

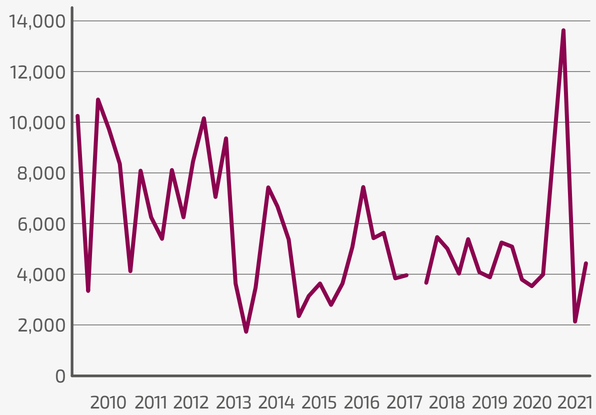
Figure 24 shows that the manufacturing sector (22%) accounts for the largest proportion of employments furloughed in the North East LEP area at end June 2021, followed by the accommodation and food services sector (17%) and the wholesale, retail and repair of motor vehicles sector (11%). Fewer than 10% of furloughed employments were in other sectors. This pattern has changed from earlier in the pandemic as restrictions have been lifted and retail and hospitality venues have reopened. Previously, the accommodation and food services sector and the wholesale, retail and repair of motor vehicles sector have accounted for a much higher proportion of furloughed employments.

Women accounted for 43% of the employments furloughed in the North East LEP area at end June 2021. This proportion has fallen as the number of furloughed employments in retail and hospitality has fallen, presumably as people have returned to work. According to the Resolution Foundation, older furloughed workers were less likely to have returned to work during the pandemic than younger furloughed workers. 26 per cent of workers aged 55+ workers that were furloughed in April 2020 were still on full furlough in May 2021[32].

Redundancies

The official redundancy data published by ONS[33] is based on individual responses to the Labour Force Survey rather than on a survey of companies. It measures the number of people who said they had been made redundant in the three months prior to interview. The data are presented in three-month periods but are updated each month. Patterns can be volatile as regional totals can be based on small sample sizes.

Figure 25: Redundancy levels, North East region, 2009 to 2021



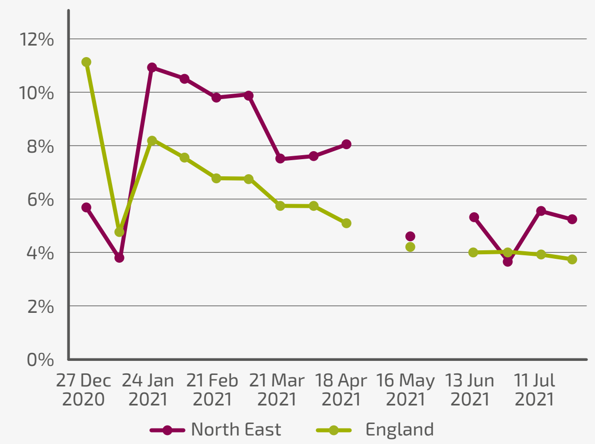
Source: ONS Labour Market Release Table RED02: Redundancy Levels by Region, 15 July 2021

Reflecting the national picture, there was a significant spike in redundancies in the North East region (including the North East and Tees Valley LEP areas) in late 2020. An estimated 13,600 people were made redundant in the period September to November 2020, a higher number than in any period on record. This is likely to be a result of the expected end of the CJRS in October 2020, while the immediate fall in the number of redundancies in the period following this spike may reflect the subsequent extension of the scheme. Indeed, the number of planned redundancies reported to the Insolvency Service through the Advanced Notification of Redundancy scheme (which requires employers to give Government advance notification of plans to dismiss 20 or more employees at a single establishment) has fallen since[34].

Nationally, redundancies during the 12 months from June 2020 to May 2021 have been concentrated in wholesale and retail (17% of redundancies in this period), manufacturing (14%), accommodation and food services (11%), administrative and support services and professional, scientific and technical activities (both 8%). The Joseph Rowntree Foundation reports that in the first national lockdown, people on zero-hours or temporary contracts were four times more likely to lose their job (and self-employed people were three times more likely to stop working) compared with people on permanent contracts. The lowest-paid workers and part-time workers were twice as likely to lose their jobs compared to the highest paid. Workers in poor-quality jobs in terms of security, hours and pay were disproportionately at risk of losing their job or having reduced hours, even compared with workers in the same sector and with the same personal and other job characteristics[35].

32 Resolution Foundation, The Living Standards Audit 2021, July 2021
33 https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandreemploymentratesred02
34 https://www.gov.uk/government/publications/publication-of-data-on-advanced-notification-of-redundancy-scheme/management-information-on-advanced-notification-of-redundancy-scheme
35 Joseph Rowntree Foundation, What the first COVID-19 lockdown meant for people in insecure, poor-quality work, March 2021

Figure 26: Proportion of businesses expecting to make redundancies in the next three months, North East region and England, two weeks ending 29 November 2020 to 25 July 2021



Source: ONS Business insights and impact on the UK economy. The gaps reflect missing data.

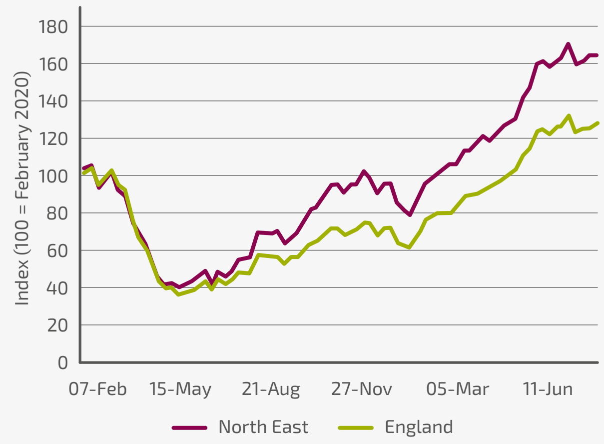
According to ONS[36], the proportion of businesses in the North East region (including the North East and Tees Valley LEP areas) that expect to make redundancies in the next three months has generally been above the national average since January 2021, when there was a sharp rise in the region that was not reflected nationally. Since then, the proportion of businesses expecting to make redundancies has generally fallen, though there have been some fluctuations. In the two weeks to 25 July 2021, 5% of businesses in the North East region expected to make redundancies in the next three months, compared with 4% in England.

Nationally, businesses in the accommodation and food service activities and manufacturing sectors were most likely to expect to make redundancies. The larger the business, the more likely it was to expect redundancies.

Recruitment demand

ONS publishes a vacancy index which expresses the latest online vacancy numbers from Adzuna as a percentage of the total in February 2020, just before the first impacts of COVID-19. The index shows that vacancy levels in the North East region (including the North East and Tees Valley LEP areas) fell sharply early stages in the pandemic, reflecting the pattern seen nationally. Recruitment demand in the region recovered to pre-Covid levels despite the second national lockdown in November 2020 and the local Tier 4 restrictions that followed, but fell again during the third national lockdown in January 2021. Since then, recruitment demand has continued to increase, at a faster rate in the region than that seen nationally. The latest data[37] shows that the number of online job vacancies in the North East region at end July 2021 was 165% of their level in February 2020 (in comparison, vacancies in England were at 127% of their February level).

Figure 27: Online vacancies index, North East region and England, February 2020 to July 2021



Source: ONS Online Job Advert Estimates, 5 August 2021

At UK level, the index shows recruitment demand using Adzuna job categories. Jobs are assigned to categories using natural language processing to analyse the text in job title and description (note that categories are defined by Adzuna and do not align with more traditional sectoral and occupational classifications). All categories show a broadly similar trend to that seen overall, with recruitment demand falling in the initial stages of the pandemic, and suppressed for much of 2020 before recovering as the third national lockdown restrictions have eased.

36 https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/businessinsightsandimpactontheukeconomy/latest
37 https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/onlinejobadvertestimates

North East Local Enterprise Partnership

The level of demand varies by category, of course, with the number of vacancies in some categories in July 2021 far exceeding the number in February 2020. Table 2 compares recruitment demand by category at 26 week intervals since February 2020.

Table 2: Online vacancies index by job category, UK, selected dates

	Index (February 2020 = 100)		
Category	7 Aug 2020	5 Feb 2021	30 July 2021
Transport / logistics / warehouse	131.2	125.8	314.9
Manufacturing	92.3	130.0	255.2
Domestic help	133.1	94.0	216.5
HR & recruitment	35.2	74.8	169.1
Facilities / maintenance	62.9	85.8	162.4
Construction / trades	74.7	100.2	159.8
Catering and hospitality	31.5	24.0	142.7
Customer service / support	45.1	59.3	140.1
Part-time / weekend	51.7	65.1	136.6
Wholesale and retail	43.8	46.1	135.0
Scientific / QA	71.3	103.3	134.6
Marketing / advertising / PR	33.6	74.6	131.6
Creative / design / arts & media	49.0	80.8	128.9
Travel / tourism	64.3	61.9	124.9
Admin / clerical / secretarial	38.1	53.8	124.6
Property	67.5	85.6	124.5
IT / Computing / Software	50.8	93.1	123.2
Management / exec / consulting	34.7	71.3	116.0
Charity / voluntary	41.0	69.6	107.9
Engineering	50.5	78.9	105.7
Accounting / Finance	41.2	70.5	104.9
Sales	37.2	59.8	103.5
Healthcare and Social care	87.4	90.3	102.1
Education	59.9	71.5	101.2
Graduate	36.6	48.4	97.3
Legal	40.5	81.5	92.3
Energy / oil & gas	35.9	64.1	80.3
All industries	57.0	77.1	126.4

Source: ONS Online Job Advert Estimates, 5 August 2021

As Table 2 shows, recruitment demand in transport, logistics and warehousing was more than three times higher in July 2021 than in February 2020. Demand for manufacturing and domestic help (including home care) recruits was more than twice as high. Demand in many other categories is inflated, though not to the same extent, and there are some categories in which demand has returned to pre-Covid levels but does not exceed it. Although demand has recovered during the pandemic, there are still fewer jobs in energy, oil and gas than immediately prior to the pandemic, and still slightly fewer legal and graduate jobs.

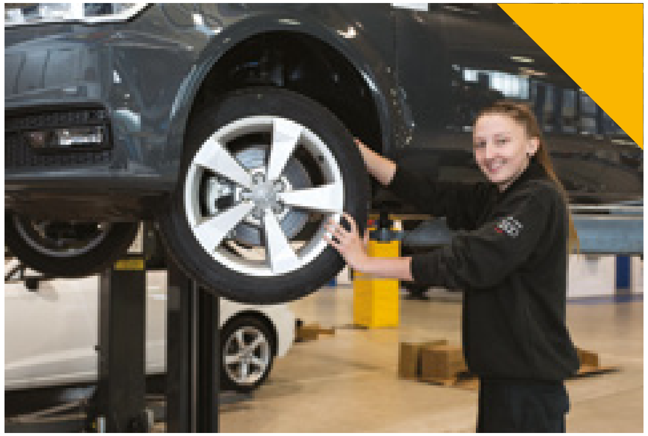
Apprenticeship provision

According to the House of Lords Economic Affairs Committee[38], the number of new apprenticeships fell during the early stages of the Covid-19 pandemic. Between 23 March and 31 July 2020, some 58,160 apprenticeship starts were reported, down from 107,750 in the same period in 2019, a decrease of 46%. The Committee reports that a Make UK survey found that 45% of manufacturers planned to recruit an apprentice in the next 12 months, a figure that would typically stand at around 75%. A Sutton Trust survey found that 8% of apprentices were made redundant in April 2020; in October 2020 that increased to 12%. The committee reported that almost half had been, or were still furloughed, with just 31% of apprentices having continued their apprenticeship without disruption since the beginning of the pandemic.

The Department for Education's (DfE's) latest apprenticeship statistics[39] provide data for the first three quarters of the 2020/21 academic year (August 2020 to April 2021). Totals are compared with full-year totals in previous academic years. It is, therefore, difficult to assess the impacts of the Covid-19 pandemic on apprenticeship provision.

To date in 2020/21, the number of apprenticeship starts in the North East LEP area is at 76% of the number in 2019/20, while nationally the figure is 78%. Starts among women aged under 19 year olds, and starts among 19 to 24 year old men, are both lower in the North East than in England.

- The number of intermediate apprenticeship starts in the North East LEP area to date in 2020/21 is 62% of the number in 2019/20 (England 65%). Starts are lower among under 19 year olds in the North East compared with England (59% compared with 65%), and are also lower among women in the North East compared with England (60% compared with 70%).
- The number of advanced apprenticeship starts in the North East LEP area to date in 2020/21 is 80% of the number in 2019/20 (England 77%). Starts are higher among adults aged 25 and over in the North East (86%) than in England (77%), particularly among men. Starts among men aged under 19 are lower in the North East than in England. In contrast, starts among women aged under 19 are higher in the North East. Starts among women aged 19 to 24 are also higher in the North East than in England; indeed, the number of advanced apprenticeship starts among women in the North East to date in 2020/21 exceeds the number in 2019/20.
- The number of higher apprenticeship starts in the North East LEP area to date in 2020/21 is 86% of the number in 2019/20 (England 98%). Starts are lower in the North East than in England among all age groups, and among both men and women.



38 House of Lords Economic Affairs Committee, Employment and COVID-19: time for a new deal, December 2020
39 https://explore-education-statistics.service.gov.uk/find-statistics/apprenticeships-and-traineeships/2020-21

Table 3: Number of apprenticeship starts by subject and level, North East LEP, August 2020 to April 2021

	Level			
Sector subject area	Intermediate	Advanced	Higher	Total
Agriculture, Horticulture and Animal Care	130	30	0	170
Arts, Media and Publishing	0	10	0	10
Business, Administration and Law	420	1,270	1,320	3,010
Construction, Planning and the Built Environment	550	290	160	990
Education and Training	0	180	90	270
Engineering and Manufacturing Technologies	330	780	150	1,260
Health, Public Services and Care	530	1,470	750	2,740
Information and Communication Technology	0	260	230	500
Leisure, Travel and Tourism	10	70	0	90
Retail and Commercial Enterprise	510	390	90	970
Total	2,510	4,730	2,760	9,970

Source: DfE Apprenticeships and traineeships, July 2021

Table 3 shows the number of apprenticeship starts in the North East LEP area by subject and level. Of the almost 10,000 starts to date in 2020/21, 25% were at intermediate level, 47% at advanced level and 28% at higher level. Intermediate level apprenticeships were most common in Construction, Planning and the Built Environment; Health, Public Services and Care; Retail and Commercial Enterprise and Business, Administration and Law subjects. Advanced apprenticeships were most common in Health, Public Services and Care and Business, Administration and Law subjects; Engineering and Manufacturing Technologies apprenticeships are also important at this level. Higher apprenticeships were most common in Business, Administration and Law, followed by Health, Public Services and Care.

Labour market outlook

In its most recent Monetary Policy Report (May 2021)[40], the Bank of England noted that the UK unemployment rate fell slightly to 4.9% in the three months to February and forecast that it will be 5.2% in Q2 2021. This represents an improved position relative to the projection published in the February 2021 report for the same period (7.7%). For Q 1 2022, the forecast LFS unemployment rate is 4.7%. The extension of the Government's employment support schemes (e.g. CJRS) in Budget 2021 was seen to be important to limiting any short term rise in the LFS unemployment rate. The Bank's Monetary Policy Committee also expressed the view that whilst the unemployment figure is falling, that there is more slack in the labour market than is suggested by this measure, meaning that the unemployment rate it set to bottom out in the next year even though demand is set to expand.

In its March 2021 *Economic and Fiscal Outlook*[41], the Office for Budget Responsibility expected the pace of the recovery in output, combined with the extended CJRS and additional fiscal support announced in the March Budget, to help limit further rises in unemployment. The UK unemployment rate is forecast to peak at 6.5% (2.2 million people) at the end of 2021. This represents a rise of 490,000 over the year, but is 340,000 lower and six months later than previously forecast. The rise in unemployment reflects residual constraints on activity in some

40 https://www.bankofengland.co.uk/monetary-policy-report/2021/may-2021
41 https://obr.uk/efo/economic-and-fiscal-outlook-march-2020/

sectors such as accommodation and transport, as well as firms' adoption of less labour-intensive modes of operation in sectors such as retail and hospitality. It also reflects the scarring effect of long spells away from employment experienced by some CJRS beneficiaries, many of whom have been away from work for more than six months over the past year.

These findings are supported by other forecasts, such as that presented by KPMG[42], which states their prediction that unemployment is likely to peak at 5.7% by the end of the 2021 as the furlough scheme ends and the majority of workers are reabsorbed by the labour market. This forecast includes the assumption that 9 out of 10 workers currently on furlough will remain in employment after September. Looking further ahead, KPMG forecasts the unemployment rate to be 5.1% on average in 2021, with a peak of 5.7% in the three months to December, and 5.3% in 2022, as the labour market normalises.

KPMG also expect that changing relations with the EU will lead to a loss of output in the manufacturing sector which is likely to lead to some job losses over the course of 2021. Further losses in employment in financial services and some professional services linked to EU clients may also ensue. Meanwhile, the worst affected sectors during the pandemic, including hospitality and travel, may re-hire employees in the first half of 2021 to meet rising demand.

However, given the extent that the Covid-19 crisis has fundamentally shifted demand, there is likely to be a relatively large proportion of workers who will need to find new jobs in a different sector or business. These workers will likely require training before they can transition to new roles in growing sectors of the economy. Jobs in the traditional retail sector may be the worst affected, as the shift from traditional bricks-and-mortar stores to online shopping is likely to endure after the crisis is over.

Key findings from consultations

There has been a high take-up of the CJRS in the region. This has had a significant impact in protecting many thousands of jobs that would otherwise have been lost and minimising the scarring on the regional labour market.

The take-up of CJRS has varied greatly between sectors. It has been used most in hospitality and leisure, tourism, aviation, arts and culture, non-essential retail, construction, and parts of the manufacturing sector (especially automotive manufacturing), reflecting those sectors most heavily impacted by the pandemic. As the pandemic has evolved, workers have returned from furlough most quickly in those sectors that have been able to re-open with Covid safe working practices between the various stages of lockdown, including construction and manufacturing. Since April and May 2021, the **use of furlough has reduced most significantly in hospitality and leisure, UK tourism, and retail where growing business activity has enabled businesses to bring staff back to work.** Furlough rates remain high in sectors suffering the most persist effects of the pandemic, including aviation, and arts and culture. Furlough has been used least in used least in sectors that have largely continued operating throughout the pandemic, including agriculture, food manufacturing, food retail, energy, logistics, digital, and professional services.

Deskilling of the workforce poses a threat to a number of sectors, particularly tourism, hospitality and culture where many staff have been on furlough and out of the workplace for many months, resulting in a loss of skills, out of date certifications, and demotivation due to the stop-start nature of their employment. As they re-open, business are investing significant time and effort in supporting staff to return to the workforce, from both a skills and personal wellbeing perspective.

Despite the success of the furlough scheme, **the North East labour market has seen some redundancies, albeit not at the very high levels first feared during the early months of the pandemic.** For some businesses, the pandemic has presented an opportunity to review and re-structure their workforces, making redundancies that were seen as non-essential before the pandemic but which are now considered necessary to streamline the workforce, reduce costs, and better prepare the business for the future.

42 https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/kpmg-uk-economic-outlook-june-2021-report.pdf

There is also some evidence of jobs being displaced where businesses have seen opportunities to make greater use of digital technologies and automation as a result of the pandemic.

More redundancies are expected in the final quarter of 2021 and the first quarter of 2022, when the furlough scheme ends as businesses are finally confronted with the decision to bring furloughed staff back into the workplace. Many businesses believe that this is when the true impacts of the pandemic on the labour market will be felt.

Job losses in the region have been concentred in sectors least able to continue operating through the pandemic, including **high street retail, hospitality and leisure, arts and culture, and travel and tourism.** There have also been significant jobs losses in **construction and parts of the manufacturing sector,** mainly in the early months of the pandemic before safe working practices were implemented.

Although unemployment in the region has risen, this has been well below the levels first feared in the early days of the pandemic. Employment levels have held up much better than expected, due to a number of factors including furlough, demand in the economy being supported by Government spending, the successful transition to home working, and the ability of businesses in many sectors to quickly put in place Covid-safe working practices.

As has been the case following other recessions and economic shocks, **unemployment impacts have fallen most heavily on young people** who are often the first to lose their jobs as they are the least experienced members of the workforce and the costs associated with making young people redundant are lower for businesses. Rising unemployment has also impacted on the poorest communities, where employment in the worst hit sectors is concentrated, such as retail and hospitality.

Government attempts to tackle the worst effects of youth unemployment appear to have had limited impact in the region so far. Several consultees reported that, while the Kick Start programme is well intentioned, it is only open to young people unemployed for more than six months. Consultees believe the scheme would have a greater impact if it was available to young people from day one of unemployment, enabling them to retrain while their skills and motivation are fresh.

The pandemic has had a disruptive impact on the education of the region's young people at school, college and university, impacting on their learning, attainment, well-being, and future prospects. A significant national and regional effort is needed to minimise the negative impacts and support young people to catch-up.

Despite the challenges faced by the labour market, **the regional economy is now experiencing a period of strong job creation.** Vacancy numbers are rising quickly in a number of sectors, including hospitality, tourism, retail, adding to the opportunities that were already being created by strongly performing sectors including digital, food and drink manufacturing, transport and logistics, healthcare, and energy. There are opportunities in the labour market for people seeking to get back into work.

As recruitment activity picks up, many North East businesses are beginning to experience skills shortages and hard to fill vacancies. The worst effects are being felt in **hospitality, tourism, logistics, healthcare, and construction**. Consultation feedback indicates that these sectors have experienced problems in recruiting staff for many years and are seen as offering poor pay and working conditions (e.g. zero hours contracts, unsociable hours). In hospitality, challenges in recruiting skilled chefs and other staff are causing some businesses to operate below full capacity and turning customers away, just as the sector begins to open up. Meanwhile, a longstanding shortage of road haulage drivers is being exacerbated by a surge in demand for logistics services as the economy continues to re-open, and demand for home deliveries accelerates driven by continuing growth in online retail. Skills shortages are also being exacerbated by a lack of students currently living or seeking part-time work in the region's cities.

In all of the sectors experiencing skills shortages, anecdotal feedback indicates that **many people have voluntarily left the sector during the pandemic to take up jobs in other industries offering better pay, working conditions, or work / life balance.**

Businesses have reported a **significant reduction in investment in staff training during the pandemic,** as this was one of the first areas in which businesses sought to cut costs. There are early signs that training activity is beginning to recover as more staff return to work, although it remains well below pre-pandemic levels.

Apprenticeship recruitment has reduced, running at around 20% below pre-pandemic levels, **although there are early signs that this may begin to recover** with more businesses planning an Apprentice intake in September 2021. Apprenticeship numbers are down most in office-based businesses (e.g. professional services) where face-to-face learning and supervision is considered essential, in those sectors worst hit by the pandemic (e.g. retail, hospitality), and in sectors that are most cautious about future growth prospects (e.g. some manufacturing sectors). In addition, many Apprentices have been unable to qualify during the pandemic as they could not complete competency assessments.

During July and August 2021, **North East businesses across a range of sectors have been suffering the effects of the 'Pingdemic', with thousands of workers across the region absent from work** as they have been told to isolate by the NHS Track and Trace App. While this has been very disruptive in the short-term, businesses expect the effects will be temporary as changes to the isolation rules and the Track and Trace system come into force from August 2021.

The shift to **homeworking brought about by the pandemic is expected to become a permanent feature of future working practices in the region**, albeit scaled-back from the levels seen at the height of the pandemic. For sectors and job roles where homeworking is viable, most businesses in the region are planning to adopt a hybrid approach, with staff spending part of the week working at home, and part in the office. This is intended to maintain some of the benefits of homeworking (improved productivity, greater flexibility, reduced business overheads) while regaining the advantages of office working such as social contact and mental wellbeing, collaboration between colleagues, and training and supervision, especially for younger members of the workforce. This shift is already resulting in some businesses permanently downsizing their office accommodation.

The approach to homeworking is not consistent across all businesses. Some are committed to a full return to the office phased in during late 2021, while others have decided to close their offices and shift to a permanent homeworking model. According to ONS, 38% of businesses in the North East region intend to use increased homeworking as a permanent business model going forward, while 37% do not (the rest are unsure). Among adults who are currently homeworking, 85% want to use a "hybrid" approach of both home and office working in future.

The shift to homeworking is opening up interesting opportunities and challenges for some North East businesses. **Some firms have begun to recruit staff from outside the region on a homeworking business,** which is helping to open up access to a larger skills pool, particularly for more specialist roles that are difficult to fill. However, some businesses are also losing employees to firms in other parts of the UK. For example, there is anecdotal evidence of digital firms in London recruiting homeworkers from the North East, as the South East is facing a significant digital skills shortage and North East-based staff are willing to work for lower salaries. To retain staff, some North East businesses are being forced to increase wages to tackle this competition from London.

The shift to **homeworking and digital delivery has exposed problems of digital exclusion in the region,** with some workers lacking the digital skills needed to work effectively from home. A lack of access to devices or connectivity has also created further barriers to the labour market for those already facing exclusion. During the pandemic, many Job Centre activities and employment support services shifted to online and telephone delivery, making it much more difficult for those without digital skills and devices to access services. Employers' recruitment activities have also moved increasingly online during the pandemic, exacerbating the challenges faced by some groups of unemployed people. According to data from VONNE, it is estimated that around 38% of the North East population is digitally excluded. As the pandemic eases, some services will continue to be delivered online, meaning there is an **urgent need to improve digital skills and provide access to devices for the most disadvantage people in the region, to avoid them becoming further excluded.**

The **UK's exit from the EU has affected the regional labour market, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects of EU exit from those of the pandemic**.

- Some sectors that previously employed a significant number of EU workers (such as agriculture, food and drink manufacturing, hospitality, construction, and health care) report that they are now beginning to experience recruitment difficulties and skills shortages, due in part to increased difficulties in recruiting EU workers, although some of these effects are also a result of Covid travel restrictions. Despite these challenges, Government data indicates that many EU citizens have chosen to remain in the North East. Between August 2018 and March 2021, there were 40,990 applications to the EU Settlement Scheme from the North East LEP area. By 27 May 2021, 39,600 applicants had been granted Settled or Pre-settled status[43].
- Some UK-based workers have found it increasingly difficult to access opportunities in the EU. For example, many performing artists and musicians have been unable to secure EU work visas making it impossible for them to perform in Europe, which has traditionally been an important market. However, these impacts should be reduced by the recent agreement between the UK Government and EU to issues visa for artists performing in 19 EU countries.

43 https://www.gov.uk/government/statistics/eu-settlement-scheme-quarterly-statistics-march-2021

Innovation

North East
Local Enterprise Partnership

Catalysing innovative activities

There is opportunity for the region to build an innovation-led post-Covid recovery through targeted investment in R&D and the adoption of new technologies, focusing on the region's unique strengths in automotive manufacturing and electrification, low carbon energy, and digital technologies (including AI and automation).

Low carbon technology innovation in particular is creating opportunities for North East economic recovery and growth, especially in vehicle electrification and renewable energy generation. While these technologies and industries pre-date COVID-19, they present specific opportunities for innovation-led growth and recovery as the region emerges from the pandemic.

Businesses and SMEs across all sectors have shown great adaptability, demonstrating their capacity to innovate and make changes to the way they operate in the face of the pandemic. This includes the development of new products and services; entering new markets; and developing better and more efficient ways of working.

Some 71% of respondents to a GovGrant survey believed that COVID-19 represents an opportunity for innovation, with 26% citing it as "significant".

Digitalisation

The pandemic has demonstrated to businesses the benefits of new ways of working, including home working and digital delivery of services. These innovations have delivered significant productivity and financial benefits for many businesses which will ensure beyond the pandemic.

The pandemic has accelerated innovations and technologies that were in place before COVID-19 but have been adopted much more quickly than would otherwise have been the case. **The adoption of digital technologies has had a truly transformative impact on many North East businesses and sectors.**

Many digital businesses in the region have experienced strong growth through the pandemic by supporting firms in other sectors to adopt digital technologies.

Some businesses are concerned about a current lack of clarity regarding the UK's future R&D strategy and specific investment plans, following EU exit. **Continuing uncertainty risks holding back private sector innovation investment.**

The region will need to think in new and creative ways about the future role and use of its city and town centres, which has changed permanently as a result of the pandemic, particularly the hollowing-out of the retail core in many places

Innovation

A survey of 500 UK SMEs undertaken by GovGrant[44] suggests that a majority of businesses see the economy's recovery from the Covid-19 pandemic as an opportunity for development and growth. Some 71% of respondents said Covid-19 represents an opportunity for innovation, with 26% citing it as "significant".

Overall, 85% of SMEs believed innovation is important to their growth, though just 26% felt their current activities could be regarded as 'highly innovative'. There are also a range of views on what constitutes innovation, with 42% of respondents saying they viewed innovation as small, continual changes that happen daily, and the rest saying that innovation either happened rarely (but made a considerable impact) or occurred sporadically.

Digitalisation

A survey of UK SMEs undertaken from September to November 2020 by the Enterprise Research Centre[45] found that more than 60% of SMEs intensified their use of digital technologies due to COVID-19. Nevertheless, the research found no significant positive relationship between digitalisation and business performance. Instead, the relationship appears to be indirect, with SMEs who reported using a range of digital technologies more likely to report an increase in innovation activity than others, while innovation was associated with a higher probability of having stable or increased turnover. The researchers argue that SMEs were better equipped to weather the storm of the Covid-19 pandemic if digital technology they introduced in operations allowed them to increase innovation and thus be better prepared to react to the uncertainty of 2020.

The Covid-19 pandemic has highlighted the importance of digital skills to employers. A survey of more than 500 businesses undertaken by Make It Click (an online resource to promote digital skills) in December 2020[46] found that one in three employers (29%) believed digital skills had never been more important in their organisation. Of those whose business had used the CJRS, 60% said digital skills ability was important in their decision about which employees to retain. Furthermore, against a backdrop of rapidly rising redundancies at the time of the survey, 35% of respondents said digital skills are often the deciding factor in who is selected for redundancy if they have more than one person in the same role in their organisation.

Home working

According to ONS' latest Business Insights and Conditions Survey (Wave 35, 12 to 25 July 2021) some 38% of businesses in the North East region (including the North East and Tees Valley LEP areas) intended to use increased homeworking as a permanent business model going forward, while 37% did not (the rest were unsure).

The most common reason for planning to use increased homeworking was staff wellbeing, while increased productivity, reduced overheads and the ability to recruit from a wider pool were also important factors. The most common reason for *not* intending to use increased homeworking, meanwhile, was that it was unsuitable for the business. Other reasons given for not using increased homeworking included reduced communication and a negative impact on working culture.

Nationally, business operating in the information and communication sector, in professional, scientific and technical activities and in education were most likely to say they planned to use increased homeworking going forward. Fewer than half of businesses in the accommodation and food services sector, in other service activities (which includes membership organisations and personal services such as hairdressers and dry cleaners), the construction sector, transportation and storage, the wholesale and retail trade; repair of motor vehicles and motorcycles sector, manufacturing, the human health and social work activities sector and the arts, entertainment and recreation sector said they

44 Innovation Nation: Placing innovation at the heart of the UK's economic rebuild, GovGrant, 2021, https://www.govgrant.co.uk/innovation-nation-survey/

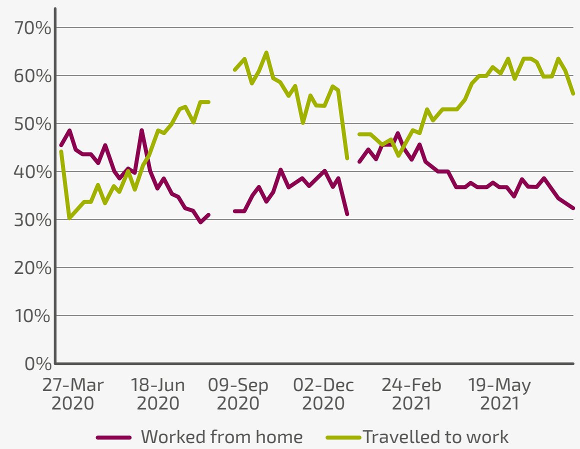
45 Enterprise Research Centre, Digital readiness, digital adoption and digitalisation of UK SMEs amidst the Covid-19 crisis, July 2021

46 Make It Click, "Digital skills a key factor when hiring say business leaders", December 2020, https://makeitclick.learnmyway.com/directory/blog/digital-skills-vital-and-a-key-factor-when-hiring-say-business-leaders

would use increased homeworking in future. Large and medium-sized businesses were more likely to say they would use increased homeworking than small businesses.

Among adults who are currently homeworking, 85% want to use a "hybrid" approach of both home and office working in future. However, there is some uncertainty among businesses, with 32% stating they were not sure what proportion of the workforce will be working from their usual place of work[47].

Figure 28: Proportion of working adults working from home or travelling to the workplace (exclusively or in combination with homeworking), Great Britain, 27 March 2020 to 4 August 2021



Source: ONS Coronavirus and the social impacts on Great Britain, 6 August 2021.
Note: Gaps in the chart reflect gaps in the time-series data

Figure 28 shows that the proportion of working adults who have worked from home, and the proportion who have travelled to work (exclusively, or in combination with homeworking) during the Covid-19 pandemic are related to the intensity of public health restrictions at the time. As would be expected, the proportion of working adults who were working from home is higher (and conversely, the proportion travelling to work is lower) during periods in which large numbers of workplaces were closed.

ONS reports that in late July, 19% of people who were working reported that they had worked exclusively from home, while a further 11% had combined homeworking with travelling to the workplace. 48% of people who were working, meanwhile, had worked exclusively from their workplace. The remainder did not work during this period due to temporary closure of the business or workplace, because they were on annual leave or sick leave, or because they were on maternity or paternity leave or unable to work because of caring responsibilities.

According to ONS, young people were least likely to work from home, partly because their employment tended to be concentrated in industries that had fewer opportunities for home working. ONS' analysis of jobs that can be done from home found that most elementary occupations and some sales and customer service occupations are classed as unlikely to be adaptable to homeworking during the pandemic[48].

ONS identifies five factors[49] that are associated with being less able to work from home, which are:

- whether the job has to be carried out in a specific location
- amount of face-to-face interaction with others
- exposure to burns, infections and other hazards
- whether the job requires physical activity
- use of tools or protective equipment

An additional element that affects the likelihood of working from home is the extent to which digital communication is integrated into the workplace, and whether employees have the technology they need to work from home.

Key findings from consultations

The North East has strengths in a number of sectors that are leading the way in innovation and which have continued to perform strongly through the pandemic. There is an **opportunity for the region to strengthen its competitive position in these sectors through focused investment in R&D and the demonstration and adoption of new technologies, providing a strong platform for post-Covid economic recovery**. This should

47 ONS, Business and individual attitudes towards the future of homeworking, UK: April to May 2021
48 ONS, Coronavirus and changing young people's labour market outcomes in the UK, March 2021
49 ONS, Which jobs can be done from home? July 2020

focus on the region's unique strengths, including: automotive manufacturing and electrification; low carbon energy generation and distribution; digital technologies (including AI, automation, industrial digitisation, and cyber security); and health and life sciences.

R&D and innovation is the driving force behind major new investments that will lead the region's economic recovery. This includes the investments by Nissan and Envision AESC in new electric vehicle battery manufacturing facilities in Sunderland, creating 1,000 new jobs; the announcement that Britishvolt are to invest £2.6bn to create an electric vehicle battery Gigafactory in Blyth, with potential to create up to 8,000 jobs. **This demonstrates the importance of investing in the region's R&D capacity to ensure that future investments of this type are initiated and rooted in the North East.**

Low carbon technology innovation is creating opportunities for North East economic recovery and growth. This includes the energy industry which is accelerating investment in low carbon technologies, and the construction sector which is grasping the challenge posed by the need to deliver thousands of carbon neutral homes. The pandemic appears to have accelerated these trends, with forward thinking businesses seeing low carbon technologies as an importance source of growth as the region moves beyond the pandemic.

Some businesses have expressed **concern about a current lack of clarity about the UK's future R&D strategy and investment plans, following EU exit.** EU programmes were previously an important source of funding and collaborative opportunities for UK industry and academia to join forces with European counterparts to undertake leading edge research and innovation activity. The UK's future approach to investment in innovation is not yet clearly defined and this risks the North East potentially losing out on important business and academic innovation projects which may migrate overseas.

Businesses across all sectors in the region have shown great adaptability, demonstrating their capacity to innovate and make positive changes to the way they operate in the face of the pandemic. This includes the development of new products and services; entering new markets; developing better and more efficient ways of working; and accelerating the pace of digital adoption. It will be important that this appetite for innovation is maintained and built up, ensuring businesses continue the innovation journey when the pressure of the pandemic is no longer present. **Many North East businesses and organisations have demonstrated an impressive 'can-do' attitude to solving problems and finding new and better ways of working. The benefits of continuing this mindset and approach in the post-pandemic economy could deliver significant innovation and productivity benefits.**

The pandemic has accelerated innovations and technologies that were in place before Covid 19, but have been adopted much more quickly than would otherwise have been the case. The most obvious example is the **adoption of digital technologies which have had a truly transformative impact on many North East businesses and sectors.** The impact of digital technology has been very widespread, with examples including: manufacturing businesses accelerating the automation and digitisation of production; food and agriculture businesses pushing on with the digital certification of products; hospitality businesses using food ordering apps and shifting to online ordering and delivery; businesses across all sectors shifting to online selling, service delivery, and customer management; and the shift to homeworking enabled by digital technology. These changes have delivered productivity improvements and enabled some firms to develop more efficient business models. It is **important that this momentum and interest is maintained as the region moves beyond the pandemic, ensuring the benefits of digital technologies are exploited by all businesses.**

Many **digital businesses in the North East have experienced strong growth on the back of the increased take-up of digital technologies** during the pandemic. This has included: cyber security businesses developing new products and services to ensure secure data access for homeworkers; businesses providing new digital systems used by health and social care businesses to track and monitor the delivery of care services; increased use of digital technologies by agriculture, food and drink, and hospitality businesses (certification, tracking, online sales and delivery); and the provision of digital consultancy, infrastructure and equipment.

The pandemic has demonstrated to businesses the **benefits of new ways of working, including home working and digital delivery of services.** In the early months of the pandemic in particular, these changes delivered positive environmental impacts from reduced travel and congestion. These new ways of working offer potential to benefit economies in rural areas, and other places outside city and town centres, where people can work from home and spend more time and money locally. However, the shift to home working has produced some mixed results. For some businesses and individuals, working from home has brought positive benefits in time management, productivity, reduced travel time, and flexibility. For others, particularly those in rural communities, lack of broadband connectivity has been a problem. In addition, home working has resulted in increased isolation and mental health problems for some workers.

Connectivity

The use of public transport in the North East has fallen significantly during the pandemic. Nexus reports that, during summer 2021, public transport usage was down by between 20% and 40% compared to pre-pandemic levels.

The reduction in public transport usage is reflected in a significant increase in the use of private vehicles for travel to work, retail and leisure.

The pandemic has resulted in a greater propensity for cycling and walking in the North East.

The emerging view is that the pandemic has stimulated a car-led approach to mobility across the North East and the UK, which may be difficult to reverse.

This apparent shift away from public transport towards private vehicles has big implications for the region's ability to deliver on net zero targets and to minimise congestion on roads.

However, the shift to private vehicles offers a significant growth opportunity for the region's automotive sector if enough drivers can be persuaded and incentivised to shift to electric vehicles.

The region's aviation industry has been one of the sectors worst affected by the pandemic, although there are early signs of recovery and greater optimism for the sector's prospects from 2022.

The region's road haulage and shipping sectors are also facing significant challenges and disruption. These pressures are expected to ease as backlogs are cleared and the economy returns to equilibrium, but challenges are expected for the remainder of 2021 and into early 2022.

The importance of high-quality digital infrastructure and connectivity has been amplified by the pandemic in light of the shift to home working and the growing use of digital technologies by businesses across all sectors, as well as households.

Key findings from consultations

The **use of public transport in the North East has fallen significantly during the pandemic.** Nexus reports that, during summer 2021, public transport usage was down by between 20% and 40% compared to pre-pandemic levels. At this time, the Metro was operating at 35% below pre-pandemic levels. Bus services have been impacted slightly less than Metro services, as bus users are less likely to have access to a car as an alternative form of transport. This reflects the significant changes in passenger and business behaviour during the pandemic, including a significant reduction in the number of people travelling to work by public transport, and a large reduction in passengers travelling for retail and leisure. According to Nexus business and passenger survey results, commuting among workers who can work from home is expected to fall by 25-35%.

The reduction in public transport usage is reflected in a significant increase in the use of private vehicles for travel to work, retail and leisure in the region. In summer 2021, car usage was back at pre-pandemic levels, and is expected to increase beyond the pre-pandemic norm when more home workers begin to return to the office from July 2021 onwards. This trend is reflected in strong sales growth experienced by car retailers and manufacturers throughout 2021, as more people choose to travel alone rather than alongside other people.

The **emerging view is that the pandemic has stimulated a car-led approach to mobility across the UK,** which may be difficult to reverse. As the virus comes under control, and confidence begins to return to the population, it is expected that there will be some increase in the use of public transport. However, the current thinking is that older and more vulnerable groups, who are significant users of public transport, may never have the confidence to return. This could necessitate a permanent realignment of public transport provision.

This apparent shift away from public transport towards private vehicles has big implications for the region's ability to deliver on net zero targets and to minimise congestion on roads. If the trend continues, achieving a rapid transition to electric and hybrid cars in the region will become even more urgent. The North East and the wider UK will need to accelerate investment in electric vehicle charging infrastructure to build public confidence and provide favourable conditions to enable a rapid increase in the take-up of electric vehicles.

However, the shift to private vehicles may offer a significant growth opportunity for the North East, if enough drivers can be persuaded and incentivised to shift to electric vehicles. The region has unique strengths in this technology and is well ahead of other UK regions in electric vehicle investment, including the Nissan / Envision AESC and Britishvolt projects. This creates an opportunity to grow the region's electric vehicle supply chain, creating new wealth and jobs, and positioning the North East as a UK leader in low carbon transport. However, significant investment in UK charging infrastructure will be needed if this growth in electric vehicle take-up is to be achieved in practice.

The region's aviation industry has been one of the sectors worst affected by the pandemic, although there are early signs of recovery. As a result of ongoing restrictions on outbound and inbound international travel, in summer 2021 airport passenger numbers and activity were running at less than 20% of pre-pandemic levels. However, despite ongoing uncertainty about the re-opening of international travel, confidence is slowly returning to the sector, as demonstrated by the announcement in August 2021 that Ryanair will base two aircraft and supporting staff at Newcastle International Airport from 2022, creating hundreds of jobs. The Airport is planning on the basis of a good recovery in the aviation sector from 2022.

The region's road haulage and shipping sectors are also facing significant challenges and disruption. A number of factors are at play including:

- a surge in demand for road haulage and shipping capacity regionally, nationally and globally as economies begin to open up;
- a lack of spare capacity in the system to respond to growing demand;
- a global shortage of container capacity, with containers stuck in key international ports as a result of the pandemic.
- a shortage of road haulage drivers in the North East (and across the UK);
- and some delays at ports as businesses and logistics firms adjust slowly to the new administrative requirements governing trade between the UK and EU.

It is expected that these pressures will begin to ease as backlogs are cleared and the economy returns to equilibrium, but challenges are expected for the remainder of 2021 and into early 2022.

The pandemic has resulted in a greater propensity for cycling and walking in the North East, which began during the first lockdown in March 2020 and has continued since. There are indications that these behaviour changes may be permanent and may persist beyond the pandemic. This change is delivering positive benefits including reduced environment impacts and improvements in personal health and wellbeing.

The importance of high quality digital connectivity has been amplified by the pandemic. As more businesses and workers have shifted to homeworking, the demands on the region's digital infrastructure have grown. In urban areas, the system has generally performed reliably. However, workers and businesses in rural areas have suffered delays and loss of productivity due to slow and unreliable connections. This highlights the need to accelerate investment in the region's superfast broadband and fibre capacity, ensuring comprehensive coverage in rural as well as urban areas. This promises to deliver a big payback in improved productivity and efficiency.

Infrastructure and finance

North East
Local Enterprise Partnership

Infrastructure

Demand for business property in the region has generally held up well during the pandemic. There is good evidence of sustained demand for both industrial and office property across local areas in the region.

The retail and leisure market has suffered most, with properties being vacated on the region's high streets and in shopping centres.

Research by the British Retail Consortium and Local Data Company found that **20.6% of retail premises in the North East were vacant in July 2021, giving the region both the highest vacancy rate in the country and the highest rise over the last year.**

Despite this, the level of vacancies to date is not as bad as was first feared in the early days of the pandemic, although there is concern that more vacancies will arise in future.

The region is benefitting from significant investment in key infrastructure, which will be an important driver of the recovery.

This includes investment in house building, roads, rail, ports, industrial sites, commercial developments, and town and city centre regeneration and re-purposing, supported by a mix of public and private funding. In addition, there is hundreds of millions of pounds of further infrastructure investment in the pipeline, to be delivered over the next few years.

There is a need to expand and accelerate investment in the region's digital infrastructure, which the pandemic has shown is critical to the region's future economic success.

There are some early anecdotal signs that the population in rural areas may be growing, as people choose to re-locate to the North East from other parts of the UK. Additional investment in rural communities may be needed to ensure housing, transport and local services are able to support this increase in activity.

Finance

There has been a very high take-up among North East businesses of the financial support on offer from UK Government and local authorities, which has had a significant impact in safeguarding the region's business and employment base.

There is a strong case to continue (on a focused basis) some of the financial support measures for businesses for months or years to come to secure the recovery and safeguard the business and employment base.

Key financial support measures that North East businesses want to see continue in future include the VAT reduction for hospitality, and business rates relief.

More than 34,200 grant payments were made to hereditaments (premises) in the North East LEP area through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund, with a value of more than £393 million.

This represented payments to 97% of the hereditaments identified as eligible, and 98% of identified eligible funding.

More than 3,100 grants were paid by local authorities in the North East LEP area from the Local Authority Discretionary Grant Fund, with a value of over £19.7 million.

There is growing concern that some firms may have become grant dependent, undoing many years of progress with North East businesses.

There is significant concern in the North East investment community about the lack of visibility regarding the future of publicly-backed investment funds in the region. A lack of investment finance for businesses could impede the regional recovery.

Additional incentives are needed to stimulate private angel investment in the region.

Overall, there is a need to provide significant additional business investment funding capacity in the North East to kick-start and de-risk business investment in sectors and projects with potential to create and safeguard jobs, with the aim of stimulating and accelerating the region's economic

Financial support for businesses

There have been four main Government-backed financial loan schemes for businesses of different sizes affected by COVID-19:

- The Bounce Back Loans Scheme (BBLS) offered all businesses loans of up to £50,000 or 25% of turnover; loans are 100% backed by Government. Loans are repayable over ten years at an interest rate of 2.5%; no interest is payable for the first year and repayments could be deferred for up to 18 months.
- The Coronavirus Business Interruption Loan Scheme (CBILS) offered loans of up to £5 million for businesses with a turnover under £45 million; the loans are 80% backed by Government. As well as term loans, CBILS support was also available in the form of overdrafts, invoice finance and asset finance facilities. Loans were available on repayment terms up to six years (or ten years, at the discretion of the lender) for term loans and asset finance, and up to three years for overdrafts and invoice finance facilities.
- The Coronavirus Larger Business Interruption Loan Scheme (CLBILS) extended the standard CBILS approach to larger businesses.
- The Future Fund provides convertible loans to UK-based companies that are unable to access other government support programmes because they rely on equity investment and are pre-revenue or pre-profit; the loans must be matched by funding from private investors. As a convertible loan, Future Fund support is convertible into shares after a maximum period of 36 months.

According to the British Business Bank[50], as of 10 January 2021 a total of 1,994 loans had been offered to businesses in the North East region (including the North East and Tees Valley LEP areas) through the CBILS scheme, with a value of more than £493 million. 44,858 loans had been offered to North East businesses through the BBLS scheme, with a value of almost £1,250 million. In both cases, the loans offered in the North East represented 3% of all loans offered in the UK, the same as the proportion of UK businesses located in the North East.

As of 10 January, 29 loans had been approved to businesses in the North East through the Future Fund, with a value of £24.8 million[51].

Retail, hospitality and leisure businesses in England are receiving a 100% business rates holiday in 2020/21, through the expanded retail relief. Childcare nurseries are also receiving a 100% business rates holiday in 2020/21. As of 30 September 2020[52]:

- An estimated 11,400 premises (hereditaments) in the North East LEP area were eligible for extended retail relief, at an estimated cost of £305 million
- An estimated 170 premises (hereditaments) in the North East LEP area were eligible for nurseries relief, at an estimated cost of £1.6 million.

Around 1 million business properties in England were eligible for grants from either the Small Business Grants Fund or the Retail, Hospitality and Leisure Business Grants Fund. Eligibility for both funds was linked to the business rates system:

- all business properties eligible for Small Business Rates Relief or Rural Rate Relief were eligible for a small business grant of £10,000 in 2020/21
- business properties eligible for the expanded retail relief, and which occupy properties with a rateable value of £51,000 or under, were entitled to a retail, hospitality and leisure business grant:
  - a grant of £10,000 was available to those with a rateable value below £15,000
  - those qualifying with a rateable value over £15,000 were entitled to a grant of £25,000

Additionally, the Local Authority Discretionary Grant Fund supported small and micro businesses with fixed property costs which had suffered a fall in income due to Covid-19, and which were not eligible for support through the Small Business Grants Fund or the Retail, Hospitality and Leisure Business Grants Fund. Grants of £25,000, £10,000 or any amount under £10,000 were available.

50 https://www.british-business-bank.co.uk/wp-content/uploads/2021/01/Regional-Lending-Data-North-East-Q1-Final.pdf
51 https://www.british-business-bank.co.uk/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-7/
52 https://commonslibrary.parliament.uk/research-briefings/cbp-8938/

As of 11 November, almost £11.7 billion had been paid to over 999,700 business properties in England[53], equating to 95% of the identified eligible funding. As at that date:

- More than 34,200 grant payments were made to hereditaments (premises) in the North East LEP area through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund, with a value of more than £393 million. This represented payments to 97% of the hereditaments identified as eligible, and 98% of identified eligible funding.
- More than 3,100 grants were paid by local authorities in the North East LEP area from the Local Authority Discretionary Grant Fund, with a value of over £19.7 million.

VAT payments deferral scheme

The VAT payments deferral scheme was launched on 20 March 2020 and ended on 30 June 2020. It allowed all payments of VAT to HMRC due between 20 March 2020 and 30 June 2020 to be deferred until 31 March 2021, and covers return liability periods ending February, March, April and May 2020.

At the end of the scheme, VAT payments totalling £28.2 billion had been deferred by UK businesses[54]. 41% of eligible payments due in April and 44% of eligible payments due in May were deferred. The proportion of eligible payments due in June which were deferred fell to 32%.

Key findings from consultations

Infrastructure

Demand for business property in the region has generally held up well during the pandemic. There is good evidence of sustained demand for both industrial and commercial property across local authority areas in the region:

- **Industrial** - In County Durham, demand for industrial units is strong and occupancy and rental levels remain high. This pattern is repeated in other parts of the region, reflecting that the majority of manufacturing business have been able to continue operating (albeit at reduced capacity) throughout the pandemic. There appears to be a good level of confidence in some industrial sectors about future growth prospects (e.g. automotive, advanced manufacturing, energy), support by recent major investment announcements, which is helping to bolster demand for commercial property.
- **Office** - Despite the shift to homeworking, demand for office accommodation is holding up well, reflecting the fact that, while homeworking will continue, the majority of businesses appear to be planning for a hybrid working model, with the workforce in spending part of the week in the office and part of the time at home. Office developments in Gateshead proposed before the pandemic are going ahead as planned; and there is strong demand for commercial property in Newcastle City Centre, with the Biosphere at the Helix site 90% let by early 2021. Some of the demand for office accommodation is being driven by inward investment projects, and businesses in the south of England 'north shoring' jobs into the North East. Despite this generally positive picture, there are some examples of large-scale office vacancies coming onto the market on the region's key business parks, where businesses have decided to close the office and move to a pure homeworking model.

The retail and leisure property markets have been impacted most by the pandemic, with retail and leisure properties being vacated on the region's high streets and in shopping centres. Research by the British Retail Consortium and Local Data Company found that 20.6% of retail premises in the North East were vacant in July 2021, giving the region both the highest vacancy rate in the country and the highest rise over the last year. Despite this, the level of vacancies to date is not as bad as was first feared in the early days of the pandemic, although there is concern that more vacancies will arise in future as Government financial support for businesses is withdrawn and lease terms come to an end. The impacts on this market could take several years to be fully realised.

The region will need a focused approach to investing in the re-purposing of city and town centres. While some city and town centres have

53 https://www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses
54 https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics#vat-payments-deferral-scheme

been impacted less badly than was first feared, it is clear that some of the changes to the high street will be permanent, including a reduction in retail and hospitality activity in particular. To maintain the viability of city and town centres, the private and public sectors will need to plan and invest carefully in tandem to introduce new, sustainable uses, including residential, flexible use business accommodation, leisure, and culture, to offset a potential reduction in retail and hospitality footfall.

The region is benefitting from significant investment in the regeneration of key infrastructure. There is currently significant amount of activity and investment ongoing to developing the region's infrastructure, including house building, road, rail, ports, industrial sites, commercial developments, and town and city centre regeneration and re-purposing, supported by a mix of public and private funding. In addition, there is hundreds of millions of pounds of further infrastructure investment in the pipeline, to be delivered over the next few years, supported by UK, regional and local government programmes, including Town Deals, Future High Streets Fund, Getting Building Fund, and commercial property investment funds, matched with Combined Authority, North East LEP, local authority, and business investment. This is creating the infrastructure the region needs to support economic recovery and growth. It will also provide a direct stimulus, accelerating the economic recovery by providing a significant boost to the region's construction sector, generating significant new wealth and jobs.

There is a need to expand and accelerate investment in the region's digital infrastructure, which the pandemic has shown is critical to the region's future economic success. This means working towards an ambition of ensuring all businesses and households in the region have access to a reliable, superfast broadband connection. While there is a good level of investment currently the approach is fragmented and uncoordinated, and investment varies widely between geographic areas. Additional investment in rural areas in particular is needed to ensure businesses and people can fulfil their economic potential.

There are some early anecdotal signs that the population in rural areas may be growing, as people choose to re-locate to the North East from other parts of the UK in search of a better, more affordable quality of life, enabled by homeworking. While this could be a positive development, **additional investment in rural communities will be needed** to ensure housing, transport and local services are able to support this increase in activity.

Finance

There has been a very high take-up among North East businesses of the financial support on offer from UK Government and local authorities to assist firms through the pandemic (including the Coronavirus Job Retention Scheme, grant schemes, rates relief, business loans, VAT reduction for hospitality businesses). Sector representatives report that this support has been crucial in safeguarding the regional economy, avoiding potentially thousands of business closures and job losses that would have occurred in the absence of the support. This will minimise the long-term scarring on the economy.

Some sector consultees believe there is a strong case to continue some of the financial support measures for businesses for months or years to come to secure the recovery and safeguard the business and employment base. Many North East businesses have damaged balance sheets as a result of lost income and additional debts and liabilities taken on to survive the pandemic, including Government-backed loans. Most of these firms were viable businesses before the pandemic and can become sustainable again, given time and the right support. Key financial support measures that some North East businesses want to see continue in future include the VAT reduction for hospitality (which is having a big impact on improving profitability and balance sheets), and business rates relief (in lieu of the fundamental review of business rates that is actually needed).

There is growing concern that some firms have become grant dependent, undoing many years of progress with North East businesses. While there is a strong case to continue financial support for businesses through the early stages of the recovery, this should be in the form of business tax measures and loans to ensure businesses do not become dependent on cash hand-outs and that the support offered places the onus on businesses to recover as quickly as possible.

There is significant concern in the North East investment community about the lack of visibility about the future of publicly-backed investment funds in the region. As the current investment programmes backed by EU Structural Funds rapidly near the end of their investment life, there is real urgency to establish successor funds to fill the gap that will be left in the North East investment market. The current lack of clarity is causing great uncertainty and will result in missed opportunities for North East businesses to secure the investment needed to maximise their growth potential. The need for investment finance has been made more urgent by the pandemic as the region seeks to back the successful private businesses needed to lead a sustained recovery. Consultees from the North East investment community believe that future funds will need to be on a much larger scale than those currently available in order to deliver the scale of growth demanded by the post-pandemic economy. Consultees believe the region should also move away from investing in a high volume of low value, low impact projects, to a bolder approach of investing more in businesses with transformational scale-up potential, each capable of creating hundreds of new jobs in the region.

Additional incentives are needed to stimulate private angel investment in the region. A successful and sustainable private sector recovery in the North East will require a big uplift in the amount of private angel investment, particular because banks are even more risk averse as a result of the pandemic. Extra incentives are needed to attract private investors from across the UK and internationally to support North East-based growth businesses.

Overall, there is a need to provide significant additional business investment funding in the North East to kick-start and de-risk business investment in sectors and projects with potential to create and safeguard jobs, with the aim of stimulating and accelerating the region's economic recovery.

Places and local authority areas

North East
Local Enterprise Partnership

Places

City and town centres across the region have suffered a significant reduction in footfall during the pandemic.

Many large towns, city centres, and out of town retail centres have been impacted by the closure of large national chains.

Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets. By contrast, some smaller towns and suburban high streets have seen a strong recovery and an increase in spending and footfall, driven by a move towards more local patterns of spending.

The region's rural and coastal communities have seen both positive and negative impacts from the pandemic. Some places with a strong tourism offer have benefitted from the boom in staycations, and some are seeing population growth as people re-locate to the region's rural communities in search of a better, more affordable quality of life. However, some rural communities have suffered specific impacts including the loss of significant numbers of hospitality jobs with few alternative opportunities to replace them.

Some local areas have seen an increase in business start-ups, including new social enterprises, compared to pre-pandemic levels.

Local areas have seen increasing use of private vehicles through the pandemic, for shorter, local journeys as well as for commuting. There has been a noticeable reduction in public transport use in local areas.

Poor digital connectivity has made it difficult for people and businesses in some rural areas to benefit fully from home working and increased use of digital technologies.

Communities

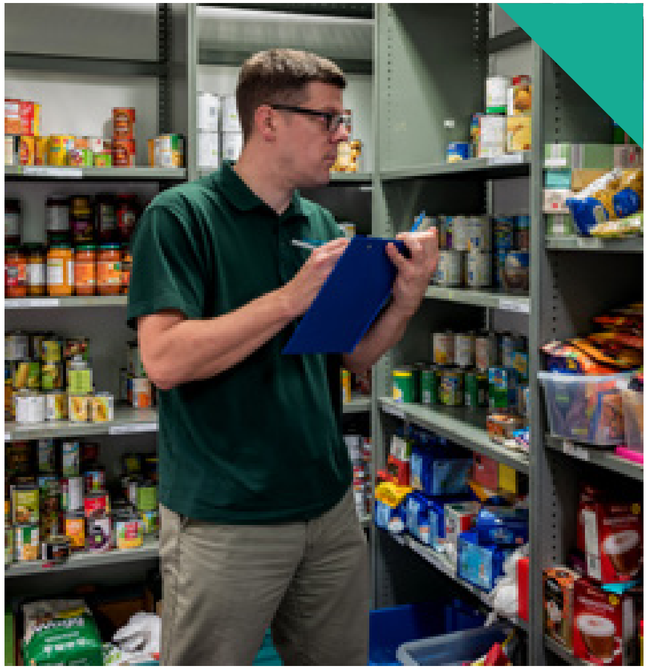
The most deprived parts of the region, with the highest unemployment rates and the lowest incomes and skills, are the ones impacted most severely by the pandemic.

Wealthier communities with a higher density of people in professional and technical occupations have fared much better, with the shift to homeworking enabling many to continue working and earning normally through the pandemic.

Young people in the region's most deprived communities have been particularly hard hit.

There is evidence that health inequalities in local areas have widened during the pandemic.

The voluntary and community sector has played a crucial role in local areas, providing support and services to help people from the most vulnerable communities through the pandemic.

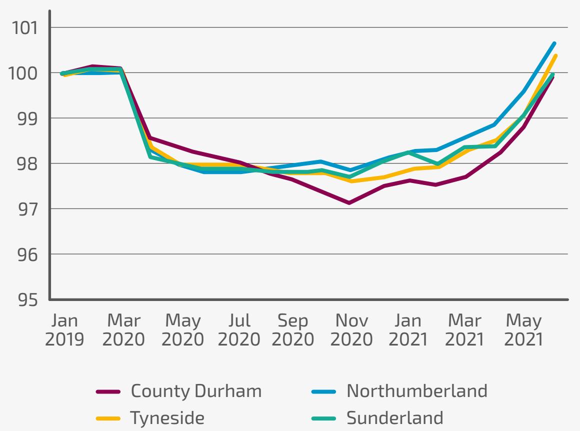


Employment

Trends in the number of payrolled employees are similar in each of the subregions that comprise the North East LEP area (and similar to the overall trend).

By June 2021, the number of payrolled employees had reached the January 2021 number in County Durham and Sunderland, and slightly exceeded it in Northumberland and Tyneside.

Figure 29: Payrolled employees, indexed (January 2020 = 100), North East LEP areas, January 2020 to June 2021



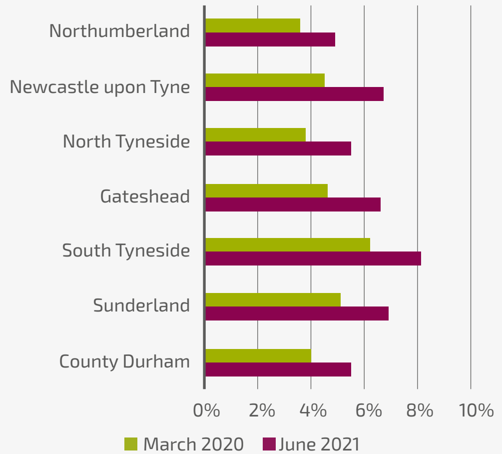
Source: ONS Earnings and employment from Pay As You Earn Real Time Information, UK, July 2021

Claimant count

Within the North East, the claimant count rate in June 2021 ranged from 4.9% in Northumberland, to 8.1% in South Tyneside.

Between March 2020 and June 2021, the claimant count rate rose in all North East local authorities. The largest rise was in Newcastle (2.2 percentage points), and the smallest in Northumberland (1.3 percentage points).

Figure 30: Claimant count, North East local authorities, March 2020 and June 2021

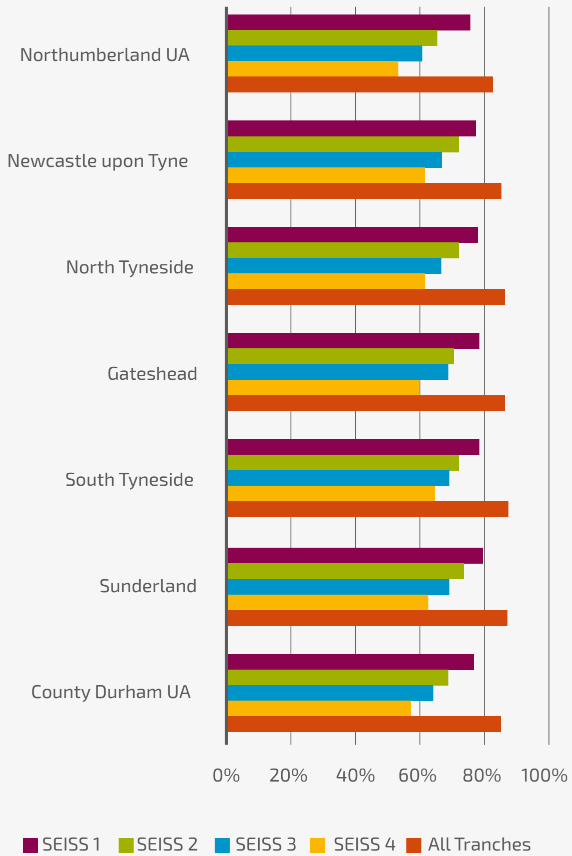


Source: ONS Claimant count by sex and age, via Nomis

Self-Employment Income Support Scheme

Reflecting the picture at LEP level, take-up of SEISS support among eligible self-employed people has declined in each tranche in all seven North East local authorities. The largest decline in take-up was in Northumberland (from 75% take-up of SEISS1 to 53% take-up of SEISS4). The smallest decline was in South Tyneside (from 78% take-up of SEISS1 to 64% take-up of SEISS4).

Figure 31: SEISS take-up rates, North East local authorities



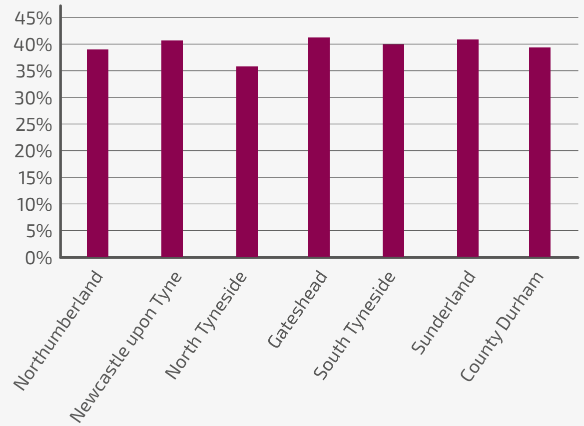
Source: HMRC Self-Employment Income Support Scheme statistics

Across all four tranches to date, take-up of SEISS support in North East local authorities has ranged from 82% in Northumberland to 87% in South Tyneside and Sunderland.

Coronavirus Job Retention Scheme

Cumulative take-up of the CJRS was similar in most of the seven North East local authorities, ranging from 39% to 41% of eligible employments. Take-up was slightly lower in North Tyneside, at 36% of eligible employments.

Figure 32: Cumulative take-up of the CJRS, North East local authorities, to end June 2021



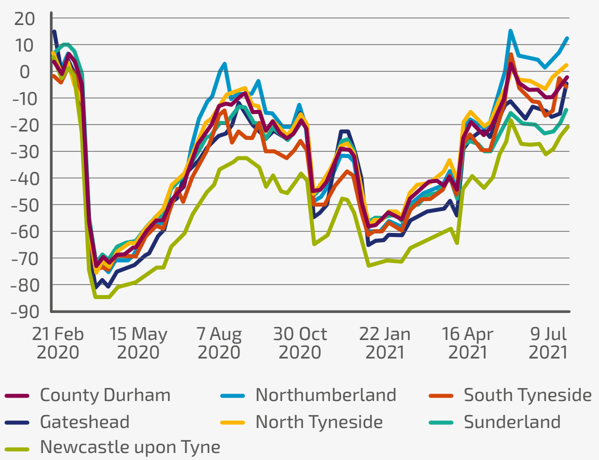
Source: HMRC Coronavirus Job Retention Scheme statistics, 29 July 2021. June 2021 data is provisional.

Nationally, take-up ranged from 30% in Boston and Barrow-in-Furness to 55% in South Lakeland.

Footfall

Trends in visits to retail and recreation venues are similar in all seven North East local authorities.

Figure 33: Retail and recreation mobility index, weekly average since Feb 2020, North East local authorities



Source: North East LEP analysis of Google Covid-19 Community Report, August 2021. The number of visits is expressed as an index compared to the average during the first five weeks of 2020.

As of 21 June, however, visits in Newcastle, Gateshead and Sunderland remain below the pre-Covid level.

Key findings from consultations

Town and city centres across the region have suffered a significant reduction in footfall during the pandemic. Newcastle City Centre lost around 40% of footfall during 2020, largely linked to the hospitality and retail sectors. Although this recovered to 80% of pre-pandemic footfall in July 2021, there are concerns that the reduction in city centre activity may be permanent. The absence of city centre workers (many of whom are currently working from home) and thousands of students in the region's university cities, are continuing to have a very damaging impact of footfall and spending. Retail footfall has plateaued at 75% in Newcastle City Centre, and most retailers believe this change will be permanent, especially given the accelerating transition to online shopping. Town and city centre businesses are calling for large, public sector organisations to take more of a leadership role by encouraging their employees to return office working.

Many large towns, city centres, and out of town retail centres have been impacted by the closure of large national chains. These businesses are not expected to return, resulting in permanent changes to the high street landscape. The impacts have been somewhat less severe in towns and cities (such as Sunderland) with a higher proportion of smaller independent retailers.

Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets, including increasing vacancies, and national chains closing some stores. By contrast, **some smaller towns and suburban high streets have seen a strong recovery and an increase in spending and footfall,** reflecting a move towards more local shopping patterns, supported by more people working from home.

It is likely that **the region will need to think in new and creative ways about the future role and use of its city and town centres.** Even if homeworking continues at less than half the current level after the pandemic, this will represent big reduction in the number of workers spending time and money in urban centres, reducing demand for retail, hospitality, and other urban centre activities. To maintain the viability of city and town centres, the region will need to plan carefully to introduce new, sustainable uses, including residential, flexible use business accommodation, leisure, and culture, to offset a potential reduction in retail and hospitality footfall.

Local authorities are bringing forward investment in some towns and cities. Initial work in re-purposing some towns and cities is already underway, although the positive impacts with take time to come to fruition. Some of the major regeneration schemes currently underway in our towns and cities are on a scale not seen for decades in the North East.

The impact on towns, cities and other areas has varied widely, depending on the make-up of their local economies. Places with a higher density of manufacturing businesses (such as parts of County Durham) and digital and business services (such as Newcastle, North Tyneside and Sunderland) have been able to maintain a fairly consistent level of economic activity through the pandemic as these sectors have continued trading by and large. Places with a high density of hospitality and tourism businesses have been much more volatile, with the sectors being almost completed closed and some points during the pandemic, which at other times they have been much busier than the pre-pandemic norm.

The region's rural and coastal communities have seen both positive and negative impacts from the pandemic. Those places with a strong tourism offer have benefitted from the boom in staycations and are busier now during holiday periods than was the case before the pandemic. Some areas are also seeing an influx of new wealth and spending with anecdotal evidence thar people are choosing to re-locate to the North East's rural communities in search of a better, more affordable quality of life, enabled by homeworking. However, some rural communities have suffered specific impacts including the loss of significant numbers of hospitality jobs with few alternative opportunities to replace them. Poor digital connectivity has also made it difficult for people and businesses in some rural areas to benefit fully from home working and increased use of digital technology.

The most deprived parts of the region, with the highest unemployment rates and the lowest incomes and skills, are the ones being impacted most severely by the pandemic. According to ONS data, Bede ward in South Tyneside, and Walkergate in Newcastle had among the highest unemployment benefit claimant rates in the region before the pandemic and they saw the greatest increases in the claimant rate during the pandemic. In these deprived areas people are more likely to have been furloughed or lost their job, have little or no savings to fall back on, and are more likely to be digitally excluded. Some local areas have lost thousands of jobs during the pandemic, in hard hit sectors including hospitality, tourism, and retail.

Wealthier communities with a higher density of people in professional and technical occupations have fared much better, with the shift to homeworking enabling many to continue working and earning normally through the pandemic.

Young people in the region's most deprived communities have been particularly hard hit, with unemployment in communities such as Blyth well above pre-pandemic levels. This is a result of young people being the first to lose their jobs during the pandemic, the closure of sectors that typically provide entry level jobs for young people (e.g. retail, hospitality), and a lack of job opportunities for young people leaving education.

There is evidence that health inequalities in local areas have widened during the pandemic. Those areas with a higher incidence of long-standing health conditions have seen worsening health among the local population, including worsening physical conditions and more widespread mental health problems.

The voluntary and community sector has played a crucial role in local areas, providing support and services to help people from the most vulnerable communities through the pandemic. Examples include:

- helping families to access digital devices;
- providing health, wellbeing and social care services;
- helping people to apply for jobs after being made redundant, and supporting new businesses and social enterprises to start up.

Some local areas have seen an increase in business start-ups, including new social enterprises, compared to pre-pandemic levels. This is a result of people of furlough have the time and opportunity to plan a new venture for themselves, redundant workers seeking new sources of income, and people coming together to form new businesses to provide support to local communities.

Local areas have seen increasing use of private vehicles through the pandemic, for shorter, local journeys as well as for commuting. There has been a noticeable reduction in public transport use in local areas.

Sectors and areas of opportunity

North East
Local Enterprise Partnership

This section provides further detail about the effects of the pandemic on the following key economic sectors in the region:

- Agriculture, food and rural economy.
- Construction and development.
- Digital and professional services.
- Hospitality, retail, tourism, and culture.
- Manufacturing and energy.
- Voluntary, community and social enterprise (VCSE sector).
- A specific report on local authority areas and places is also provided.

Agriculture, Food, and Rural Economy

Business activity and growth

Levels of activity in the region's agriculture sector have generally held up well. After a period of disruption during the first lockdown, agriculture adjusted well and was able to respond to strong demand from UK supermarkets, as food imports from overseas reduced and the country relied more on UK suppliers. Food shortages feared in the early weeks of pandemic did not materialise to any great extent and demand for agricultural products has generally held up well.

Greater consumer demand during the pandemic for higher quality UK and local produce (as people ate more at home) fed through into growth for some North East suppliers. However, consumer buying patterns are now returning to pre-pandemic patterns and demand for high quality produce is waning somewhat. Some farmers diversified as a response to the pandemic, in some cases supplying directly to consumers through online sales, local farm shops and markets, reflecting the growing demand for premium products. While it is expected that some farmers will continue this activity where it remains viable, most have now returned to their core business supplying direct to processors, wholesalers and retailers.

Where activity has reduced, this has generally resulted from reduced export demand, as Covid restrictions have impacted on the global movement of food suppliers. While exports are beginning to recover, they remain well below pre-pandemic levels and are expected to take some time to recover.

There has been some short-term disruption as a result of EU exit, including export and import delays, a shortage of vets to complete livestock paperwork, and delays and additional costs resulting from the new administrative systems. As businesses begin to adjust to the new systems, the challenges are becoming more manageable, although delays and the additional costs of exporting are weighing heavily on some businesses. In addition, some smaller and micro producers have ceased export activity altogether, shifting their focus to domestic markets, as the additional costs of the new administrative systems mean exporting is no longer viable.

Business activity has been affected by supply problems, including difficultly in securing goods and materials (e.g. machinery parts, building materials), as well as input cost inflation (e.g. fertiliser, feed) all of which resulted from production shutdowns globally. Some input costs are up by as much as 40% on pre-pandemic levels, weighing significantly on business competitiveness. One of the greatest challenges has been logistics, with growing competition for scarce road haulage and shipping capacity, resulting in delivery and supply delays and significant increases in logistics costs.

The transition to a post-Brexit UK agriculture policy and support regime is proving frustrating for many agriculture businesses. A lack of clarity in the new Environmental Bill about the details of the incentives and subsidies that with replace the CAP, and the new legislative framework (e.g. food standards, land management, climate change, workers rights) is making it very difficult for agriculture to plan with confidence for the future.

As a result of uncertainty around the future policy environment, compounded by the uncertainty created by the pandemic, business investment levels remain well below pre-pandemic levels.

The pandemic has had a significant temporary impact on businesses in the food and drink sector. In 2020, exports were 9.7% lower than in 2019, although by Spring 2021 this has recovered somewhat and exports were 1.7% below pre-pandemic levels[55]. During 2020, North East food and drink exports suffered a loss of export income totalling £0.2bn.

Overall domestic demand for food and drink has been broadly stable, but the supply chain has had to be very flexible and responsive to changing patterns of consumption. In the early months of the pandemic, there was a shift towards some producers supplying directly to consumers, with a big increase in online sales and takeaway as people ate at home more, while hospitality was in lockdown. As hospitality opened up again in summer 2020 producers has to switch quickly back to supplier businesses, then back to direct consumer supply during the winter 2020 lockdown. As the restrictions have eased through spring and summer 2021, producers have returned to more normal patterns of production and supply. However, there are lingering concerns about the future pipeline of demand if significant numbers of hospitality businesses are unbale to survive due to debts taken on during the pandemic, and potentially lower demand from consumers.

Business confidence among food and drink producers has been recovering gradually throughout 2021, as demand has continued to recover on the back of easing restrictions. However, in spring 2021 business confidence was still showing a negative rating[56] of -14%, with remaining concerns about the impacts on the pandemic and EU exit particular on export demand, challenges in supplying overseas customers due to logistics constraints and costs, as well as debt and cash flow challenges resulting from the pandemic.

The Centre for Rural Economy at Newcastle University has been studying the impacts of Covid on rural communities in the North East. Key messages from business feedback include:

- some smaller rural food producers were able to survive through the pandemic shifting to supply directly to consumers;
- strong demand for rural-based tourism and hospitality businesses (boosted by the 'staycation' market);
- and a cohort or businesses concerned about their future viability because of loans taken on during the pandemic.

In the environment sector, the pandemic has created a backlog in the delivery of environmental improvement projects (e.g. flood mitigation) due to staff shortages and supply problems, which will take many months to get back on track. There is growing interest among businesses in the North East in measures to tackle the impacts of climate change, although this may have happened anyway and it's not clear whether or not it can be attributed to the pandemic.

55 Food and Drink Industry Report 2021: Full Year export report (April 2021)
56 Q1 Food and Drink Confidence Report. FDF. (May 2021(

Patterns of demand for water have changed, with an overall increase of 8% in regional demand, driven mainly by domestic users resulting from the shift to homeworking.

Jobs, skills and training

The agriculture workforce remained largely unaffected by the pandemic. After an initial period of disruption in the first lockdown, agricultural businesses quickly adopted Covid safe working practices and the outdoor environment meant business and workforce activity continued largely at pre-pandemic levels.

However, agriculture businesses are now feeling the effects of a shortage of casual seasonal workers, partly as a result of migration restrictions following EU exit. For some businesses, this is constraining production levels and putting pressure on operating costs.

Food and drink manufacturing businesses made significant use of furlough during the first lockdown as they were more disrupted by early changes in patterns of food demand. There were also some small-scale redundancies in winter 2020 around the time when the earlier phases of the furlough scheme were due to end. However, most firms have returned gradually to normal workforce levels, with the majority now having 80% to 90% of employees at work. There are fears of some job losses and redundancies in the food and drink sector in Autumn 2021 when the current furlough schemes ends, but the scale of any redundancies is expected to be quite limited.

Some businesses reported that they had identified opportunities to restructure their workforce and operations during the pandemic, redeploying staff into areas of the business experiencing higher volumes of work.

Labour shortages in the logistics sector, as a result of the pandemic and EU exit, are impacting significantly on agriculture and food supply chains in the region. Logistics UK estimates that nationally, 45,000 HGV driver tests were delayed due to Covid, and a further 79,000 European logistics workers returned home following EU exit. The resulting driver shortage is causing significant delays in the transportation of agriculture and food supplies, as well as driving up logistics costs, impacting on business competitiveness.

Throughout the pandemic, businesses in the sector have cut back investment in training and Apprenticeships and are doing the minimum necessary. Firms recognise that this may be storing up skills challenges for the future, but ongoing uncertainty is making businesses reluctant to invest in the recruitment and training of new staff.

There are concerns among some businesses in rural areas reliant on tourism and hospitality that, once the summer boom ends and the furlough scheme is withdrawn in autumn 2021, there is a risk of job losses and redundancies in some rural communities. These losses will impact particularly badly in rural areas where there is a lack of alternative job opportunities.

A significant short-term workforce challenge for food and drink manufacturers in particular is the high number of workers being told to isolate by the NHS Track and Trace app. Some businesses reported having up to a quarter of staff absent from work in late July 2021, put severe pressure on production capacity

Connectivity and movement

The movement of agriculture and food products has been impacted significantly by a combination of the pandemic and EU exit. There have been significant delays at UK container ports as a result of new administrative systems for trade between the UK and EU, exacerbated by the blockage of the Suez Canal. Severe global and UK competition for scarce container and logistics capacity is adding further to the delays. This has caused significant challenges for some North East food and drink firms needing to both export and import perishable products from the EU. There is also some evidence of EU based suppliers de-prioritising UK customers for deliveries, due to the increased difficulties and costs associated with shipping to the UK.

Opportunities and innovation

The pandemic has accelerated the adoption of digital technologies within the agriculture and food sectors, including: digital verification of agriculture products; digital monitoring of compliance with environmental regulations; the use of apps to diagnose production problems; growth in online trading direct with customers; and investment in IT to enable home working. These technologies have delivered productivity improvements and costs reductions and will be retained after the pandemic. However, poor broadband connectivity in many rural areas is still a barrier to effective digital adoption.

Some businesses have changed their business models, including more direct online selling to consumers. While most businesses have now resumed pre-pandemic trading with wholesalers, many are planning to continue online selling direct to consumers also, opening up a permanent new source of income for the future.

The challenges of the pandemic have resulted in more collaborative working between businesses in the sector, for example food producers working together to source specific types of supplies. This has changed the culture in some businesses, and there is some evidence that these partnerships will endure beyond the pandemic.

The shift to home working has produced mixed results. For some businesses and individuals working from home has brought positive benefits in time management and flexibility. For others, particularly those in rural communities, lack of broadband connectivity has been a problem. In addition, it has resulted in increased isolation and mental health problems for some.

In the early months of the pandemic, there was a positive impact on the environment as a reduction in travel reduced congestion and carbon emissions. However, current indications are that the use of private vehicles is returning to pre-pandemic levels so these improvements are not expected to endure.

The pandemic has increased awareness of environmental issues and there is some evidence that businesses in the sector are beginning to take more responsibility directly for managing their climate impact e.g. investing in measures to reduce energy consumption.

Resilience and risks

The sector has proven to be resilient throughout the pandemic, with the majority of businesses being able to adapt working practices and business models to manage the worst impacts of the secure. Some businesses have operated at close to normal levels of capacity throughout. While others have suffered a drop in demand, the majority have been able to survive to date and the number of business closures appears to be small.

Many food and drink businesses, including those reliant on the hospitality sector, have taken on debt to cover liabilities and support cash flow through the pandemic. While most have been able to survive so far, there is a danger that some may be unable to sustain the debt and may close in the coming months and years if levels of activity do not recover sufficiently to repay the debts.

Key ongoing risks for the sector relate to the increased costs and lead times for a range of supplies including: parts and machinery, building materials, logistics, and supplies from EU countries. These costs can be borne in the short-term but will really begin to damage the sector if they persist into 2022. The shortage of HGV drivers is considered to largely short-term and is already beginning to show some signs of improvement.

There is also some concern about the impacts of some of the new trade deals agreed by the UK, which some businesses fear may result in higher tariffs and prices for some agriculture and food and drink firms. However, the new trade deals are also expected to open up some new opportunities for North East businesses to trade outside of the EU (e.g. Australia and Pacific) on more favourable terms.

Current and future support

National and Local Government support programmes, including furlough, small business grants, the VAT reduction for hospitality firms, and business loans have had a significant positive impact on the sector in the North East, helping to safeguard many jobs and businesses, particularly in the food and drink sector.

An urgent priority for North East agriculture business is the need for much greater clarity from UK Government about post-Brexit policy and legislation, including specific details about the incentives and subsidies that with replace the CAP, and the new legislative framework (e.g. food standards, land management, climate change, workers rights). The current lack of clarity is impeding future planning and causing delays in business investment decisions.

There is a need for financial support and incentives (grants and loans) to enable agriculture and food and drink businesses to invest effectively to meet expected future industry requirements and opportunities e.g. environmental and land management measures, climate change requirements, investment in equipment and infrastructure to strengthen the UK's food supply chain.

Focused investment in rural areas will be needed in future to address key opportunities and challenges highlighted by the pandemic. In particular, the growth in home working and accelerating take-up of digital technologies is opening up new opportunities for people and businesses in rural areas, as well as attracting people to live in rural communities. Changing tourist behaviour is also boosting visitor numbers, and at least some of this growth is expected to persist in future years. To respond to these growing opportunities and demands, investment is needed in: improved rural digital infrastructure and connectivity; more housing; additional commercial / business space; transport improvements; and improved local services

There is a strong case that the agriculture, food and rural sectors should be given much greater priority in the North East Strategic Economic Plan, and in UK economic policy. The pandemic has demonstrated the UK's reliance on strong local agriculture and food and drink supply chains, as well as highlighting the many opportunities and challenges facing rural economies. These issues warrant a focused approach on investment in the sector to maximise its contribution to regional economic growth and wellbeing. It will be important that businesses in the sector have a strong voice in the future debate about North East economic priorities.

Construction and Development

Business activity and growth

The construction sector experienced a very difficult period during the early months of the pandemic. Between May and June of 2020, during the first national lockdown, construction output dropped by 36% as many major building projects were placed on hold. This national drop in activity was also reflected in the North East region.

However, the sector demonstrated great agility, responding quickly to the demands of the pandemic by putting new working practices in place, allowing for safe working and social distancing. This enabled the sector to bounce back strongly in the second half of 2020, with activity returning to around 80% of pre-pandemic levels by the end of 2020. In the North East annual construction output dropped by just over 15% between the end of 2019 and the end of 2020.

Insolvencies in the construction sector, and the rate of temporary business closures, have both remained consistently below the average for the whole economy, throughout the pandemic. According to the CITB Employer Panel, only 5% of construction businesses are not confident that they will survive the pandemic.

Government-led investment in infrastructure projects has played a very important role in stimulating the sector and boosting confidence in late 2020, into 2021. Private sector housing investment has also recovered well, stimulated in part by the Help to Buy scheme and the stamp duty holiday. However, house building activity in mid-2021 remained below pre-pandemic levels.

As the country begins to emerge from the pandemic, confidence in the sector is improving. CITB forecasts that UK construction output will grow at an average rate of 4.4% pa across the period 2021-2025[57]. The fastest growth is expected in the infrastructure and home building sectors, with a growing contribution from investment in the repair, maintenance and improvement of the country's existing building stock.

CITB also expects that the North East construction sector will grow strongly, by around 4.1% pa up to 2025. Private sector housing will be an important driver of growth in the region and is expected to reach pre-Covid levels by the end of 2023.

In recent months, the region's construction sector has started to see a stronger pipeline of larger-scale projects coming through, including residential projects (of between 300 and 1,000 units), some significant new social housing projects, and more recently the return of industrial and commercial projects as business investment begins to return, including a number of low carbon energy projects. In the North East, major investments in the region's ports, rail and road infrastructure, and energy and employment sites are building real momentum and confidence.

North East construction firms are beginning to report a strong pipeline of work into early 2022, building confidence that the sector will begin to return soon to pre-pandemic activity levels.

However, there is some residual nervousness in the sector that construction demand may fall back if and when Government stimulus measures are removed from the economy. As a result, some firms have been

57 Construction Skills Network: The Skills Construction Needs - Five year outlook 2020-2025. CITB Analysis and Forecasting

reluctant to commit to large-scale or longer-term investment plans.

The sector is now facing some significant constraints impacting on its ability to maximise the recovery and return to growth. This includes difficulties in sourcing a wide range of building supplies (e.g. steel, plasterboard), significant cost inflation for building materials (in some cases prices are 30% above pre-pandemic levels)[58], and staff shortages due in part to skilled workers leaving the industry. These challenges are now resulting in delays in many construction projects.

There have been recent reports of North East construction businesses losing secured contracts as they have had to re-quote to reflect much higher costs of supplies, and contracts have been cancelled, postponed, or won by other companies.

Jobs, skills and training

During the first national lockdown in early 2020, a high proportion of all construction jobs in the region were furloughed. However, as the sector re-opened significant numbers of staff returned to work and the number of job losses and redundancies in the sector has been low. Some larger construction businesses that claimed furlough payments have returned the funding to the Government, as the effects of the pandemic were less severe than expected and the businesses remained profitable throughout.

Some firms have responded to the pandemic by making changes to their teams and operating models to improve efficiency. While this has resulted in some redundancies, the scale of job losses has been small. Unlike in previous recessions, there is no evidence of good quality, skilled staff being out of work.

Employment levels have recovered strongly and by mid-2021 construction sector job vacancies had returned back to pre-pandemic levels

At the national level, CITB predicts that construction will need to recruit an extra 217,000 workers between 2021 and 2025, equating to 43,000 per annum[59]. In the North East, CITB forecasts that a total of 7,000 new recruits will be required between 2021 and 2025 (1,400 annually) to deliver expected sector growth, as well as meeting replacement demand. New jobs are expected in a number of key occupations including: bricklayers; dry liners; wood trades; plant operatives; and professionals, technical, IT and other office based roles.

As vacancy numbers increase, there are growing signs of recruitment difficulties and skills shortages, especially for skilled trades. This is considered to be a result of some workers choosing to leave the industry during the pandemic, as well as restrictions on recruiting European workers following the UK's exit from the EU.

A large proportion of the construction workforce in the region is self-employed, and around 80% took advantage of the self-employment support scheme (SEISS) in the early months of the pandemic. As sector growth has picked up, the majority have returned to work, but there is anecdotal evidence that a significant number of self-employed workers may have left the industry to work in other jobs.

Investment in training and Apprenticeships has reduced as a result of the pandemic, with total Apprenticeship numbers down by 20% in September 2020 compared to 12 months earlier. This has resulted in an increase in the number of young people enrolling on construction courses at FE college, as fewer employers have been offering work-based training.

Investment in non-essential training was also cut back significantly in the early months of the pandemic, as businesses prioritised cost savings. There are few signs that training and Apprenticeship activity has begun to ramp us as the sector recovers, with activity focused on Covid safe working practices and health and safety.

The growing use of low carbon building technologies, techniques and materials is beginning to create a need for construction workers to develop new skills related to these emerging technologies. Construction firms are already struggling to recruit staff with the relevant skills and experience, for example retrofitting homes with new low carbon technologies.

58 https://www.gov.uk/government/collections/building-materials-and-components-monthly-statistics-2012

59 Construction Skills Network: The Skills Construction Needs – 5 year outlook 2020-2025. CITB Analysis and Forecasting

While the sector has adapted to social distancing requirements on site, there is some concern that construction workers may be at higher risk of contracting Covid due to the levels of interaction, for example travelling to sites in vans and undertaking work that requires them to be less than 2m apart. There are also concerns this may negatively impact the image of the sector and its ability to recruit staff. Nevertheless, safe working practices are in place that include workers operating in 'bubbles' where closer contact is required.

Connectivity and movement

There has been a reduction in labour mobility as a result of the pandemic, with more construction staff working locally and fewer travelling to other regions of the UK to work. There has also been a reduction in the number of construction workers travelling to the UK from the EU as a result of the post EU exit migration system, as well as COVID-19 travel restrictions. Both of these factors are constraining labour supply in the region.

Opportunities and innovation

The drive towards net zero and the adoption of low carbon technologies is a major driver of growth in the sector, with additional public and private funds being invested in higher cost, low carbon solutions. The pandemic has accelerated this trend as businesses have increasingly recognised the benefits of innovation. While the industry is embracing the low carbon challenge, a significant scale-up in activity is needed for the sector to achieve net zero by 2050, including the need to recruit or train an additional 59,000 plumbers and heating engineers by 2028 (to install heat pumps), as well as an extra 86,000 project managers[60].

The pandemic has engendered a new spirit of collaboration between construction businesses who have worked together well to address common challenges (e.g. designing Covid safe working, solutions to joint sourcing of supplies and materials). This is reflected in the North East's 'One Voice' strategy, which is leading a collaborative approach to addressing construction sector growth opportunities and challenges in the region.

The region's construction industry is on the cusp of a period of significant change, driven by a range of factors that are driving innovation and new ways of working. The pandemic has confronted the industry with the urgent need to change and this is being grasped by many firms. The key drivers include the move towards net zero carbon construction, increased adoption of modular building, the National Infrastructure Strategy, and the Government's Construction Best Practice Playbook.

The pandemic has also accelerated digital adoption in the sector, including increased use of digital technologies on site, digital health and safety monitoring and reporting, an increase in online training, and a shift to home working among office-based, professional occupations.

Resilience and risks

The sector has proven to be very resilient to the pandemic. After an initial period of disruption, the sector quickly designed and adopted safe working practices and has been working at 80% to 90% of pre-pandemic activity levels for many months now.

However, there are some key risks to sector recovery and growth, including difficulties in sourcing building supplies, significant cost inflation for building materials, logistics problems and delivery delays, and staff shortages and unfilled vacancies. The Royal Institute of Chartered Surveyors forecasts that construction materials prices will rise by 22% between the end of 2020 and 2025, creating uncertainty about future profits and impacting in business investment.

The recent significant increase in the number of staff absent from work because they have been told to isolate by the NHS Track and Trace app is causing significant disruption and delays, with many firms facing fines and penalties due to late completion of projects.

Current and future support

During the early months of the pandemic in particular, Government support (e.g. furlough, business loans) played a crucial role in enabling many construction businesses to survive, and to protect thousands of jobs. As the sector quickly adapted to Covid safe working measures, and

60 Building Skills for Net Zero. CITB (March 2021)

construction projects were able to resume, the need for Government support has reduced consistently throughout the pandemic.

The pandemic has demonstrated the crucial importance of the construction sector to the overall health of the North East economy, and it is clear that public and private infrastructure investment will be at the forefront of the UK strategy to recover from the pandemic. It is important therefore that the construction industry is at the forefront of economic recovery planning in the North East, and at the heart of the region's longer-term economic strategy.

The construction sector will be a very important enabler in delivering North East and UK net zero carbon commitments. The region should prioritise investment in low carbon infrastructure projects, including industrial energy generation projects, electrification and hydrogen projects, and energy reduction measures in homes, businesses and public buildings. As well as reducing carbon impacts, this investment will create a steady pipeline of work and well-paid skilled jobs in the region's construction sector. The North East should position itself as an exemplar in low carbon construction, building low carbon requirements into all construction tenders, and investing in the capacity of supply chain businesses to deliver low carbon projects.

Investment in skills and recruitment is needed to support expected future growth in the region's construction sector, and to overcome skills shortages. This includes:

- supporting the creation of additional Apprenticeship jobs in the region;
- encouraging Government to reform the Apprenticeship Levy to ensure the available funds are spent on training;
- supporting employers to recruit more young people completing construction courses in college (through a new Traineeship);
- and upskilling and re-skilling the existing workforce in low carbon technologies.

This should be supported by campaigns to promote opportunities and careers in the sector, demonstrating the improving quality, pay and security of construction sector jobs.

Digital and Professional Services

Business activity and growth

Government intervention in the economy created significant work for the financial sector, particularly from August 2020 onwards when they were involved in the delivery of Bounce Back Loans and other Government-backed financial support. There has also been an increase in the number of new start-ups seeking investment, many of which are lifestyle businesses.

In the legal sector some of the smaller high street and niche firms struggled, while the mid-market and high-quality firms tended to be more resilient, particularly the larger firms who cover a wide range of markets. Some areas of legal work, such as wills and probate and residential property, continued largely unaffected, while areas such as commercial property saw a marked reduction in activity, and transactions in more buoyant sectors such as energy, education and health increased.

In the financial sector firms are increasingly focusing on supporting existing clients to secure investment. Reduced demand and turnover have left many of these businesses with debt, making it challenging to secure the loans and investment they now need to survive and grow. Financial firms are also supporting clients with restructuring to take advantage of new commercial opportunities, or where owners have taken the decision to reduce their involvement in the business.

To date the level of business failures and insolvencies in the region has been significantly lower than first anticipated at the start of the pandemic. However, it may be that current insolvency data does not present a true picture of the scale of businesses at risk of closure because some firms are being artificially sustained by the Government financial support provided during the pandemic. As Government support is withdrawn from late 2021, it is possible that insolvencies may increase.

Despite the challenges of both EU exit and Covid, businesses overall appear more confident and optimistic about the future with signs that financial services and other businesses are bouncing back. PWC Financial Services (FS) Q2 2021 survey found that confidence continues to rise amongst firms in the sector[61]. It reported:

- Business volumes grew at the fastest rate since June 2017 and profitability grew at the fastest rate since December 2015.
- Following falls over the past year, employment in most financial services sectors rose for the first time since the outbreak of the COVID-19 pandemic.
- Technological proficiency and the ability to adapt to new technologies tops the list of skills financial services organisations believe they will need over the next five years.
- The upsurge in optimism, revenues and returns in financial services continues. But the pace of the rebound and surrounding transformation is intensifying the pressures in costs, skills and talent.
- The move to hybrid ways of working plus the rapid acceleration of digital transformation is making financial services organisations take another look at their IT infrastructure and increase investment in cyber security.

The digital and tech sector was perhaps least adversely affected by COVID, having seen significant increases in demand for its services as businesses across all sectors rapidly accelerated their plans for digital adoption, and the sector continues to perform well. Tech Nation data indicates that in early 2021 there were 15,750 job vacancies in the North-East, of which 2,300 (14%) were in the technology sector, making it the biggest hiring sector in the region. Specific roles in particular demand in the region include web designers, java developers, product managers, and digital marketing roles.

However, as sector growth accelerates, some North East digital businesses are experiencing recruitment difficulties in key digital roles (such as software developers), and wage rates for these roles are increasing as businesses compete for the scarce supply of skilled digital professionals in the region.

Tech Nation states the region demonstrates "a healthy pipeline of start-ups and fast-growing tech businesses".

The region's digital sector was boosted in 2020 with VRAI opening its first British office in the region. VRAI is a key asset in the region's thriving immersive technology sector which is recognised as a High Potential Opportunity (HPO) in the UK by DIT[62].

Jobs, skills and training

The jobs and skills issues faced by the financial and professional services sector pre-COVID and prior to EU exit still exist. A recent report by the Professional and Business Services Council (PBSC) and Financial Skills Commission[63] reported that a combination of the pandemic and increased automation are accelerating these skills challenges, intensifying the need for skills in technology, data, digital, and interpersonal communication. New skills needs are also emerging, such as skills related to leading others in hybrid working environments and advisory knowledge for a net-zero economy.

New analysis from PWC and BEIS on the impact of automation highlights that financial, professional and business services (FPBS) will be impacted more than any other sector over the next 20 years. Some roles will disappear entirely and new ones will be created, but crucially almost all roles will change in some way. The skills landscape already reflects some of these challenges and changes, such as a growth in demand for programming languages and machine learning.

Meanwhile, there has been no significant change to the long-standing challenges faced by the digital sector both pre-Covid and throughout the pandemic, with an ongoing mismatch of people who are unable to find jobs in the sector and firms that can't find people the with right skills.

While the need to reskill and upskill is urgent, there appears to be a lack of robust, strategic skills forecasting to help firms identify and address skills needs, particularly among SMEs. Many companies in the digital and financial services sector report challenges in recruiting people with relevant

61 https://www.pwc.co.uk/industries/financial-services/insights/cbi-pwc-financial-services-survey.html
62 https://investnortheastengland.co.uk/news/blog-guy-currey-2021/
63 FPBSC and Financial Skills Commission, Skills for Future Success 2021

skills. The increase in home working provides an opportunity to widen the talent pool, with companies seeking to recruit outside of the region. However, conversely some digital companies are concerned this more widely dispersed labour market will make it more difficult to retain their own North East based employees. Across the wider sector, competition for talent across the UK as well as with businesses based overseas continues to push up wages.

The pandemic has also created challenges in the recruitment and development of young people. Both digital and financial services businesses report difficulties in finding the management capacity and time to support apprenticeships and T-level opportunities within their firms, due to competing demands on their time during the pandemic. In addition, the financial services sector has faced challenges in recruiting graduates and younger, less experienced staff as the move to home working reduced their ability to provide in-person supervision and support.

As people return to workplaces disparities are emerging between employer and employee expectations of flexible and home working which, if not managed, may lead to staff seeking employment elsewhere. There is a strong argument for employers to consider a more permanent move towards hybrid working, rather than fixed workplace or home working.

Connectivity and movement

Increasingly, large, professional service employers are locating in regional centres which creates the potential to strengthen regional clusters. However, in the short-term it also risks a local talent constraint and may exacerbate challenges for local and smaller employers[64].

Leaving the European Union and the business mobility provisions of the Trade and Cooperation Agreement (TCA) may present challenges for professional service providers, for example in the free flow of financial transactions or in UK professionals having qualifications that are currently not recognised in the EU under current arrangements. The impact of these provisions has been delayed by COVID-19 travel restrictions but are expected to be felt as international business travel resumes[65].

While large relocations of economic activity in professional and business services from the UK to the EU are not expected in the short term, some organisations may need to establish a branch or subsidiary in the EU to comply with national requirements on local presence, in line with post EU Exit trade arrangements. The sector requires continued efforts by the Government to incentivise UK service providers to maintain their economic activity in the UK, while at the same time encouraging EU service providers to establish a presence here[66].

Opportunities and innovation

As Tech Nation reports, the UK has been historically strong in deep tech: R&D intensive, innovative tech developments[67]. To continue this global leadership, consultees felt more investment and emphasis is required on both new tech creation and application. The region's digital investment programmes and inward investment activity should help to provide these opportunities.

The pandemic has highlighted the importance of the digital tech sector, and has accelerated the adoption of digital technologies across all sectors. Programmes such as North of Tyne Combined Authority Digital Growth and Innovation Programme and the new Made Smarter Adoption North East should provide further opportunities for the region's digital sector to grow.

In addition to opportunities in digital, there will be future commercial opportunities arising from changes to the retail sector and the high street, as well as innovations and investment opportunities to address climate change, with many businesses bringing new commercial solutions to the market.

There has been a level of innovation across the financial and professional services sector in terms of changing working practices, for example with a move towards lean operating, net zero and paperless operation.

64 FPBSC and Financial Skills Commission, Skills for Future Success 2021
65 House of Lord European Union Committee Beyond Brexit: Trade in services, March 2021
66 House of Lord European Union Committee Beyond Brexit: Trade in services, March 2021
67 Tech Nation 2021

Resilience and risks

FPS sector commentary reported in the House of Lords stressed that Government should maintain close dialogue with the EU on data to support the long-term stability of EU-UK data flows[68].

Given the trade barriers under the TCA, new economic opportunities will need to be pursued to support the UK's professional and business services sector, particularly in the tech and green sectors. The Government must ensure the UK's regulatory environment helps these emerging sectors to thrive[69].

Both businesses and banks have taken on extra debt during the pandemic, resulting in many banks reducing lending, and some businesses being unable to attract investment. The need for business finance and equity investment is an issue being considered by NTCA, in the context of the establishment of a 'People's Bank'.

The pandemic has highlighted the need for businesses to improve their business continuity planning to reduce risk.

Current and future support

Some businesses and education providers are rising to meet the skills challenges laid out in the PBSC report[70]. These include employer upskilling initiatives focusing on digital skills, future skills forecasting, and partnerships between education providers and industry bodies. However, more action is needed to ensure the sector, regions, and nations are prepared for the future.

There is a role for the public sector in bringing businesses together, for example to develop apprenticeship sharing schemes or to enable businesses in different sectors to learn from each other.

Despite improvements in the availability of equity and VC investment in the North East market in recent years, the region is still behind other areas of the UK. There is concern that a great deal of finance in the region is provided via JEREMIE, and there is a lack of clarity about what happens once this funding runs out and European funding ends. Consultees believe that the region needs access to larger scale investment funds to successfully support economic growth and the post-Covid recovery. The region needs an additional 5 to 10 large scale up companies but currently there is a lack of investment to achieve this ambition.

Finance provision is also required for businesses that don't fit the mainstream, and which may not have a physical asset base, as well as for one-to-one (financial director) support to help businesses get their finances back on track.

Future business support funds may include streams that are more appropriate to the lower end of the market, which would open them up to a much greater proportion of businesses in the region. However, a less centralised and more nuanced approach to the distribution of these funds will be required to increase business starts, including initiatives to stimulate the pre-start market in sectors such as digital.

There is an increased focus on the importance of the digital tech sector and health tech, as well as the need to achieve net zero and address climate change. These are important cross-cutting issues which impact on all sectors of the economy.

Hospitality, Retail, Tourism and Culture

Business activity and growth

Headline figures for the hospitality and tourism sector indicate that nationally, there was a year on year fall of £80.8bn (64%) in hospitality sales in the 12 months to March 2021, and a fall of 31m in inbound tourism numbers between 2019 and 2020. However, there was an increase of 345% in delivery and takeaway sales in April 2021 compared to April 2019, and by the end of May 2021 76% of licenced premises had reopened[71].

The delay to the 19th July 2021 full re-opening, and relaxation of Covid restrictions, was of significant concern to the hospitality, retail, tourism and culture sectors in the region[72]. However, there is growing evidence from hotel and accommodation providers of strong future bookings, while hospitality venues benefited from increased trade due to the European Football Championships during summer 2021.

68 House of Lord European Union Committee Beyond Brexit: Trade in services, March 2021
69 House of Lord European Union Committee Beyond Brexit: Trade in services, March 2021
70 FPBSC and Financial Skills Commission, Skills for Future Success 2021
71 Future Shock. Issue 9 – Hospitality: Covid and beyond. UK Hospitality
72 The Business Growth Hub Intelligence Report (12th July 2021)

The uncertain nature of recovery in the sector was underlined recently by the postponement of the Rugby League World Cup, with Newcastle due to host games during October 2021. This resulted in a loss of bookings for North East hotel and accommodation providers, although the re-arranged tournament dates have now been confirmed for October 2022.

STEAM data for 2020 indicates that visitor numbers, visitor spend and employment were down across the region when compared to 2019. For example, in County Durham visitor numbers were down 43.4% compared to 2019 (11.39m people compared to 20.13m), while visitor spend fell by 48.3% to a total of £506.75m (compared to £980.72m the previous year), and the number of FTE jobs supported fell by 44% to 6,794[73]. Similarly, in Northumberland, visitor numbers fell by 50%, to 5.43m people, while visitor spend fell by 60% to £430.4m, and employment fell by 56% to 5,797.

The pandemic has had a significant impact across the hospitality, retail, tourism and culture sector, presenting a number of different challenges. Outdoor attractions, such as Hadrian's Wall, Alnwick Garden, and National Trust properties performed comparatively well, having benefited from public perceptions of the countryside and outdoor spaces being safer. However, visitor numbers were below their usual levels partly because many attractions were operating well below full capacity due to the need to comply with social distancing guidance, as well as problems retaining sufficient staff to operate at full capacity.

Anecdotally, as lockdown eases, there are reports that some people are still reluctant to visit indoor attractions. In the cultural sector, some indoor theatre and small music venues are still struggling, and many remain closed as they will not be economically viable until they are able to operate at full capacity, while theatres are seeking further support due to the delay in lifting restrictions.

Demand during October 2020 was strong for many tourist attractions and accommodation. There was a real sense of optimism, with high levels of advanced bookings and enquiries and some accommodation fully booked for the Christmas period. However, this was all shut down by the second lockdown, which had a devastating impact, and compounded further by the third lockdown.

However, business confidence in the tourism, leisure and hospitality is starting to grow again, as bookings increase. Businesses report that summer 2021 has been positive to date, with many self-catering properties and B&Bs fully booked up and waiting lists ready to take up cancellations. Many businesses are also expecting Christmas 2021 to be busy. The increased use of outside space has added to and improved the visitor offer, adding to the growing sense of confidence.

During the pandemic, some hotels closed while others stayed open for business travel and key workers. However, weekend demand remained low across the board and it was estimated that some of the region's large hotels lost up to 70% of business due to the loss of weddings. However, hotels are now seeing an increase in business from weddings, as well increased weekend bookings, with most business being generated by visitors rather than corporate bookings. In addition, there is anecdotal evidence that having multiple film crews in the region at the same time has generated significant business for local hotels.

Retail and hospitality businesses have invested money in adapting their premises and working practices to be Covid safe. However, closures due to further national lockdowns subsequently made it challenging to recoup this investment. In addition, the stop-start nature of operations was challenging for businesses dealing with perishable goods such as food, and there was a significant transition to online takeaway services to maintain some level of income. However, as lockdown restrictions have eased, businesses with outdoor space have bounced back, with some in Newcastle city centre reporting record weeks for trade, particularly during half term.

During 2020 Newcastle city centre lost around 40% of footfall, predominantly linked to closures in the hospitality and retail sectors. While it started to see year-on-year increases in footfall at the end of 2020 due to retail reopening, this was impacted by subsequent restrictions and a further national lockdown.

73 https://www.visitcountydurham.org/visitor-economy/market-intelligence/destination-performance

The third national lockdown brought potential negative impacts across the region generally, but also in relation to the risk of further national chains closing or entering administration, such as Arcadia, Paperchase (both with stores across the region), and Gap (two North East outlets). Anecdotal evidence from within the North East LEP area indicates that footfall is recovering fairly well, but shops are reporting that customer levels inside are considerably down on normal levels, suggesting shopper behaviour is for a specific purpose rather than recreational[74].

With regards to international tourism, the peak of the impact on Newcastle Airport was in May 2020 when there were no passengers, and the airport was open for freight only. Passenger numbers started to increase very slowly by August 2020, but subsequent quarantine restrictions contributed to a collapse in confidence among travellers. A number of airlines have continued to operate, albeit on a significantly reduced schedule. The airport experienced an average of around 5% to 10% of normal traffic in January 2021.

However, despite ongoing uncertainty about the re-opening of international travel, confidence is slowly returning to the sector, as demonstrated by the announcement in August 2021 that Ryanair will base two aircraft and supporting staff at Newcastle International Airport from 2022, creating hundreds of jobs. The Airport is planning on the basis of a good recovery in the aviation sector from 2022.

The current trading conditions remain challenging for the travel industry, with many holidays being re-arranged or cancelled. Travel agents have to remain open to deal with cancellations and booking changes, however, they don't get paid until people return from holiday. One established North East travel agent has made 50% of staff redundant as a result of the pandemic.

Jobs, skills and training

The culture sector generally offers many entry level jobs for school and college leavers. However, the loss of these job opportunities due to venue closures and restricted operations meant the sector was no longer bringing in new people and developing their skills There is a concern that there may be a lack of job opportunities for new entrants into the sector, due to job losses and a lack of live events, which offer good work experience and training opportunities. At the other end of the skills spectrum, venues also reported that they were struggling to retain staff with the specialist skills needed to support high tech productions.

The North East Growth Hub Intelligence Report (12th July 2021) reports that hospitality businesses in the region are experiencing recruitment challenges, while a large number of hospitality, retail and tourism workers remain on furlough.

In common with many other sectors, the re-opening of schools and the rise in Covid-19 cases has had a significant impact on the workforce and on productivity. For example, many small businesses in the hospitality sector have struggled to continue trading due to high numbers of staff having to self-isolate or having to remain at home to care for children required to self-isolate.

Furlough data to the end of April 2021 shows that 13,000 people in the retail and wholesale sectors in the LA7 area still on furlough, down from 19,000 in March 2021; and 30,700 people in the accommodation, arts, entertainment and food sectors still on furlough, down from 36,000 in March.

Whilst jobs have undoubtedly been lost in retail and hospitality, to date there have been no reports of large-scale redundancies. There are several fairly large independent operators in the North East market with longstanding professional staff teams. These businesses have made every effort to retain these teams, although as a consequence have lost money.

Deskilling of the workforce continues to pose a threat to the tourism sector. Many staff have been out of the workplace for more than a year, resulting in the loss of skills, out of date certifications and demotivation due to the stop start nature of their employment. Continued retraining and upskilling of the workforce is required to support the sector's recovery.

A high proportion of the cultural sector workforce is self-employed or working on a freelance basis,

74 LA7 ED's report (24th June 2021)

and many have been impacted by the delays and difficulties in getting Government financial support.

Connectivity and movement

Exit from the EU has had an impact on the culture sector with performing artists struggling with the bureaucracy of obtaining visas for different countries. This will also impact on the ability of EU based artists to travel into and work in the region.

There has also been an impact on the hospitality sector, with shortages of chefs as a result of EU Exit and Covid travel restrictions.

International travel restrictions continue, with the use of the RAG rated travel list, quarantine for those returning from red and amber-list countries, and the requirement for negative Covid tests prior to, and on return from international travel. The travel list, and traveller requirements change regularly, often with short-notice, making it challenging for visitors and the industry to plan. Uncertainty about Covid-related holiday insurance cover, and the additional costs associated with Covid tests, are disincentivising international travel.

Opportunities and innovation

The hospitality sector has embraced changes in legislation that have enabled outdoor operations, which can add up to 40% of additional capacity to businesses. Businesses that have invested wisely in adapting to these Covid conditions have bounced back particularly well, with some recently reporting record weeks for trade. This adaptation was supported by a practical, fast and responsive grant scheme from Newcastle Business Improvement District NE1 of up to £2k to enable businesses to adapt their outdoor space to the right quality level.

Facing difficulties with staff shortages and increased competition in recruitment from businesses in more urban areas, hospitality firms in rural locations are trying more creative approaches to attract staff, such as reward and incentive schemes.

Staff shortages are also being driven by people not returning to the sector following furlough or redundancy, having found jobs in other sectors offering less unsociable hours and greater stability. There is an increasing recognition within the sector that historically it has not treated staff as well as could be expected, and the current recruitment difficulties provide an opportunity to reassess contracts and working conditions to make the sector more attractive.

The new Gateshead Convention Centre and quayside investments demonstrate signs of continued growth in the urban core over the next few years, providing signs of confidence that have the potential to lift the whole sector. There is already evidence of growing confidence with new hotels, bars and restaurants opening.

Resilience and risks

A recent LA7 Economic Directors' report (24th June 2021) summarising the economic impact of Covid-19 on the hospitality, retail and wider sectors, cites Google Mobility data that shows visits to retail (excluding supermarkets) and recreation sites in the week ending 18th June were 12% below pre-pandemic levels. This is slightly below the number of visits in the previous two weeks (the first of which was half term), but June's numbers have been the highest since March 2020.

Footfall was above the pre-pandemic equivalent in Northumberland, with North Tyneside, Durham and Sunderland less than 10% below. However, data for Newcastle, Sunderland and Gateshead shows footfall is still subdued (between 18% and 28% below pre-Covid levels).

Tourism and hospitality businesses are starting to bounce back, although they have lost part of the 2021 visitor season, and a number of businesses are still operating at a reduced capacity. There is confidence that 2022 will be better, but still won't reach pre-pandemic / 2019 levels.

Government support has been critical for many tourism businesses, with furlough and grants providing a valuable lifeline. In addition, several cultural venues in the North East benefited from a share of the DCMS Recovery Funds, helping to keep their doors open.

Over Autumn 2020 some retail and hospitality businesses estimated they could potentially keep going for another six months. However, the second and third national lockdowns made the picture less certain. Retail performed well over Christmas 2020 when there was increased footfall and a high level of pent-up demand. City centre businesses strove to remain positive and believed there were reasons for optimism, for example an £8m capital transformation programme for Newcastle City Centre (secured in early 2021 from the Getting Building Fund), as well as the growing appetite for city centre residential accommodation.

Retail continues to be in a very insecure position, with Covid rapidly accelerating change that was already happening in the sector. In particular the shift to online sales has significantly undermined the retail property market with many national retail chains closing stores, and shifting to fully online operating models.

Some of the big commercial airline operators have adapted well to the stop start nature of operations and are able to ramp up activity quickly as soon as restrictions are lifted.

Current and future support

Venues in the North East received a reasonable amount from the government's £1.57bn Culture Recovery Fund in October 2020, although a larger proportion went to venues in London. However, this funding was based on the expectation that venues would be able to reopen in late 2020 / early 2021, whereas in reality many venues were only able to begin re-opening in July 2021.

A wide range of cultural venues and festivals have been calling for support in the form of event cancellation insurance. Confidence across the sector has been low due to the high risk of organising events with no guarantee they will go ahead. It is hoped that the 8th August 2021 announcement of the Government-backed Live Events Reinsurance Scheme will help to increase confidence in live events market. Worth more than £750m, the scheme will launch in September 2021 and will cover cancellation costs of live events if they are unable to go ahead due to Covid restrictions.

At a national government level, businesses in the retail, hospitality, culture and tourism sectors require a continuation from business rates relief, VAT reduction and furlough. To help businesses bounce-back, they need liquidity, but many are crippled by debt.

To compete as a region with other parts of UK, the North East requires a large, co-ordinated promotional effort to stimulate demand. There is a feeling that the current situation offers a major opportunity to raise awareness of a relatively undiscovered region and capitalise on the significant outdoor spaces and attractions it offers.

There is also need for a scheme to encourage people back into the city centre, into venues and meeting spaces. Many hotels are reliant on events and venues for business, so it will be essential to help this element of the sector to bounce back.

Support for the workforce is required across these sectors. This includes:

- support for those returning from furlough, both to update and refresh their skills and to address any wellbeing problems they may be experiencing after a significant period out of the workplace.
- support for those who have been made redundant to update their skills and secure alternative employment; and
- support for new entrants into these sectors.

Increased use of outdoor space has been beneficial for many businesses. The new act to allow more flexible use of outdoor space was introduced very quickly, and is about to expire. However, many in the sector would like to see this legislation extended.

Support is needed to help city centre businesses to trade effectively outdoors all year round. This primarily requires infrastructure to keep people warm and dry, for example metered outdoor electricity infrastructure so businesses have access to power output.

75 Manufacturing Outlook 2021 Q2, Make UK in partnership with BDO

Manufacturing and Energy

Business activity and growth

The most recent Make UK Manufacturing Outlook Report for Q2 2021[75] indicates there has been further improvement in outputs for the manufacturing sector. At the time of the report, the UK was progressing through the staged approach to reducing pandemic restrictions, while experiencing a series of new trade barriers as a result of the TCA with the EU, which saw a significant decline in exports at the start of the year. However, the output balance reported has increased, standing at 36% for Q2 2021, which is the highest on record, and suggests that the largest share of manufacturers ever, has experienced an improvement in output levels, relative to those that have reported a decrease. This sharp increase can be partly attributed to pandemic induced pent-up demand, and is forecast to continue into Q3, with the output balance expected to reach 46%.

The report also shows that both the UK and export order balances have improved to 27% and 22% respectively. The UK orders balance is the highest on record, while the export order balance, at 22%, indicates a positive change following the difficulties experienced at the start of the year, as a result of the UK's exit from the EU.

Performance across the manufacturing industry continues to vary between sub sectors. While the majority reported growth in Q2 2021, and are forecasting continued growth into Q3, there are difference in rates of growth.

The electronics subsector has performed particularly well, with a 50% growth in output in Q2, and a forecast growth of 53% over the next three months. Despite experiencing supply challenges stemming from the global shortage of semiconductor components, demand is high, particularly for consumer electronics, which is helping to drive growth. The pharmaceutical subsector was the only subsector to experience double-digit growth (14%) in 2020 during the pandemic. Growth in this subsector is expected to continue throughout 2021, although at a lower rate of 3.7%.

The automotive subsector experienced the most significant decline in output in 2020, with a loss of 25.6%. However, a significant bounce back is forecast in 2021, with output expected to grow by 23.6%. This variation in output can be attributed to a widespread shutdown in production in 2020, primarily due to an inability to source critical parts from international suppliers at the height of the pandemic.

In the region, the North East Automotive Alliance (NEAA) worked with automotive companies to adapt, helping them to re-start production, provide a safe working environment, and prepare for future challenges. By the time of the second lockdown, companies in the sector were better prepared, for example with dealers having moved to online sales. In November 2020, sales fell by around 24%, compared to a fall of 97% during the first lockdown. Since October 2020 the North East automotive sector has attracted £3.85bn in investment and has the most productive car production plant in the UK.

Evidence collated in North East Growth Hub Intelligence Reports covering the period 30 November to 11 January 2021 included the positive announcement that Britishvolt are to invest £2.6bn to create an electric car battery plant in Blyth, creating 8,000 jobs and representing the biggest investment in the North East since Nissan in the 1980s. Since then, Nissan has announced the creation of 400 new jobs at its factory in Sunderland (July 2021), and Envision AESC are progressing with plans to develop a £450m EV battery plant at IAMP, which will create a further 750 new jobs, contributing to the development of an electric vehicle hub based in the North East LEP area. Further recent investments by Turntide Technologies in key North East businesses, including Hyperdrive, Avid Technology and Borg Warner have further strengthened the region's position as a leader in vehicle electrification.

With an increase in vaccinations, easing of lockdown restrictions, and the end of the pandemic in sight, the Manufacturing Outlook Report shows that average business confidence in the sector has increased to 7.2 points[76], the highest level since 2014,

76 Confidence in the next 12 months where 1 = substantially worse and 10 = substantially better

with confidence in the North East being slightly higher at 7.6 points. Confidence levels in the region have improved by 1.7 points, second only to London and the South East which improved by 2.2 points. This is despite continued frictions in trade with the EU, rising cost pressures from shipping delays, shortages in raw materials, and freight pricing, which suggests that manufacturers expect these issues to be short-term.

The Global Wind Report 2021, published by the Global Wind Energy Council (GWEK) indicates that the onshore and offshore wind sector has been largely shielded from the impacts of Covid-19, with new wind power installations surpassing 90 GW in 2020, a growth of 53% compared to 2019. New installations in the onshore wind market reached 86.9 GW, with the offshore wind market reaching 6.1 GW, making 2020 the highest and the second highest year in history for new wind installations for both onshore and offshore. The UK is ranked fourth in new offshore wind installations in 2020, installing 483 MW, and it remains in the top spot globally in terms of cumulative offshore wind capacity.

Jobs, skills and training

The Make UK Manufacturing Outlook reports the first improvement in jobs since Q1 2020, with an increase of 20%, and a further increase forecast in Q3. In advance of the end of the CRJS, manufacturers have begun to hire or re-hire workers in response to the increase in workload. In the North East, employment has increased by 14% in Q2 2021, and is forecast to increase by 57% in the next three months, the largest forecast increase of all UK regions.

The Manufacturing Outlook report indicates that take-up of the furlough scheme increased slightly at the beginning of 2021, as a result of uncertainties in the new trading environment with the EU. Data from Make UK indicates that, at its peak in 2020, the CJRS supported more than 900,000 jobs in manufacturing. Feedback suggests that many Make UK members in the North East have not used the furlough scheme to the extent they thought they would have to. However, the third lockdown had some impact on the sector and the ongoing availability of CJRS remained a valuable source of support.

In the automotive sector, large numbers of companies took advantage of the furlough scheme, with many choosing not to renew temporary contacts when they came to an end. However, there is an expectation that there will be skills shortages across the sector, as companies start to recruit. Many companies have invested in digitisation and electrification, which will require new skills, and some companies, including Nissan, have announced plans to create new jobs.

To address the expected skills shortages in the automotive sector, a co-ordinated response will be required from industry, education providers, and sector bodies.

The uncertainty in the education sector has had some impact on the delivery of Apprenticeships, however manufacturing businesses have continued to recruit and train apprentices. The ageing workforce continues to be a concern, and it is considered vital that young people are recruited and trained now before the skills and experience of the older workers are lost.

A 2021 Make UK report, produced in association with PWC[77], indicates that 44% of manufacturers are planning to invest in training during 2021 in order to boost productivity. Just over half (54%) expect to see a moderate or significant improvement in productivity and 44% of manufacturers expect to moderately or significantly increase the number of permanent staff in 2021.

Connectivity and movement

A recent report by Make UK[78] indicates that just 4% of manufacturers have experienced no challenges since the TCA came into force at the beginning of 2021. The biggest challenges have been disruption to both the import and export of goods between the UK and EU, with 46% experiencing disruption to imports, and 39% disruption to exports. This is due to a number of factors including customs clearance, Rules of Origin, and the availability of logistics.

77 Executive Survey 2021 Building Agility in Manufacturing, Make UK and PWC
78 Trade and Co-operation with the EU six months on (V2)

Make UK's Manufacturing Outlook Report (Q2 2021), reports that, following a significant drop in exports at the start of the year, exports have started to increase in Q2. However, border issues are having a disproportionate impact on SMEs and micro-businesses who, unlike large firms, lack the capacity and resources needed to manage the additional administrative requirements. Border challenges are also impacting on availability of drivers, many of whom don't want to deal with the volume of red tape required to cross between the UK and EU.

Labour shortages in the logistics sector, as a result of the pandemic and EU exit, are impacting on the sector. Logistics UK estimate that nationally, 45,000 HGV driver tests were delayed due to Covid, and a further 79,000 European logistics workers returned home as a result of EU exit. As well as a shortage of drivers, there is an increase in demand for other roles, which are proving hard to fill.

Business travel remains almost completely untested as international travel begins to reopen, bringing with it critical risk for companies who still do not understand the business travel rules for the different EU member states.

Opportunities and innovation

A Make UK / PWC report[79] highlighted that the rapid changes made by manufacturers during 2020, including adaptations to production processes, increased investment in digital and green technologies and new ways of working for many employees demonstrated the sector's ability to operate flexible working environments. 43% of manufacturers said they would explore how to retain remote working where possible. The Survey also highlighted the opportunities created by the pandemic for manufacturers to improve their supply chain resilience through technological advancements.

Make UK feedback suggests that there will be an increase in re-shoring activity in the UK to address weaknesses in global supply chains, as well as to increase production and protect jobs domestically.

The Executive Survey report highlights potential opportunities arising from the EU exit, with opportunities to expand into new markets. At the time of the survey, around 27% of manufacturers expected that their exports to the US would increase in 2021, and this may be higher if a FTA is agreed. In addition, 48% of manufacturers expected exports to South America to increase or stay the same, while 57% said that exports to the Asia Pacific region would either increase or remain the same.

A key opportunity for the automotive sector will be an increased focus on UK supply chains as a result of EU exit and the Rules of Origin requirements for tariff-free trade, driving the need for more UK content.

The announcement of the Ten Point Plan for a Green Industrial Revolution, backed by £12bn of Government investment, will create a wide range of opportunities for growth and new jobs in offshore wind. It will also create opportunities in the wider manufacturing sector, for example in zero emission vehicles, 'jet zero' and green ships.

It is anticipated that there will be significant advances to drive efficiency in manufacturing in offshore wind over next 30 years, with a need to industrialise it on a large scale, which will create significant opportunities in the offshore and manufacturing sectors in the UK.

Resilience and risks

Feedback from Make UK indicates that investment in manufacturing businesses is forecast to increase by 17% in the next 12 months. This is partly attributed to the Chancellor's business investment incentive scheme which gives relief at 130% of the qualifying cost of capital investments, compared to the usual 18% writing down allowance for investment in capital assets, and partly due to high levels of business confidence.

At the time of the Make UK / PWC Executive Survey, manufacturers were building their resilience to prepare for the challenges in 2021 by investing in people, new products, markets and technology. In addition, just under half (48%) of UK manufacturers said they expected conditions within their industry to either moderately or significantly improve in 2021.

79 Executive Survey 2021 Building Agility in Manufacturing, Make UK and PWC

A recent survey by NEAA indicates that 57% of automotive sector businesses are back to near pre-pandemic levels. However, 60% reported cash flow is still an issue, and 40% reported that they faced competition from new entrants due to electrification.

Automotive companies are not back on a normal investment cycle yet. Pre-covid, businesses had 18 months to 2-years payback for plant efficiency investments. Currently, if they are unable to pay back within 6 months, they are unable to secure funding from global parent companies. However, strategic investments around electrification are a different case and are going ahead.

The shortage of semi-conductors is impacting on supply chains. For example, Nissan is prioritising production of the Qashqai, resulting in suppliers for other models struggling due to lack of demand.

The move from EU to UK quality marks is having an impact due to the additional time and cost involved in the new accreditation process, although the deadline to secure accreditation has now been extended to 1 January 2023.

The GWEC report forecasts growth in wind power over the next five years, despite the pandemic. This includes over 469 GW of new onshore and offshore wind capacity, equating to 94 GW of new annual installations until 2025. It is expected that COP26 later this year will lead to an increase in targets for the wind industry.

Current and future support

The new trading environment has increased costs, caused import and export delays, and is hampering smooth trade as manufacturing companies struggle to recover from the Covid pandemic. There are calls on the Government to work with the EU to help ease continued difficulties, and to seek mutually beneficial improvements to the trading relationship.

Net zero is a priority for the manufacturing sector, particularly decarbonisation of the manufacturing process. Support may be required from Government, the North East LEP and regional partners to achieve this transition.

The transition to digitisation of the manufacturing process and the adoption of digital technologies is a further opportunity for the manufacturing process, which may need support.

The region needs to offer financial incentives to encourage businesses to invest in electrification, decarbonisation, and digitisation, to support North East firms to become more competitive and better placed to attract investment for future growth. In addition, UK investment to enable small businesses to scale-up would enable wealth and IP to be retained in the region.

There are a number of key opportunities and challenges specific to the automotive sector in the North East, which will require support from the North East LEP and the UK Government, including:

- **Electrification of vehicles**: This is a significant opportunity, with continued investment needed to ensure the North East can continue to build manufacturing capacity and maintain its competitive position, building on recent investment announcements by Turntide, Nissan, Envision AESC, and Britishvolt.
- **Investment in North East R&D capability**: The region is vulnerable to the risk of future vehicle assembly investments moving overseas. However, a stronger R&D base, would enable the region to both develop and deliver new technologies, competing more effectively, against regions with a stronger R&D offer.

Apprenticeships and the training and recruitment of young people to the manufacturing and energy sectors is vital. In the drive towards net zero there needs to be co-ordinated investment in education provision to grow the workforce. There also needs to be intelligence and guidance for the education sector to ensure it is delivering provision that meets the emerging technologies and future skills needs of manufacturing and energy businesses, and to keep pace with growth (such as Nissan and Britishvolt), and support the transition to new technologies.

There is an opportunity to review the Strategic Economic Plan, ensuring it focuses on very specific regional manufacturing strengths, including automotive manufacturing and electrification, alongside the focus on advanced manufacturing more broadly.

Support for the offshore wind sector is related to the four pillars that are crucial to its growth and development: inward investment; infrastructure investment; training and education; and supply chain support. There is a collective will across the entire North East region to achieve this and the right vehicle is needed to create and implement a cohesive strategy for the region.

Representation of the energy sector at the North East LEP is already strong. One area to build on would be improved co-ordination of, and a prioritised plan for, inward investment. It was suggested that this needs a joined-up approach across the North East and Tees Valley, which builds further on existing platforms such as Energi Coast and Sub-Sea North East.

In addition, the region has a particular opportunity to drive innovation and shape new markets as Governments seek to decarbonise domestic and non-domestic heat. The recent publication of the Mine Energy White paper demonstrates the opportunity for the region to lead in the deployment of geo-thermal energy from mine water, and the region is currently hosting trials on domestic uses of hydrogen.

The GWEK report forecasts that the global wind energy market will grow at a compound annual rate of 31.5% from 2021 to 2025. It is expected that the level of annual installations is likely to quadruple by 2025 from 6.1 GW in 2020, with more than 70 GW being added worldwide between 2021 and 2025, and offshore wind's market share increasing from 6.5% in 2021, to 21% by 2025.

Dogger Bank is a £9bn project which raised £5bn from commercial lenders, demonstrating confidence in the sector. The current challenge for the sector in the North East and UK more widely is how to ensure the opportunities this presents are converted into UK manufacturing activity.

Voluntary, Community and Social Enterprise Sector (VCSE)

Business activity

The Autumn 2020 VCSE Covid Impact Survey undertaken by VONNE showed that around 50% of organisations had significantly reduced services because of government restrictions, while 27% were slightly reduced and 19% were unable to operate at all. The main reasons for halting or reducing services were potential risks to staff and volunteers, reduced volunteer numbers, reduced demand for services and being unable to reconfigure services within the Covid restrictions.

While the easing of restrictions has enabled more organisations to resume activity, the challenges highlighted in the 2020 survey and January 2021 update appear to still be prevalent across the sector, including digital adoption; digital poverty; financial change; and increasing pressure on demand for services.

The increase in demand for services reported by regional organisations in the 2020 survey is expected to continue and is also echoed in national surveys. The NCVO July 2021 survey reported 57% of respondents have seen an increase in service demand and 64% expect an increase over the coming month[80].

Despite pressures on demand, there are still some VCSE organisations that are yet to re-open, particularly those that are run from community centres and operated by older trustees, who are still cautious about risks to their health.

Out of necessity, some VCSE organisations have delivered services to people's homes during the pandemic, and there appears to be an expectation among some service-users that this will continue in the long-term. However, many VCSE organisations lack the capacity to maintain this level of service.

Regionally and nationally the sector has faced significant financial pressures, although there is evidence to suggest there has been some short- term improvement and the situation may be stabilising. The July 2021 NCVO monthly barometer survey found[81]:

- 28% of respondents reported a deteriorating financial position in the last month; 27% reported an improvement; and 45% reported a stable financial position.

80 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID-19 July 2021
81 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID-19 July 2021

- 55% of respondents expect their financial position to remain stable over the next month with 20% expecting it to worsen and 23% expecting an improvement.
- However, in the longer-term almost two thirds of respondents (64%) expect Covid-19 to have a moderate or significant negative impact on their ability to deliver objectives next year, while 9% of respondents thought it was quite or very likely organisation would no longer be operating next year (up from 6% in the May 2021 report).

During the pandemic, there was an increase in the availability of Government funding for the sector, for example to use facilities as vaccination centres; rapid deployment of funds to provide emergency support services; or funds to survive temporary closure, particularly for those VCSE organisations in the arts and cultural sector. In addition, there have been numerous small grants available, and many publicly funded service delivery contracts were extended.

However, this level of financial support has not continued into 2021, with fewer grants available so far this year. It is anticipated that the financial impacts of Covid-19 on the region's VCSE sector are likely to be stretched across several years, as was the case after the 2008 crash[82]. If the pandemic and following recession leads to fewer charitable grants (for example due to lower level returns from endowments of trusts and foundations), as well as further austerity for local government, then the finances of the VCSE will come under pressure in both the short and longer term[83].

The pandemic highlighted the extent of digital poverty in the North East, with many clients lacking the devices, connectivity and skills needed to access services digitally. Throughout the pandemic initiatives have been delivered to provide people with devices, but more support is needed for people to connect to the internet once they have this device and data poverty remains a pressing issue.

In September 2020 it was clear that many VCSE organisations were dealing with the initial shock of the pandemic and focusing on their immediate term emergency response to the situation. However, over time many organisations have adjusted to the longer-term nature of the crisis and have changed their business plans and operating models accordingly.

Jobs, skills and training

The pandemic had a significant impact on volunteer numbers in the sector, with large numbers of older volunteers having to isolate and many lacking the digital skills to adapt to online delivery of services. There was a temporary increase in some volunteering activity, for example with furloughed workers volunteering with the NHS or starting up community-based support schemes. However, as more people return to work volunteer numbers are falling once again. In addition, many older volunteers remain cautious about returning to their volunteer role.

Nationally the impact of Covid on volunteering has been similarly mixed. In the monthly barometer (May 2021) 24% of organisations reported an increase in volunteers since March 2020, through a mixture of new volunteers wanting to help during a period of crisis and having more time to volunteer, whilst 36% reported a decline, through social distancing and lockdowns reducing the opportunities for people to come together[84].

There are ongoing concerns over the recruitment and training of young people in the sector, with home working reducing the opportunities to provide appropriate mentoring and support. While there has been a significant increase in online training, there continue to be challenges in training young people and apprentices and giving them the in-person time and attention they require.

While there has been a high rate of churn in the sector throughout the pandemic, there are indications that employment levels in the sector are stabilising. The NCVO survey (July 2021) found that that over the last month the employment position in the sector was reported as relatively stable, with 47% reporting the same number of paid employees compared to previous months. In June 2021, 18% of organisations saw a decrease in number of their volunteers compared to 19% in the previous wave. 23% of the organisations have reported an increase

82 IPPR Third Sector Trends Study COVID-19 and its potential impact on the third sector in the North September 2020
83 IPPR Third Sector Trends Study COVID-19 and its potential impact on the third sector in the North September 2020
84 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID May 2021
85 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID-19 July 2021

in the number of their volunteers (compared to 20% in the previous month)[85].

There have been examples of people in the North East securing jobs in large national and London-based charities on a home working basis. With the longer-term potential for home working to continue it is likely that there will be further similar appointments, although it is anticipated this will be predominantly in senior level roles.

Many VCSE organisations deliver ESF funded training to support those furthest from the labour market, but there is ongoing uncertainty over the future availability of funding to deliver such training and employability programmes. Currently the focus appears to be on funding large scale capital investments, rather than funding for people and social infrastructure interventions.

Connectivity and movement

VCSE organisations have developed new methods of service delivery, for example online and telephone support, rather than face-to-face. However, with many people from disadvantaged communities facing digital exclusion, their ability to access these services is limited.

There has been an increase in VCSE organisations working collaboratively, forging new relationships and seeking opportunities to strengthen existing regional networks across the sector[86]. It is hoped many of these will continue.

Opportunities and innovation

VCSE organisations are having to be much more creative about how they involve volunteers at the current time and the crisis has seen much greater use of digital resources and delivery[87]. They have trialled new recruitment and engagement methods for boosting volunteer numbers, including online recruitment and local radio advertising.

They have also experimented with various strategies to keep volunteers connected and engaged, from more formal training sessions to informal activities such as murder mystery experiences, to enable people to connect with each other and feel part of the group. Whilst many of these practices were developed out of necessity, organisations are planning to retain the most successful elements in the future[88].

Organisations are re-evaluating the way they run and deliver services to be as inclusive as possible and address diversity and equality.

Resilience and risks

Analysis by IPPR notes the third sector has proven to be highly resilient in the face of economic challenge (the 2008 recession)[89]. Despite some of the more dramatic predictions of its collapse, many VCSE organisations, in particular the very smallest, have managed to weather a recession and austerity by adapting effectively to new circumstances.

However, the IPPR report notes the 2008 crash did have a significant impact on VCSE income, with knock-on effects for their operations. Given the forecasts for the scale of the economic shock from Covid-19, it is assumed organisations will experience an even higher drop in income than previously. It is also expected that the financial impacts of Covid-19 will be uneven with organisations in the most deprived areas the most severely impacted[90].

In the early stages of the pandemic a lot of businesses were seeking to fulfil their Corporate Social Responsibility (CSR) commitments via the VCSE sector, particularly around the issue of food and hunger. Initially this raised significant funds, around 80% of which came from family trusts and large national firms that smaller VCSE organisations don't usually have access to. However, a lot of this activity was PR related and, once the emergency response was over, much of the funding began to disappear. Overall, CSR has largely remained a PR tool and the sector needs a much more meaningful engagement from businesses. There is an opportunity to exert some influence over businesses, for example by structuring public and investment funds to require businesses to put something back into the community in return for these funds.

Research suggests there are solid foundations to build upon in the North East. Businesses in the

86 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID-19 April 2021
87 IPPR Third Sector Trends Study COVID-19 and its potential impact on the third sector in the North September 2020
88 Nottingham Trent University, Sheffield Hallam University and NCVO Respond, recover, reset: the voluntary sector and COVID-19 May 2021
89 IPPR Third Sector Trends Study COVID-19 and its potential impact on the third sector in the North September 2020
90 IPPR Third Sector Trends Study COVID-19 and its potential impact on the third sector in the North September 2020

region give more to small charities and community groups than any other businesses outside of London. Research conducted for the Law Family Commission on Civil Society shows that on average businesses in the North East donate an estimated £460 in services and funds to small charities and community groups each year. This puts businesses in the North East ahead of every other region in England outside of London, including Yorkshire and Humber (£354), the East Midlands (£327) and West Midlands (£366)[91].

Current and future support

Funding remains a primary concern for the sector. With no visibility of future funding, particularly the replacement for EU funding, many in the sector believe there will be a cliff edge at some point in the future, likely to be in 2022/23. Organisations are trying to retain some cash reserves to ensure they are in a position to tackle these problems when they arrive post March 2022. However, the sector still needs clarity and reassurance on funding to enable them to plan beyond this date.

At a national level, the sector would like to see the establishment of a VCSE Commission (similar to the Culture Commission that was established by Oliver Dowden). The Commission should have a clear role to advise on how UK VCSE organisations can work with Government, local communities and the NHS to begin the road to recovery from the pandemic. It is also expected that the Commission will contain UK-wide representation, include key communities from areas identified as 'left-behind' and where existing inequalities have significantly deepened.

Regionally the sector has a significant role to play in the recovery and growth of the North East economy and would like parity with other sectors of the economy in the Strategic Economic Plan. The areas in which the sector is best placed to contribute to regional recovery continue to be priorities for the region, including:

- **Digital inclusion:** Despite advances made during the pandemic, the region still has a significant digital poverty problem. Digital inclusion is an enabler for many areas including education, skills, employment, health and mental health. During 2021 both the North East LEP and Millfield House commissioned research into digital exclusion as a first step in devising a co-ordinated regional response to the issue. The VCSE has an important role to play in the development and delivery of this response.
- **Skills and employment:** The VCSE sector continues to be well placed in terms of trust and reach into communities to engage those who are furthest from the labour market. Whilst Covid-related increases in unemployment have not been as high as feared, there is still a pressing need to support the long-term unemployed.
- **Mental health:** Significant funds have been made available via the NHS during the pandemic to address mental health problems and initially the health sector worked with the VCSE sector to engage with communities to deliver support. However, it is starting to pull back on this work now and there is a need for the health sector to improve its longer-term approach to working with the VCSE sector and funding them to deliver this support.

Local Authorities and Places

Throughout the pandemic, the local authorities have provided regular commentary and evidence about the impacts of COVID-19 on local economies including: business activity; jobs, skills and training; opportunities and innovation; connectivity and movement; and the broad impacts on towns and city centres, and rural areas.

The local authority commentary on these wider issues has been included in other sections of the report, alongside the feedback and evidence from representatives of key economic sectors.

Therefore, this section focuses only on evidence and feedback specific to local authorities, including; the support they have provided during the pandemic and its impacts; the distinctive impacts on specific places and communities; and current and future support priorities in local areas.

91 https://www.probonoeconomics.com/news/north-east-businesses-are-most-generous-charity-givers-outside-london

Local authority activities

The region's local authorities have worked hard and flexibly throughout the pandemic, often in collaboration with each other and with wider regional partners to:

- Distribute emergency government grants quickly which have been crucial to the survival of many North East businesses.
- Maintain business continuity and deliver services to local communities.
- Respond to the public health emergency and vaccination rollout.
- Support businesses most in need of help, including retail and those that have been most severely affected by the pandemic, such as hospitality.
- Support key local services that have fallen through the gaps in support, such as childcare and taxi drivers.
- Attract new inward investment and jobs to local areas, creating the foundations for a post-Covid recovery.
- Accelerate investment in place-based regeneration, including in towns, city centres, and rural communities, and at key industrial and commercial sites in local areas.

Places and communities

Many large towns, city centres, and out of town retail centres have been impacted by the closure of large national chains. These businesses are not expected to return, resulting in permanent changes to the local high street landscape. The impacts have been somewhat less severe in towns and cities (such as Sunderland) with a higher proportion of smaller independent retailers.

Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets, including increasing vacancies, and national chains closing some stores. By contrast, some smaller towns and suburban high streets have seen a strong recovery and an increase in spending and footfall, reflecting a move towards more local shopping patterns, supported by more people working from home.

The impact on towns, cities and other areas has varied widely, depending on the make-up of their local economies. Places with a higher density of manufacturing businesses (such as parts of County Durham) and digital and business services (such as Newcastle, North Tyneside and Sunderland) have been able to maintain a fairly consistent level of economic activity through the pandemic as these sectors have continued trading by and large. Places with a high density of hospitality and tourism businesses have been much more volatile, with the sectors being almost completed closed at some points during the pandemic, while at other times they have been much busier than the pre-pandemic norm.

The region's most deprived communities have been the most severely affected by the pandemic, where a higher proportion of people have been furloughed or lost their job, have little or no savings, and are more likely to be digitally excluded.

In Northumberland the VCSE sector has played an important role in supporting communities in rural areas and linking people to services. The County saw an initial entrepreneurial boom in the first lockdown with an increase in business starts, although this slowed down partly due to the stop-start nature of lockdowns. Currently there are high levels of confidence in the tourism and hospitality industry, with many places fully booked over the summer of 2021 and high-level campaigns to support the sector. The County is also seeing inward investment interest related to the Britishvolt plant and other developments in renewables sector.

In Gateshead inward investment activity is comparable to pre-Covid levels and there continues to be strong demand for industrial and office space. However, with SMEs there has been a consistent trend in putting off recruitment and investment decisions. Future priorities for Gateshead include repurposing the town centre and high street, and adapting the Metro Centre for future leisure use.

In County Durham all sectors other than retail and hospitality have largely held up. There has been some impact on the office market although not severe, while occupancy levels in industrial units have remained high.

In Sunderland ongoing uncertainty is impacting on a number of the area's businesses in the travel sector, with staff having to isolate and a lack of consumer confidence in booking foreign holidays. Meanwhile, Sunderland's digital sector has been consistently resilient. It is anticipated that a lot of businesses will not go back to way things were pre-Covid, so the role and use of Sunderland City Centre is changing.

In Newcastle, retail closures have had a significant impact on the city centre. There is now a big focus on the future of the city centre, including how businesses want to use office space. Development projects are continuing on the Quayside, Pilgrim Street, and the Helix. As new jobs start to come into the city, a shortage of office and lab space has been reported, with health and life sciences, and the public sector being the main source of jobs growth.

In North Tyneside, the town centre impact has not been as severe as was first anticipated, although there may be a further impact once Government support has ended. Some big employers, such as Santander and HP are downsizing their premises at Cobalt Business Park as they move to more permanent remote working, so while there has been no loss in jobs there has been an impact on the commercial property market. The fishing industry has been the sector most impacted by EU exit in North Tyneside, although there are early signs that the situation is improving.

South Tyneside has seen a big impact on its visitor economy, although there has been a bounce back and there are increasing job vacancies in the sector. The Council is currently working with cultural organisations to support recovery in this sector, which in turn will help to drive the wider economic recovery of the area. There is also good demand for industrial and logistics units, particularly from supply chain businesses in the low carbon economy. However, there has been far less recovery in the retail sector and support is needed to reskill those made redundant from the sector.

Current and future support

The longer-term impact of Covid-19 in terms of future austerity and local authority budgets is likely to be very challenging and will put council budgets and service delivery under even greater pressure. To help give local authorities more certainty there is a need for the government to deliver a multi-year Spending Review as soon as possible.

The region's local authorities have worked collaboratively to respond to the pandemic. The councils are well placed to understand the specific needs of their own areas and must play a key role in the recovery and "levelling up" of the economy. To achieve the levelling up goals, the government must invest appropriately in people, communities and infrastructure, as well as putting local areas front and centre in terms of delivery.

Investment in the green economy and the Government's 10-point plan is welcome, with low carbon and energy efficiency considered essential to the region's economic recovery. However, there are arguments that even more investment is needed to shift to a net zero economy, support jobs growth and assist people to reskill.

The Community Renewal Fund and UK Shared Prosperity Fund will provide important sources of funding to deliver local programmes to deliver inclusive growth. However, more detail needs to be published on the Shared Prosperity Framework.

The pandemic has highlighted the digital divide locally and regionally. Digital exclusion is a priority area which needs to be addressed as the use of digital technologies now impacts on all aspects of everyday life.

There is a need to rethink, and invest in repurposing town and city centres, to encourage people back onto the high street, and to increase footfall.

Specific initiatives are required to support the retail sector in local areas, to ensure assets can be repurposed and the workforce can be reskilled and redeployed. Historically retail has generated a high proportion of entry level jobs for young people and the long-term unemployed, and the ongoing changes in the sector are significantly reducing these valuable employment opportunities.

The local authorities believe the North East Strategic Economic Plan should be refreshed to prioritise investment in a broader range of sectors, including those that have been impacted most by the pandemic (tourism, hospitality, retail), and those offering opportunities for growth in local areas (e.g. low carbon economy, automotive manufacturing, digital, health and social care).

Key Messages, Conclusions and Implications for the Future

North East
Local Enterprise Partnership

The North East economy has experienced profound impacts during the pandemic which, alongside the UK's exit from the European Union, have resulted in challenges that will take many years to address.

However, the economic shock has also brought to the fore opportunities that offer potential for the North East to create a strong and sustained recovery, building on the region's established strengths.

The pandemic and EU Exit have also resulted in significant changes in patterns of business, work, education, travel, and leisure activity which, if sustained in the long-term, will have important implications for the future of the regional economy.

The evidence base presented in this report points to a number of key opportunities, challenges, and changes now confronting the North East economy. These are the key issues to be considered in planning the economic recovery and future regional priorities.

Opportunities

North East
Local Enterprise Partnership

Opportunities

Investing to stimulate future growth in key sectors

Some sectors of the regional economy have performed well, continuing to grow during the pandemic or attracting significant new investment paving the way for future growth. This is particularly the case for those sectors in which the North East has existing unique strengths, including advanced manufacturing (especially automotive and electric vehicles), low carbon energy, health and life sciences, and digital technology. There is a strong case to continue investing in these existing regional priority sectors, providing a solid foundation for future job creation and productivity growth.

Innovation at the heart of the recovery

The pandemic and EU exit have underlined the importance of investing in innovation and R&D, which is the bedrock upon which the region's key priority sectors (such as low carbon energy, digital, and health and life sciences) are built. Many businesses in these industries have benefitting from bringing new products to market during the pandemic (e.g. new medicines, the latest digital products), underpinning ongoing growth and cushioning the impacts of the pandemic and EU exit. This highlights the importance of continued R&D investment in the region. Meanwhile, the pandemic has highlighted a growing spirit of innovation among the region's SMEs, many of whom have introduced new products and improved ways of working during the pandemic (e.g. adoption of new digital technologies). There is an opportunity to embed permanently this strengthening innovation culture, delivering growth and productivity improvements among the region's SMEs. It will be important to clarify as soon as possible UK Government's plans to support North East businesses and researchers to invest in innovation and R&D in future, including plans to replace the previous EU innovation funding programmes.

Low carbon growth and decarbonisation

The region's low carbon industries, such as renewable energy generation and vehicle electrification, have proven to be very resilient to the effects of the pandemic and EU exit. This reflects the long-term nature of the low carbon challenges to be addressed, and the continuing commitment of businesses and Government to invest in decarbonising the economy. With its unique renewable energy and electric vehicle assets in particular, the North East is well placed to capitalise on the low carbon opportunity, leading the region's economic recovery and future growth.

Locking in digitalisation and productivity improvements

The rapid adoption of digital technologies and automation during the pandemic, alongside the shift to remote working and homeworking, have delivered significant productivity benefits for many sectors and businesses. The pandemic has demonstrated the benefits of digitalisation for businesses across all sectors and types, shifting attitudes and building confidence in the transformational potential of digital technologies. There is an opportunity for the region to capitalise on this trend, encouraging and supporting more businesses to go further and faster in adopting digital technologies, securing regional productivity benefits on a permanent basis.

A renewed focus on growing the business base through start-ups

The pandemic has seen growing interest in business start-up, and a new-found enthusiasm among some people to leave their current jobs and start new ventures. This has coincided with an increase in the quality of start-up businesses with scale-up potential coming forward for advice and support, including more people in higher-skilled, professional occupations considering business start-up. The North East can capitalise on this opportunity to create more private sector enterprises and jobs, helping to strengthen the region's business base.

Attracting inward investment

Investors have continued to show interest and confidence in the North East economy throughout the pandemic. The volume and quality of inward investment enquiries has held up well, and a number of important investment and job creation projects have been confirmed. This indicates that the fundamentals of the regional economy (attractive workforce, good quality infrastructure and connectivity, cost competitiveness) remain intact. There is an opportunity for the region to capitalise on inward investment as an important tool in securing and accelerating the recovery, particularly in sectors such as low carbon energy, vehicle electrification, digital technologies, health and life sciences, and business services, where the region offers specific strengths to potential investors.

Capitalising on international trade opportunities

- While EU Exit has clearly had an impact on reducing trade flows between North East businesses and the EU, firms in some sectors (e.g. agriculture, manufacturing) do expect new opportunities in the coming months and years to grow export sales via new trade deals, including with Australia, Asia Pacific, and South America.

Improving the region's infrastructure

During the pandemic, private businesses and national and local Government have invested heavily in major infrastructure projects, providing an important source of continuing spending and activity in the economy, and beginning to deliver on the levelling-up agenda. All aspects of the region's infrastructure have benefitted, including house building, roads, rail, ports, industrial sites, and commercial developments. National and local Government-backed regeneration programmes, such as Town Deals, Future High Streets Fund, and Getting Building Fund are also underway, providing a boost to the region's towns and city centres. Coming out of the pandemic, there is an opportunity to continue investing in this area, ensuring the region has the physical infrastructure needed to support growth in the long-term, as well as providing a valuable short and medium-term boost to the construction sector.

Challenges

North East
Local Enterprise Partnership

Challenges

Supporting recovery in important sectors

In sharp contrast to the strong performers, some sectors of the regional economy have suffered significant damage from the combined effects of the pandemic and EU exit. Those most impacted are: hospitality and leisure; high street retail; arts and culture; and tourism. These sectors are very important to the economy, employing a significant proportion of the regional workforce, and providing entry levels jobs which are particularly valuable to young people entering the workforce. There is a need to support firms in these sectors to repair and recover as the economy moves beyond the pandemic, ensuring this important part of the region's business and employment base is safeguarded, whilst at the same time learning from some of the issues which could have enhanced their resilience including the nature of the employment offer and building on the innovation which was inherent in the more successful responses such as new on-line services and enhanced penetration of domestic tourism markets. For policy makers, given the essential role these sectors play in the economy, there is a need to support businesses to repair their balance sheets as they repay debts taken on during the pandemic, with some need to lobby UK Government to extend the duration of some of the financial support measures for businesses in these sectors (e.g. VAT reduction for hospitality, business rates relief), and to support businesses to embed innovation. There is a separate and specific case to support the recovery of the region's aviation sector which has been particularly hard hit because of international travel restrictions. It will be important to support aviation to recover as quickly as possible, restoring the region's international transport links for both passengers and freight.

Addressing acute skills shortages in the worst affected sectors

Some sectors of the regional economy are being heavily impacted by ongoing skills shortages resulting from a combination of staff leaving their jobs during the pandemic (including to take jobs in other sectors), Covid international travel restrictions, and the effects of migration controls following EU Exit. The sectors most affected include logistics, health and social care, construction, hospitality, tourism, agriculture, and food and drink manufacturing. There is a need to support businesses in these sectors in particular to attract new workers to address skills shortages, including re-training workers made redundant from other jobs during the pandemic, and to develop long term plans to support resilience in labour supply or transition to less labour-intensive business models.

Securing finance for business investment

While there are opportunities to invest in business growth, particularly in the region's key sectors such as advanced manufacturing, low carbon energy, digital, and health and life sciences, the evidence base highlights a key challenge in the form of a lack of private venture capital to support the region's growing businesses. This is compounded by a lack of certainty about the future of publicly-backed investment funds, once the EU funding for current programmes (such as Jeremie) comes to an end. There is also a view in the investment community that the region should focus publicly-backed investment funds on a supporting a smaller number of higher potential scale-up businesses. If the region is to provide the necessary investment to support priority sectors as a key driver of post-pandemic recovery, solutions to these investment challenges will need to be identified.

Securing finance for business investment

While there are opportunities to invest in business growth, particularly in the region's key sectors such as advanced manufacturing, low carbon energy, digital, and health and life sciences, the evidence base highlights a key challenge in the form of a lack of private venture capital to support the region's growing businesses. This is compounded by a lack of certainty about the future of publicly-backed investment funds, once the EU funding for current programmes (such as Jeremie) comes to an end. There is also a view in the investment community that the region should focus publicly-backed investment funds on a supporting a smaller number of higher potential scale-up businesses. If the region is to provide the necessary investment to support priority sectors as a key driver of post-pandemic recovery, solutions to these investment challenges will need to be identified.

Supporting international trade

The effects of EU Exit to date, in parallel with the pandemic, have introduced new challenges for North East exporters who are adjusting to additional administrative requirements and costs, border delays, and falling demand in the EU for some UK products. Larger businesses have generally adjusted better to the changes, while some smaller firms have been significantly impacted, largely because they lack the resources to manage the additional requirements and costs. Some small businesses have lost a significant amount of trade with EU customers, while others have chosen to stop exporting altogether as the additional costs outweigh the benefits. There is a need to provide support to small exporters in particular to enable them to overcome the practical barriers to trading with the EU. At the same time, the strengthening of service sector exports and increasing use of digital platforms for trade creates an opportunity for the region to add new markets to its export portfolio, including taking advantage of its strengthening international digital connections and new trade deals.

Tackling rising inequality

It is clear that the impacts of the pandemic have fallen most heavily on those that were already disadvantaged before COVID-19, including young people, those in low-wage, low-skill occupations, unemployed people, some women in the labour market, and those living in the region's most deprived neighbourhoods. The current livelihoods and future prospects of these people have been impacted most by rising unemployment and reduced incomes during furlough. There is a need to support these most disadvantaged groups by supporting people back into work, and by providing help to improve skills to secure better paid work in growing sectors of the economy. There in an important role for the VCSE sector and for local authorities in particular in helping to address these issues. As well as local support and intervention, this will require lobbying UK Government to provide additional targeted investment to support the most deprived target groups and communities in the region to improve opportunity and prosperity, delivering on the levelling-up agenda.

Supporting young people

The region's young people have been badly impacted by the pandemic. Sectors such as retail and hospitality which employ a high proportion of young workers have been the first to let staff go, and they were not hiring during the depths of the pandemic. This has made it even more difficult than normal for school and college leavers to find their first job, further compounded by the drop in apprenticeship vacancies during the pandemic. Young people at school, college and university have also suffered from more than a year of lost or disrupted education. Young people are the future workforce and a vital asset for the region. There is a need to provide targeted support for young people as the economy recovers, helping them to enter or re-enter the labour market through Apprenticeships, technical education and other training programmes, supporting activities to catch-up on lost education, providing good quality careers information to identify appropriate education and employment pathways, addressing digital exclusion, and supporting wellbeing.

Addressing digital exclusion

The digital divide in the region, which pre-dated COVID-19, has been accelerated and deepened by the pandemic, with a growing gap between wealthier households with good digital capabilities, and those disadvantaged groups and communities who lack access to devices, reliable connectivity, and digital skills and confidence. While the shift to online working, education, and service delivery during the pandemic worked smoothly for many, a significant proportion of the region's population and workforce were locked out of digital activity, with the impacts felt most by young people, low-income households, and low skilled members of the workforce.
This has compounded pre-existing inequalities, locking people out of employment and education opportunities, impacting on their current situation and future life chances. There is a need to implement a comprehensive regional response to the problem of digital exclusion to avoid the risk of long-term damage to the regional economy and society.

Enhancing digital connectivity and infrastructure

The pandemic has highlighted the extent to which businesses and households are now reliant on digital technology, and the disruption and inefficiencies caused when digital connectivity is not available. A successful shift to homeworking or hybrid working, which is expected to continue after the pandemic, relies heavily on people and businesses being able to access a reliable, high speed broadband connection. This must be available in rural communities as well as in urban areas. For businesses that are increasingly digitising their processes (for example, the use of digital automation in manufacturing), high-capacity digital infrastructure is increasingly important. If the region is to capture the full productivity, work and education benefits of digitalisation revealed by the pandemic, there is a need to further improve digital infrastructure, providing reliable, affordable, high-speed connectivity in all parts of the region.

Re-purposing town and city centres

While some city and town centres have been impacted less badly by the lockdowns than was first feared, it seems clear that some of the changes to the high street will be permanent, including a reduction in retail activity (driven by the accelerating take-up of online shopping), and less hospitality activity. High streets were already changing pre-Covid, but the pandemic has accelerated these impacts. To maintain the viability of town and city centres, which play such an important role in local economies and communities, local areas and the region more widely will need a clear plan. This will require a carefully thought through approach to introducing new, sustainable end uses, including residential, flexible use business accommodation, leisure, and culture, to offset an expected reduction in retail and hospitality footfall.

Changes

North East
Local Enterprise Partnership

Changes

Homeworking and hybrid working

The pandemic necessitated a rapid shift to home working on a scale not previously seen, with most people in management, professional, and administrative roles required by Government regulations to work from home during national lockdowns. This shift has highlighted a number of benefits for businesses (improved productivity, flexibility, reduced overheads) and for workers (greater flexibility, less time and money spent commuting) which many would like to retain in future. Evidence from ONS suggests that homeworking may become a permanent feature, with 38% of businesses in the North East intending to use increased homeworking as a permanent business model going forward, while 37% do not (the rest are unsure). Among adults who are currently homeworking, 85% want to use a "hybrid" approach combining both home and office working in future.

Although uncertain, the effects of this change in working patterns may include: reduced commuting and road congestion; reduced use of public transport; growing demand for reliable digital connectivity and high speeds across rural and urban areas alike; and increased demand for office workspaces able to accommodate hot-desking and more flexible working patterns. Homeworking could also impact on recruitment patterns and labour demand and supply. For example, it is already opening up opportunities for North East-based businesses to recruit homeworkers from a wider UK skills pool, and for people based in the North East to work more easily for employers based elsewhere in the UK, opening up new job opportunities.

Changing patterns of transport and movement

The pandemic has changed the way people travel, with a significant reduction in public transport usage and an increase in the use of private cars. There has also been an increase in walking and cycling, with more people using these methods for work commuting and leisure. It is too early to tell whether these new travel patterns will persist in the long-term, but if they do there will be significant implications for the provision of transport infrastructure and services in the region.

Re-thinking physical transport and digital connectivity

At the same time as the use of public transport, private cars, and walking and cycling is changing, digital tools such as MS Teams are reducing the frequency and necessity for face-to-face meetings for some businesses and workers, reducing the need to travel for work purposes. If these patterns persist, the balance between physical transport and digital connection may change permanently, with important implications for both physical transport and digital infrastructure and services. Trading activity is also being conducted increasingly via digital platforms and there may be an opportunity for the North East to capitalise on this trend, given the region's strengthening digital connectivity to the US and Europe, and the presence of significant data centres in the North East.

Environmental impacts

The environmental impacts of the changes brought about by the pandemic are far from certain at this time. During the national lockdowns, the significant reduction in road transport volumes and congestion increased hopes of permanently lower carbon emissions. However, as the restrictions have eased, there has been a reduction in public transport use and an apparent shift to private cars, the use of which is increasing, taking road usage and congestion back to pre-pandemic levels. The shift towards greater homeworking may contribute to a long-term reduction in commuting and car usage. However, a settled picture has not yet emerged.

The changing nature of some job roles

The evidence base has highlighted that the content of some job roles in the regional economy is changing fundamentally. For example, the construction sector needs to re-train thousands of heating engineers, plumbers and project managers to enable the sector to adopt new low carbon building technologies at scale. Jobs roles in other sectors, such as manufacturing and energy generation, are also adapting to new low carbon technologies. Similarly, the growing adoption of digital technologies across businesses in all sectors is changing the nature of some job roles. Although not a direct result of the current economic shock, the pandemic has accelerated the pace at which these changes are taking place. The region will need to be ready for these changes, preparing businesses and skills providers to support workers to re-skill as the needs of the economy change.

Growing domestic tourism

The pandemic has provided a significant boost to the region's tourism industry, which prior to the pandemic relied largely on visits from within the region and elsewhere in the UK, with a relatively small number of overseas visitors. The growth in staycations has meant more people holidaying in North East England, with coastal and rural locations experiencing particularly high visitor numbers. When international travel returns it seems likely that many UK residents will again travel overseas for holidays. Nevertheless, tourism industry feedback suggests the emerging view is that UK domestic tourism visitor numbers will remain above the pre-Covid baseline for some time to come, as reluctance to travel overseas will persist among some groups. There is likely to be an opportunity here for the region to grow the tourism sector on the back of a strong domestic visitor market.

Changing attitudes to workforce health and wellbeing

The pandemic has highlighted that a healthy population is a pre-requisite for a successful economy. Absence due to self-isolation and Covid-related illness has taken a heavy toll on the workforce capacity of many businesses. Meanwhile, a significant number of staff days have been lost due to stress and mental wellbeing problems associated with the pandemic. This underlines the damaging impact of workforce ill health on regional economic productivity. While the long-term impacts of COVID-19 on the workforce are currently unknown, there is a case to support broader public health measures to safeguard the health, wellbeing and productivity of the workforce.

Quality of life and quality of place

The pandemic has caused people to think again about what is important to them, including the types of jobs they want to do and how, when and where they work, the quality of the places they live in, the local environment, and how and where they spend their leisure time. These changes are already impacting on the regional economy. For example: some sectors are experiencing skills shortages (e.g. logistics, hospitality, social care) because some workers have decided they no longer want to do these jobs; the coastal and rural visitor economy is experiencing a significant increase in local visitor numbers; and house prices are increasing driven by growing demand from people choosing to re-locate. In considering the region's economic recovery and future growth plans it will be important to consider how quality of life in the North East can be enhanced, making the region a better place to live, work, visit and invest. There is an economic opportunity here to attract more people and businesses to the region, based on quality of life and affordability.

Acknowledgements

North East
Local Enterprise Partnership

Acknowledgements

We are grateful to the following organisations for taking part in the consultations which informed this report:

- CBI
- CITB
- Constructing Excellence North East
- Construction Industry Council North East
- County Durham Community Foundation
- Developing Consensus
- Durham County Council
- Dynamo North East
- Environment Agency
- Food & Drink North East
- Gateshead Council
- Homebuilders Federation NE
- Intogral
- Make UK (The Manufacturers' Organisation)
- National Farmers Union North East
- NE Culture Partnership
- NE1 Business Improvement District
- NECA
- NEL Fund Managers
- Newcastle City Council
- Newcastle CVS
- Newcastle International Airport
- Newcastle University
- NewcastleGateshead Initiative
- Nexus
- North East Automotive Alliance
- North East England Chamber of Commerce
- North East Universities
- North of Tyne Combined Authority
- North Star Ventures
- North Tyneside Council
- Northumberland County Council
- Northumbria Water
- NP11
- NTCA
- ORE Catapult
- RISE
- South Tyneside Council
- Sterling PSL
- Sunderland City Council
- Sunderland Software City
- Virgin Money Foundation
- Visit County Durham
- Visit Northumberland
- Voluntary Organisations' Network North East
- Ward Hadaway

Appendix 1: Consultation themes / discussion guide

North East
Local Enterprise Partnership

Appendix 1: Consultation themes / discussion guide

Business activity

- How have levels of market demand, business activity, production, services been affected since March 2020?
- Where businesses were forced to close or reduce operations as a result of the restrictions, to what extent have they now resumed operations? At what level of capacity are they operating compared to 'business as usual'?
- Has the pandemic resulted in permanent business closures, and / or do you expect more business closures to follow?
- How has the pandemic and EU exit impacted on businesses' supply chains and customers?
- How has business investment been impacted?
- How has international trade (exports and imports) been impacted?
- What has been the impact on levels of business start-ups and self-employment?
- How has business confidence changed in the period since March 2020?

Jobs, skills and training

- Overall, what has been the effect of the furlough scheme on jobs and businesses? To what extent are businesses continuing to use furlough? What are the expected impacts when the furlough scheme closes in September 2021?
- What has been the total scale of redundancies in the sector to date, and are further redundancies expected in future? How does this compare with expectations earlier in the pandemic?
- To what extent are businesses recruiting new staff or likely to in the near future? If so, what type of roles and what is driving this? What is the future employment outlook?
- What have been the key changes in workforce training and apprenticeship activity during the course of the pandemic?
- Have the lockdown restrictions changed the way businesses are shaping their workforce / ways of working, and how they are preparing the workforce for the future?
- How has EU exit impacted on employment and skills in the sector?

Resilience and risks

- To what extent has the sector proven to be resilient and able to continue operating through the pandemic, and to manage any impacts of EU exit?
- What have been the key constraints to business operations, and what actions have businesses taken to manage the constraints?
- To what extent are businesses vulnerable to contraction or closure as restrictions are lifted and we emerge from the pandemic?
- Are there any risks to business resilience as a result of EU exit?

Opportunities and innovation

- Have the changes arising from Covid-19 and EU exit resulted in any new opportunities for businesses in the sector?
- To what extent have businesses implemented beneficial changes as a result of / in response to Covid-19 or EU exit? Have you seen examples of innovation in the sector (e.g. digitalisation, new products / services, supply chain changes, home working etc)?

Places, patterns of activity and connectivity

- How have particular types of places (cities, towns, rural communities) been impacted by the pandemic and EU exit?
- How has the pandemic and EU exit changed geographic patterns of economic activity e.g. movement of people and goods; public and private transport; supply chain changes; activity in towns, city centres, industrial and commercial sites?
- What changes, if any, are expected to endure in future?

- To what extent are businesses currently planning ahead / implementing recovery and investment plans? How have the restrictions impacted on the ability of businesses to plan ahead? Is this changing as the final restrictions are lifted?
- To what extent are businesses planning to resume investment, or are plans on hold? Are businesses able to access finance for investment?
- Are there likely to be any permanent changes (for example to markets, businesses models, workforce) that will impact on future business activities and performance?
- Have businesses returned to pre-Covid-19 levels of activity? If not, do they expect to and by when?
- How is EU exit expected to impact on future business growth and recovery?

Current and future support and recommendations

- To what extent have businesses made use of Government support programmes (e.g. CJRS, CBILS, Bounce Back Loans, EU exit support) and what has been the impact of this support?
- What types of support do businesses and people need in the medium / longer-term to enable future recovery and growth?
- Are there any specific actions and investments you would recommend to support North East organisations and sectors to recover and return to growth?
- In light of Covid-19 and EU exit, is there a case to re-focus the region's future economic strategy? What priorities should the region focus on to support a sustained regional recovery?

Evidence and research

- Can you recommend any key local, regional or national sectoral reports, published statistics or other evidence that could inform the North East evidence base?