

# EY & ADEPT

## Local Economic Recovery & Renewal – LEP Comparison

June 2020



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### Contact



#### **Marcus Richards**

Director, EY Local Public Services

Tel 07795088927

Email: [mrichards2@uk.ey.com](mailto:mrichards2@uk.ey.com)



#### **Michael Clifford**

Senior Executive, EY Local Public Services

Tel 07384908315

Email: [michael.clifford@uk.ey.com](mailto:michael.clifford@uk.ey.com)

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# Local Economic Recovery & Renewal

## LEP Comparison; The Heart of the South West vs Tees Valley

### Introduction

- The economic impact of COVID-19 is significant, with the demand shock of a sustained lockdown period leading to forecast GVA output and employment reductions across sectors in 2020 and reducing forecast growth to 2025.
- Whilst all regions are economically struck by the pandemic, the analysis presented in this paper forecasts the degree of impact will be defined by the sector, business and workforce compositions of regions leading to large variation across the UK.
- Given their differential economic capacity, workforce resilience and sector structure regions will require locally developed recovery strategies that are tailored to reflect and amplify the economic strengths of their geography and set a pathway to recovery and renewal.

### Summary

- This paper evidences 10 economic performance indicators for two Local Economic Partnership's at opposite ends of the country, Heart of the South West and Tees Valley.
- The forecasts suggest whilst both regions will be negatively impacted by the crisis in 2020, this impact will be experienced most keenly in Tees Valley which will see a relative reduction in GVA 14% higher than Heart of the South West.
- Due to the differences in the economic landscape between the two geographies, when output is forecast over a longer period to 2025 this impact is magnified; GVA growth across the Heart of the South West will be almost twice that of the Tees Valley (187%). This demonstrates highly unequal rates of forecast economic recovery with the likely consequential impact on jobs, businesses, inclusion and cohesion.
- Labour indicators suggest workforce capacity for generating growth hinders Tees Valley emergence from the crisis, with higher unemployment and lower qualification levels the need for localised workforce intervention will necessary to provide quality of opportunities to a wider and younger workforce.

### Key Economic Performance Comparison Table

Key Performance Indicator	Heart of the South West	Tees Valley
Total Population	1,623,289	676,841
Working Age Population	<b>58.4%</b>	<b>60.6%</b>
2020 GVA Impact	<b>-5.3%</b>	<b>-6.0%</b>
2025 GVA Impact	<b>7.3%</b>	<b>3.9%</b>
Highest Growth Sector - 2025	Administrative and support	Human Health and Social Work
Slowest Growth Sector - 2025	Mining & Quarrying	Mining & Quarrying
Number of Businesses	77,065	22,440
Number of New Businesses per 1,000 Population	<b>3.6</b>	<b>3.9</b>
2 Year Business Survival Rates	<b>73.6%</b>	<b>71.0%</b>
Portion of Working Age Population with NVQ Level 4+	<b>33.3%</b>	<b>28.6%</b>
Current Unemployment	<b>4.8%</b>	<b>7.6%</b>

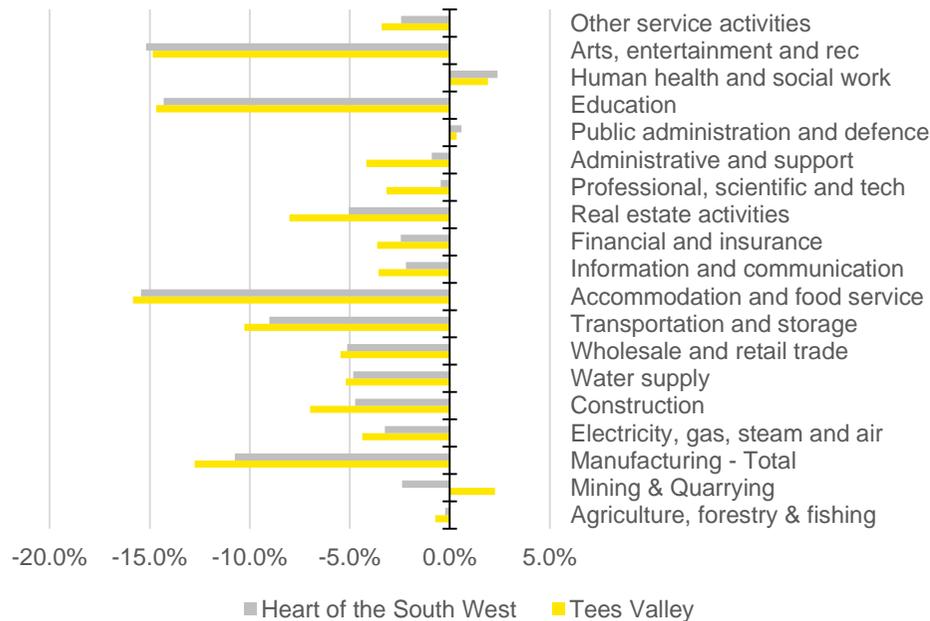
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## LEP Comparison; The Heart of the South West vs Tees Valley

### Short-term impact on economic output is more severe for Tees Valley due to its sector composition

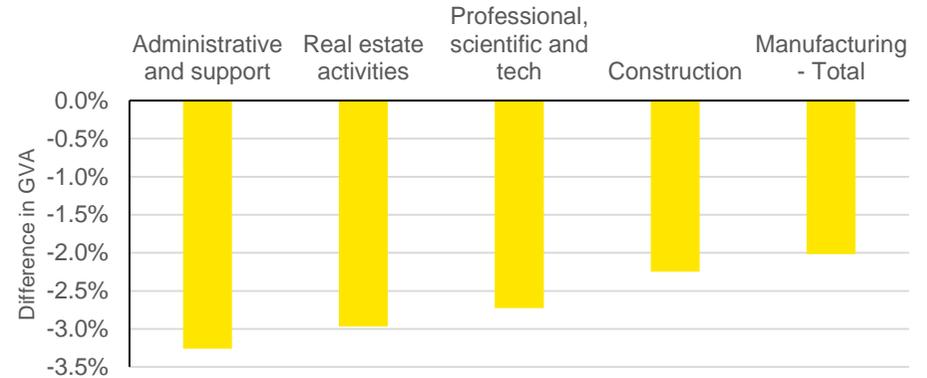
- It is forecast that in both regions there will be significant reductions in GVA during 2020, with the impact forecast to be more pronounced for Tees Valley in 2020, with GVA forecast to fall by 6.0% compared with a fall of 5.3% for the Heart of South West region, summarised by sector in Figure 1.

**Fig. 1 – Forecast Reduction in GVA by Sector 2019 to 2020**



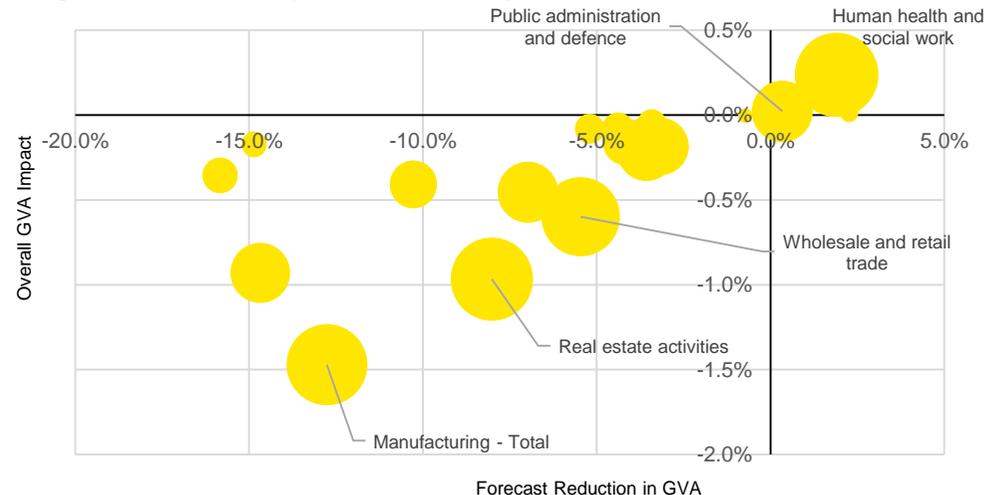
- The differential is underpinned by Tees Valley's reliance on sectors forecast to be more heavily impacted by the demand shock Covid-19 has placed on the economy such as Real Estate, Construction and Administrative Support as demonstrated in Figure 2 (right).

**Fig. 2 – Sector range in 2020 GVA Impact - Tees Valley - Heart of the South West – 5 Sectors with highest range**



- On the following chart we can view sector forecasts reduction by their contribution toward overall GVA for Tees Valley. Only three of the twenty-one sectors are forecast to grow in 2020, and severe declines are noted in important sectors in the region; manufacturing, real estate and wholesale and retail.
- The contribution of the large Human, Health and Social Work sector in the region protects the area from an even more severe downturn.

**Fig. 3 – 2020 GVA Impact – Tees Valley\***



\* Bubble size determined by relative size of sector

# Local Economic Recovery & Renewal

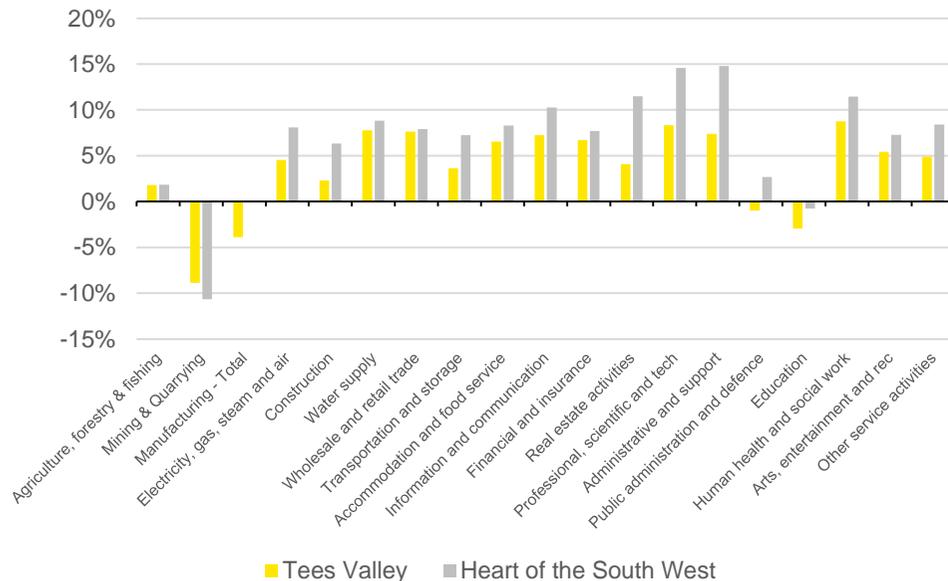
## LEP Comparison; The Heart of the South West vs Tees Valley

**Over the medium-term the growth in relative output in the Heart of the South West will be almost double that of Tees Valley**



- Analysed over a longer period differentials in growth are amplified across the two regions, further accentuating that opportunities for employment and business growth will differ region to region. In the medium term, it is forecast that GVA increases will be substantially higher in the Heart of the South West than for Tees Valley.

**Fig. 4 – GVA Growth by Sector – 2019 - 2025**



- Figure 4 demonstrates whilst GVA growth is forecast for most sectors by 2025 not all sectors will recover to 2019 levels, these will act as an inhibitor to growth with the Mining sector acutely impacting both regions. This figure also demonstrably highlights the variability in forecast GVA growth within sectors of the two regions.

**Fig. 5 – Top 5 Growth Sectors 2019 - 2025**

Heart of the South West		Tees Valley	
Sector	GVA Growth %	Sector	GVA Growth %
Administrative and support	14.8%	Human Health and Social Work	8.7%
Professional, scientific and tech	14.6%	Professional, scientific and tech	8.3%
Real Estate Activities	11.5%	Water Supply	7.8%
Human health and social work	11.4%	Wholesale and Retail Trade	7.6%
Information & Communication	10.3%	Administrative and support	7.4%

- The differential is driven by the pace of growth in sectors of higher relative importance, keenly demonstrated by figure 5
- One of the most significant differences between the two regions appears to be the growth in Real Estate Activities, with growth of 11.5% forecast within the Heart of the South West compared to growth of only 4.1% forecast for Tees Valley.
- As demonstrated overleaf in Figures 6 and 7, the high growth that is forecast for Real Estate Services is helping drive the higher growth forecast for the Heart of the South West region.
- Furthermore, the relative size of the manufacturing sector within Tees Valley combined with the negative growth forecast for the sector is resulting in a slower recovery within the region.

# Local Economic Recovery & Renewal LEP Comparison; The Heart of the South West vs Tees Valley

Fig. 6 – 2025 GVA Impact – Heart of the South West\*

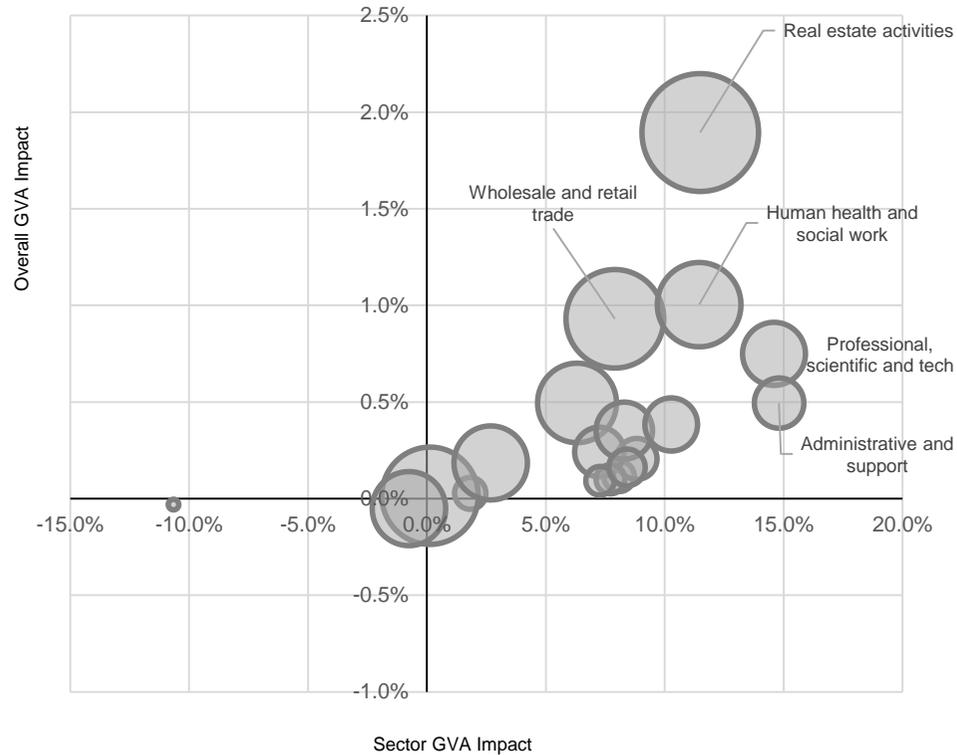
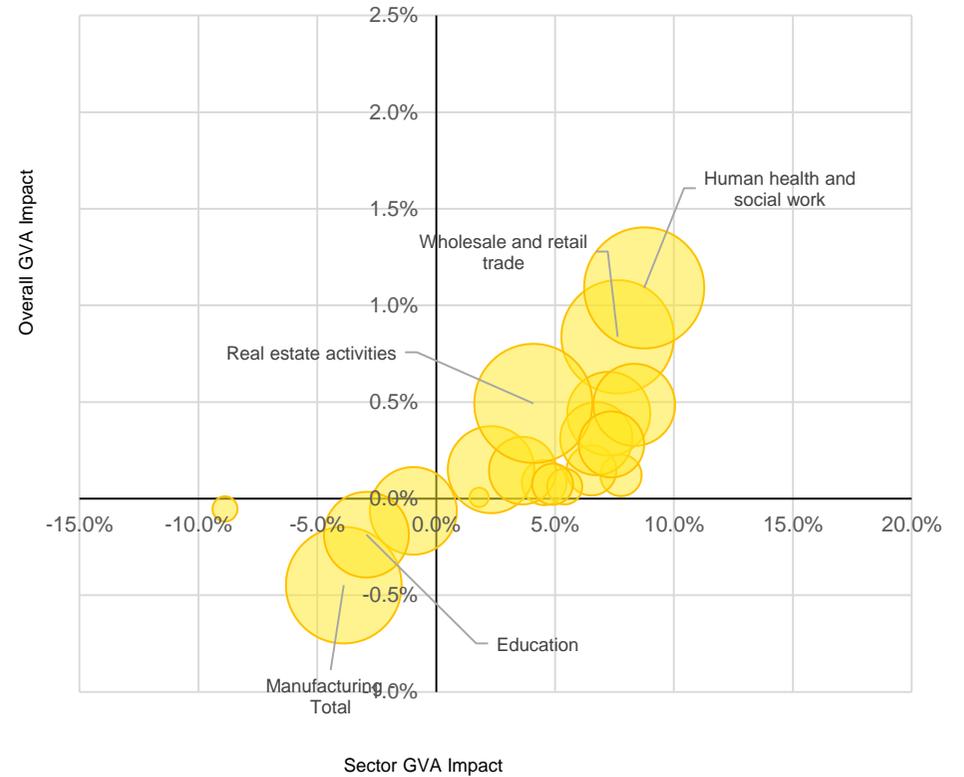


Fig. 7 – 2025 GVA Impact – Tees Valley\*



\* Bubble size determined by relative 2020 GVA size of sector

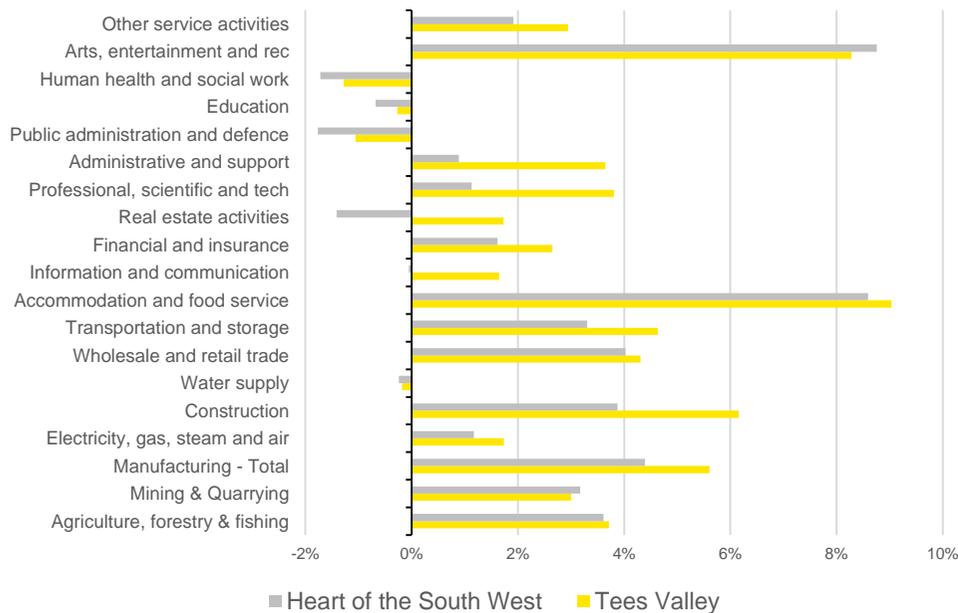
# Local Economic Recovery & Renewal

## LEP Comparison; The Heart of the South West vs Tees Valley

### Varied sector compositions within regions lead to different short-term workforce impacts

- The crisis will cause negative declines in employment in both regions, however Tees Valley is expected to suffer a more severe decrease at 2.9% than Heart of the South West (2.4%).
- However, as shown below, the individual sector impacts between regions vary in the short-term.

**Fig. 8 –Forecast Sector Employment Reductions– 2019 - 2020**



- The variability of employment reductions promotes the need for nuanced interventions that reflect local makeup and indicators.

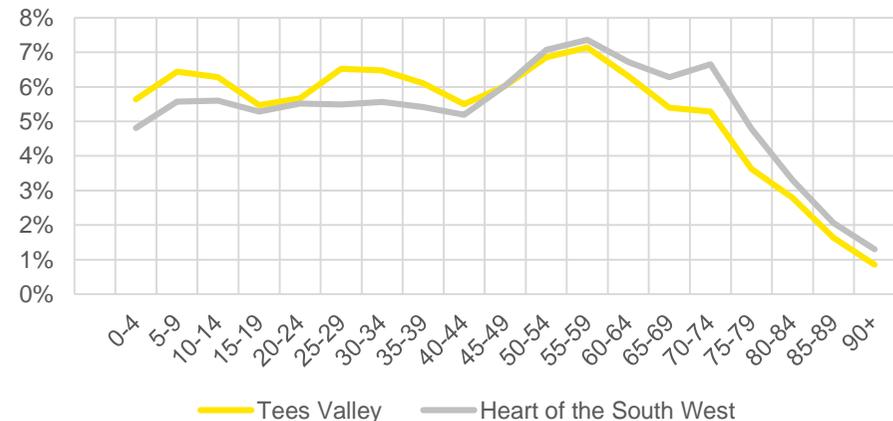
- The relative skill level in the region is also likely to impact the regions ability to recover from the period of economic instability, with a higher skilled workforce more likely to be able to take advantage of a changing economic landscape.
- As a proxy for skill level, the portion of the population aged between 16-64, with a qualification level NVQ Level 4+ or higher\* provides a proxy of high skilled labour within the region.

**33.3%** of 16-64 Year olds have qualifications of Level 4 or higher in the **Heart of the South West**

**28.6%** of 16-64 Year olds have qualifications of Level 4 or higher in **Tees Valley**

- With a lower density of highly skilled labour capacity, Tees Valley may struggle to attract high paying employers and job roles that drive economic growth.

**Fig. 9 – Population Age Breakdown**



- As the differentiated impact on age groups emerges through the crisis it is also likely that the age landscape of the region will influence the ability of the region to recover. Figure highlights how population differs across age groups, a key consideration for economic participation.

# Local Economic Recovery & Renewal

## LEP Comparison; The Heart of the South West vs Tees Valley

### A concentration of micro-businesses in Heart of South West may accelerate business failure

- Heart of South West is made up of a greater proportion of micro businesses (<£50k turnover). Employing the assumption these are at greater risk during Covid-19 due to a lack cashflow and reserve cover, the group could be more exposed to failure and warrant targeted intervention.

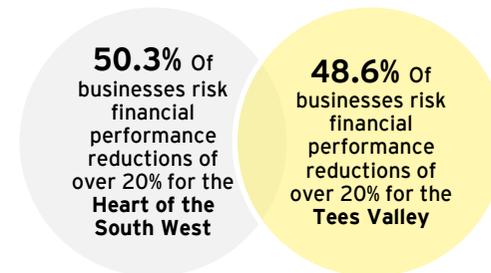
**Fig. 10 – Business Size by Turnover**



- The Business Survival rates after two years are marginally higher for the Heart of the South West than for Tees Valley. Support for new businesses will need to be enhanced in both regions if they are to survive such a challenging economic period



- Business survey data provides key insights into the number of businesses that are at risk of facing significant reductions in turnover during 2020. Business sentiment in relation to the impact of the crisis on turnover are notably similar 1 in 2 businesses estimate impacts over 20%, demonstrating the nationwide nature of the crisis.
- It is forecast that a larger portion of businesses are at risk of facing significant turnover reductions in the Heart of the South West compared to Tees Valley.



- Furthermore, it would also appear that a marginally greater portion of businesses are at risk of furloughing staff in the Heart of the South West compared to Tees Valley.



- Considered in combination with a lower propensity for new business creation in the region, the indicators are the business composition in the Heart of the South West has a higher number of risk factors.