

COVID-19: “Thinking about possible scenarios can be a useful tool to help consider the options in terms of response and recovery strategy”

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Since my last blog on the local economic implications and impacts of Covid-19 – https://ied.co.uk/news_events/covid_19_snapshot_sh/ – we (Hardisty Jones Associates) have continued to speak to our clients and contacts about the challenges they are facing.

These discussions were undertaken prior to the Prime Minister’s “conditional plan” announced on Sunday evening, and 50-page guidance document published on Monday, but provide more detail on the issues, variables and drivers of change that were raised in our discussions.

This is a rapidly changing situation, of course, making forecasting an impossible science (or art!). However, thinking about possible scenarios can be a useful tool to help consider the options in terms of response and recovery strategy.

Whilst we recognise that timing is one of the key variables, with phases being far from discrete, we have structured our thoughts around the ‘Lockdown’ and ‘Recovery’ phases: Impact; Business support; Recruitment and workforce support; Adaptation; and Organisational. We then present some thinking on the ‘New Normal’.

PHASE 1: LOCKDOWN

Impact

The impact of lockdown is not being felt evenly across sectors. There are parts of the digital sector, for example, that are experiencing growth. We are aware that sector-based groups are being revived in some areas to address the challenges that have arisen, ensuring more detailed bottom-up intelligence to inform recovery planning. The timing of the Covid-19 crisis could impact more significantly on seasonal businesses (e.g. in tourism) which may lose all or many of their profit-making months, creating critical issues for business survival. There are examples of efforts to develop products and offers focused on what have traditionally been shoulder and off seasons, to support these sectors in anticipation of lockdown being lifted.

Business support

Central government is plugging some of the gaps through its suite of support to businesses (e.g. it is now offering support to unprofitable high-growth-potential start-up businesses), but other gaps remain. There remain particular concerns around the support for company directors of small businesses that are paid via a mix of salary and dividends. In many places these are

the lifeblood of the economy. There are concerns that there could be strongly negative impacts on entrepreneurial culture, as well as devastating impacts on individuals and families. Concern has also been expressed about recently started small businesses (especially the self-employed) which do not have a history of profit and therefore do not qualify for support.

Recruitment and workforce support

There are some businesses with huge growth opportunities (examples cited include food production and digital), but these are often struggling to recruit staff. Reasons include people fearing Covid-19 so do not want to work or go out; staff furloughed from other businesses unsure of their options; and concern around the impact on benefits of taking work.

Central government has announced some flexibilities to enable furloughed staff to work in other jobs whilst furloughed, with fruit and vegetable picking often highlighted. Local support to facilitate those businesses that are experiencing growth opportunities is a potential area of short-term focus. Whether this proves effective is yet to be seen. There has been criticism that firms cannot part-furlough workers, which has implications for business capacity.

With the Department of Work and Pensions (DWP) operating with reduced staff and a huge jump in benefits claimants, there is limited resource to focus on job matching. Local efforts to help get people into work could well prove valuable to help mitigate some of the negative effects and enable those businesses with growth opportunities to make the most of them.

Adaptation

Lockdown has offered a huge 'proof of concept' for remote working technology and practices, and by and large they have stood up well to the test. This also has huge potential implications for the 'new normal'. There are some examples of businesses which had temporarily ceased operations beginning to restart activities with adapted working practices in place to accommodate social distancing. The temporary cessation has allowed time to consider and plan how to cope with the current situation.

Organisational

It has been noted that there are significant risks to Business Improvement Districts (BIDs) as a result of their funding mechanism. With business rates holidays, firms will not want to pay the BID levy. This could further compound town centre issues which are being exacerbated by lockdown. There are significant impacts on councils in terms of their operations, decision-making and finances. There have been moves to enable virtual meetings and decision making.

PHASE 2: RECOVERY

Impact

There is still some talk of a rapid rebound after release, a presumption which was included in initial Office for Budget Responsibility modelling. This is looking less certain. Media coverage has subsequently talked of the most significant economic downturn in centuries, not just decades. This prolonged weakness is now becoming more mainstream thinking. This has much more widespread implications for recovery and local economic development.

Whilst the Coronavirus Job Retention Scheme (CJRS or 'furloughing') has been extended to the end of October, in many cases this may be masking the fact that redundancies are inevitable. How this plays out is yet to be seen, but it is possible that some firms are realising they can operate with fewer staff. A strange (and painful for many) side effect of this process may be progress in addressing the productivity puzzle but at the same time leading to a more long-lasting unemployment issue. What is likely is that the CJRS will mitigate some, but not all, of the redundancies that would have been necessary.

Business support

There is concern that the scale of the task is so great that decisions will need to be made as to 'what to save' rather than 'how we support everyone'. This will create real challenges for business support providers and raises the age-old question of how to pick winners.

Recruitment and workforce support

Unemployment rises will create a new wave of benefits claimants. It has been noted that as a result of the potential scale and mix of new claimants there could be a substantial change in perceptions of government intervention and attitudes to the welfare system. It is also likely to require significant changes in the way DWP operates. Job-matching programmes could become vital to help avoid under-employment and not just unemployment. Over the next few months the UK will have a glut of 'near to workforce' unemployed rather than harder to reach groups. This brings about new challenges, firstly in how to enable people to make best use of their skills, but also in terms of putting the harder to reach groups to the back of the queue. Will that further entrench certain groups and geographic areas?

Adaptation

As lockdown is lifted all indications are of social distancing practices being in place for some time in public places. It has been noted that the ability of town centres to manage social distancing could vary widely. It may be easier for some (with wider streets) than others. Will this create disproportionate effects and impacts? Town centres are still the key area of concern

for many. In many cases the recovery phase will be dependent on how individuals respond. Will there be a reticence to enter public spaces and be in close proximity to others? Will there be a reduced willingness to use public transport? The longer it takes individuals to gain confidence, the longer the economic recovery will take and the greater the potential impact on structural factors such as the move to online.

Organisational

For many local authorities the recovery phase includes a focus on supporting residents and managing its own assets to ensure financial sustainability. For many economic development teams there will need to be close working with property teams managing council-owned business premises that are important revenue generators. Income generation has, in many cases, been hit hard through business rates holidays, car parking revenue reductions and property rents. Recovery planning by local authorities is also providing an opportunity to look very hard at what is essential, and also to consider actions that until recently appeared virtually impossible or 'years' away from looking likely.

A key concern is where this will leave local economic development teams. Recovery planning is also bringing a new wave of joint working. This can include bringing together disciplines that have historically worked in silos, as well as across geographies, with some examples of Local Enterprise Partnerships (and to a lesser extent local authorities) looking at working together in 'regional clusters' to provide sufficient scale of population/businesses/opportunities to put serious asks or offers to government. However, at the same time there are also some concerns that there are multiple layers of recovery planning taking place that may be duplication, replication and potential confusion.

PHASE 3: NEW NORMAL

This has been a hard reset on the economy. Lots of people are asking big questions about what a 'new normal' might look like. There are endless scenarios, but some of the pertinent comments that may help shape these scenarios for planning and strategy purposes are:

Climate emergency

Is there an opportunity to make changes to tackle the climate emergency that seemed too difficult prior to this crisis? This also captures a wider point of considering actions and interventions that previously might have taken generations to bring forward. Strategy setting is taking place in a very different context to those of previous recessions given the scale of changes to working practices that has taken place.

Innovation

Can the innovation potential that has been evident in responding to the challenge to increase ventilator capacity and PPE production be embedded? There is good reason why the phrase “necessity is the mother of invention” was coined. But are there ways to create the conditions to capitalise on and drive enterprise and innovation as we move beyond lockdown?

Remote working

Will the proof-of-concept of remote working lead to a vast reduction in office space requirements, the nature of office space and/or changes to working practices? Will working from home or remote meetings become permanent widespread practices? Or will the coming weeks prove that this is non-desirable and the costs outweigh the benefits? Will the preferences of firms and workers remain the same when the necessity is removed?

It was reported prior to the current crisis that some of the leading tech companies were seeking to move away from flexible and remote working in order to encourage face-to-face collaboration. Is the example of these organisations, who were ahead of the curve in terms of using technology to enable remote working, an indicator that remote working is not all that it is sometimes made out to be?

The response to remote working is critical for a number of wider issues in terms of commuter travel, carbon emissions, future requirements for office space, residential location choices, and the nature of homes with workspace. Will there be more demand for work-hubs in suburban locations so people can work in a formal but flexible environment and reduce their commuting into city centres? Will the decision on this be driven by firms or workers? If firms fail to offer this option, will workers vote with their feet? Or will workers vote against remote working and the isolation it brings? Will the end point be a hybrid? Will there be a migration away from cities, with implications for agglomeration and collaboration, as workers seek to get more space, cleaner air, a different pace of life and take the benefits of remote working? In the final analysis, what will the impact on worker productivity be? This may be impossible to identify with the highly unusual market environment in which this has been tested.

There are many questions and hence forecasting the impact is highly uncertain at this early stage. There are clear drivers in opposing directions. However, as we move to a new normal there is a clear potential for change. This could have significant implications for local economic development and planning, particularly if there is a move away from city centric models.

Near shoring and production security

The fall-out from the pandemic could well have major geo-political implications. The extent to which these change the nature of economic globalisation are uncertain. But as we move to a new normal there will be global, national and firm level conversations about supply chains and their resilience and security. It may be these conversations resolve to leave things as they were, or it may be that there is a desire for much greater security over production capacity and supply chains. If this is the case there could be a boost to UK domestic manufacturing and industry with implications for jobs and the need for industrial sites and premises.

Acceleration of e-commerce

Will we return to the previous model of retail and leisure, or will we stick with online and digital solutions after lockdown is lifted? It is likely that the trend towards online has been substantially accelerated. The potential implications of this are higher levels of requirements for logistics and final mile warehousing sites and premises as well as additional data centre capacity. This land use has often been a tricky one for many localities to grapple with, often requiring large land areas and concern as to the number and quality of jobs that are accommodated. However, this is now critical infrastructure for the economic model we all utilise and there will need to be a conversation about how this is accommodated.

Delivery and funding

This is a key issue being raised in our conversations. What will be the investment flows? The 2008 crisis was because of a financial/capital crisis. That is not the issue here. So will funds flow after the recovery? Will pipeline developments be funded? How will this impact on housebuilding, town centre development, infrastructure etc?

Government funding

UK central government has committed to huge levels of borrowing to support and sustain the economy throughout the lockdown. This will need to be repaid at some point. One of the most pertinent quotes in the early part of the crisis was “when the house is burning you just spray water and worry about the clean up afterwards”. The fiscal clean-up has not yet been a major focus of attention in the popular press. However, it has potentially wide-ranging policy implications. Will the recent move to a more Keynesian view of infrastructure investment be retained? Will the levelling up agenda continue and be accelerated to enable recovery, or will belt tightening stop it dead in its tracks? As a non-statutory function, how will local authorities view discretionary spending on economic development?

Business support

The landscape has proved confusing for businesses to navigate, with many local authority resources used to enable businesses to access support rather than providing it. There are calls for a much simpler and straightforward system (business support simplification anyone?).

Within each of the three phases there are big questions to be grappled with. Understandably, they cannot all be answered now, but they create the basis for scenario planning and for grappling with local implications. Clearly many of the determining factors are outside the control of local stakeholders, but as the conversation develops it is important that there is both local understanding and response.

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