

Back from the brink

Avoiding a lost generation
May 2020

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Barely a nation on the planet has been untouched by the global pandemic. Covid-19 has created an international health crisis claiming hundreds of thousands of lives. In the meantime, an economic crisis is already underway and gathering momentum with every week the lockdown continues. Pressure for a credible, long-term exit strategy mounts and questions turn to whether and how this government can make good on the political promises it was elected to deliver.

The politics of the election, just six months ago now, seem a lifetime ago. But Brexit and the forces that led to the UK's decision to leave the European Union were a critical factor in the Conservative Party defeating Labour's traditional 'Red Wall' territory. Red Wall politics were also behind the party's levelling up agenda, as the Tories looked to 'do right' by voters who had lent them their vote.

The government had started to signal its intent on levelling up in its first Budget in March 2020. The new Chancellor, Rishi Sunak, talked of institutionalising economic rebalancing in the mechanics of policy making – prioritising investment outside London and the South East. He picked up George Osborne's most important legacy of place-based devolution. In total, the Budget amounted to the highest level of public net investment since 1955. Carefully administered, the impact could have been significant, despite much of the increase in public spending mopping up a decade's worth of austerity.

But Rishi Sunak's bold first fiscal event was the fastest forgotten Budget in history. The scale and impact of Covid-19 means that government must now shore-up those places immediately affected by the 'first wave' of economic shock. Only then can it look to level-up and, by doing so, mitigate the long-term, 'second wave' effects of what might be the deepest recession in 300 years.



Charlotte Alldritt
Director, Centre for Progressive Policy

A handwritten signature in black ink that reads "Alldritt".

By returning to target its Red Wall areas, this report shows that the UK government would be closely matching places we identify as vulnerable to the economic 'scarring' effects of a deep recession.¹ These places have been let down by successive governments – in the 1980s during deindustrialisation, again in the 1990s recession and once more during the protracted aftermath of the Great Recession in 2008. If this administration can fulfil its ambition to level-up successfully – and we set out here what this must mean as a minimum in practice – then it would be righting decades of economic injustice.

Covid-19 has made this daunting task even harder. But to stand a chance, the Chancellor should hold fast to the idea he set out in his Budget; namely that investment in public services can be a driver of productivity, growth and a levelling up of opportunity and outcomes across the regions and nations of the UK.

CPP has long argued for such investment in public services and social infrastructure as an integral part of economic policy, locally and nationally. This approach, which demands that the quality of growth is as important as its rate, is at the heart of inclusive growth.

Many commentators have spoken of the need to build economic and social resilience in our communities, particularly after a decade of hollowing out through public sector austerity. At CPP we believe that clean, inclusive growth is the means to build social and economic resilience. But it goes further, enabling economies – local and national – not just to survive, but to thrive.

Without adequate support to shore-up and level-up local economies across the UK, regional inequalities will worsen, and vulnerable places will fall further behind. The case for inclusive growth is more urgent than ever.

¹ As well as the 100 deindustrialised and coastal communities it has designated eligible for Town Fund support.

Executive summary



Recessions have long-lasting effects. After the 2008 recession, it took five years for economic output to recover, and it took until the end of 2019 for wages to fully rebound. But some local areas took even longer to recover; 26 places are still below pre-crisis levels of output some 12 years later. Many areas are simply not resilient to economic shocks let alone in a position to thrive over the long run.

Given the unprecedented economic shock caused by Covid-19, this report is dedicated to understanding and addressing the potential long-run economic impacts at place level – seeking to ensure that we do not suffer another lost decade. Its major contribution is to explore the possible economic recovery paths for different groups of local authorities within the context of the government’s “levelling up” agenda and to reveal the 5 key tests for inclusive economic renewal.

The potential long-run economic impact on places

Based on a plausible economic scenario which sees the UK economy contract by 16% in 2020 and face an 8% permanent loss in output, the current crisis could leave long-lasting place-based scars:

- **The UK’s productivity crisis will deepen.** 76% of local authorities will not recover their expected level of output based on the pre-crisis trend after five years.
- **Vulnerable places will fall further behind.** Output in the twenty most vulnerable places (places at particular risk of a prolonged economic recovery) will be an average of 18% below the expected level based on the pre-crisis trend after five years.
- **Regional inequalities will increase.** Northern Ireland (55%) and the North East (50%) have the highest proportion of vulnerable local authorities.
- **Household finances of the most vulnerable will take a big hit.** Average earnings in the twenty poorest local authorities will fall from £18,600 per annum to £17,300 in real terms in the three years after lockdown.
- **The great national wage stagnation will continue.** Across all local authorities, earnings will fall by an average of £1,600 in real terms over the same period.

The crisis will make levelling up harder

- Before the Covid-19 outbreak, the government’s commitment to levelling up could be seen in their focus on supporting former “Red Wall” areas and the development of the Towns Fund.
- CPP analysis suggests that both Red Wall and Towns Fund areas have a high proportion of vulnerable local authorities – those that we expect to particularly struggle in recovering from this crisis.
- Nearly 50% of Red Wall and 40% of Towns Fund local authorities are vulnerable, compared to 23% across the UK as a whole. There are only four Towns Fund local authorities that are “resilient” – out of a total of 90 – and none from Red Wall areas.
- On average, our scenario projects a 12% permanent output loss for Red Wall areas and an 11% loss for those covered by the Towns Fund. This compares to a permanent loss of 5% in the South East.

£1,600

Average fall in expected earnings across all local authorities in the three years following lockdown

Areas that are hit hardest initially are not necessarily the most vulnerable places in the long run

- While parts of the North of England and Northern Ireland will struggle the most over the long run, our analysis suggests that parts of the Midlands face the largest initial impacts from Covid-19 and the associated economic shutdowns.
- These local authorities have significantly larger manufacturing sectors than average, a sector which the Office for Budget Responsibility expects to contract by 55% in Q2 2020. Manufacturing accounts for 28% of economic output in the twenty worst hit local authorities (based on initial impact), compared to an average of 10% across the UK as a whole.
- But some of the places hardest hit initially may not be the same places as those that struggle over the long run. This is because the initial economic hit is driven by sector concentration within local areas rather than underlying factors that support local resilience to economic shocks that we define as a high level of skills, low unemployment or a speedy recovery from a previous recession.

5 tests for inclusive economic renewal

- In response to this crisis, the government must first shore-up the worst affected local economies to avoid the ‘levelling down’ of some areas. Secondly, to avoid large permanent losses in some of the country’s most vulnerable places, it must return to a revitalised levelling up agenda.
- In this context, we outline 5 key tests for inclusive economic renewal. The related recommendations will be necessary but not sufficient to achieve these ambitious targets and CPP will be working to develop these further.

To avoid large permanent losses in some of the country’s most vulnerable places, government must return to a revitalised levelling up agenda

The 5 tests

Test 1

Shoring up. Economic activity, income and unemployment to return to pre-crisis levels by the end of 2021 in the hardest hit areas. Immediate policy measures include:

- 1 Extend the government’s furlough scheme beyond October for the worst affected sectors.
- 2 Making employer support conditional on the provision of good jobs.

Test 2

Levelling up. Halve the gap in skills and good jobs between vulnerable and resilient areas within a generation. Immediate policy measures include:

- 1 Repurposing the National Retraining Scheme (NRS) and National Skills Fund (NSF).
- 2 Skilling up workers on the furlough scheme.

Test 3

Levelling up. Halve the gap in health between vulnerable and resilient areas within a generation. This can be achieved by:

- 1 Increasing and safeguarding public health budgets at a local level.
- 2 Broadening the definition of, and action on, health prevention to include the social determinants of health.

Test 4

Levelling up. Completely close the investment gap between vulnerable and resilient areas within a generation.

- 1 Updating HM Treasury Green Book to facilitate the appraisal of policies on regional rebalancing.
- 2 Redirecting health R&D to poorer health areas.

Test 5

Levelling up. Reduce by half the inequalities both between and within places within a generation. Immediate policy measures include:

- 1 Local and national government leaders agreeing to maintain the new definition of key workers and urgently reviewing their contracts and status – with social care a priority.
- 2 Appointing a National Mayoral Council to be a critical feature of Whitehall decision making on strategic economic and social policy issues.



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Introduction



The spread of Covid-19 is having an unprecedented economic impact. The lockdown of social activity in the UK (and globally) means that sectors depending on in-person transactions have seen demand for their goods and services fall off a cliff. Compounding this are households, unsure of their future incomes, scaling back their general spending. Meanwhile many non-essential businesses have been forced to cease production or shift towards Covid-19 relevant products such as hand gels or face masks. Taken together, this has resulted in the greatest economic shock in over a century.

The economic shock could have dire consequences for long-run living standards. Without significant and sustained policy intervention, the immediate slump in economic activity will result in long-term economic damage as rising unemployment breeds long-term unemployment and business financial difficulties spiral into widespread and irreversible business insolvencies. The deep concern is that some of this is already happening, even with the substantial level of government support provided so far.

In recognition of the severity of the crisis, the government has introduced measures unprecedented in peacetime in their scale and scope. The state is currently paying 80% of the wages for 6.3 million people – nearly a quarter of UK jobs (at the time of writing) with self-employed workers also eligible for government support.² The Chancellor has announced £350bn worth of loans for businesses, payment ‘holidays’ for renters and mortgage-payers and a host of changes in the generosity of the benefits system.³ Such measures have been taken to ease short-term economic hardship in the hope that, once social distancing measures can be rolled-back, the economy will be ready and able to spring back to life. By limiting lay-offs and providing as much financial certainty for businesses and workers as possible, the hope is for a short-term economic hibernation that limits any long-lasting effects on the economy.

However, history has taught us that recessions have long-lasting effects. After the 2008 recession, the ONS estimates GDP took five years to recover, and it took right up until the end of 2019 for wages to fully rebound.^{4,5} Another lesson from history is that the national effects of a recession are not spread evenly across the country, with 26 local areas still below pre-crisis levels of output a decade later.⁶

This latest economic and public health crisis comes after a new Conservative government swept to power on the promise of levelling up the ‘left-behind’ parts of the country – framing their 2019 election campaign and first Budget in March 2020 around this theme. This agenda has necessarily been on hold to tackle the public health emergency, but it will remain a political imperative for the government as the lockdown is eased given the electoral gains made in former Red Wall areas.

While government policy will return to levelling up, the current crisis could change the nature of place-based inequalities, exacerbating preexisting economic and social challenges while revealing some new ones – such as unemployment and economic inactivity due to prolonged sector shutdowns. Understanding the changing geography of levelling up and the policies required to get there will be key to building an appropriate long-term response.

In this context, this report is dedicated to understanding and addressing the potential long-run economic impacts of Covid-19 at place level. First, it identifies those places that will require shoring up – those areas most likely to be impacted in the short-term due to the shutdown of certain industries which they are particularly reliant upon. Second, it identifies those places which are likely to find economic recovery the hardest – the places that will need levelling up. These are not necessarily the same places, but are those areas with high underlying vulnerabilities such as high unemployment, low skills and that struggled to recover from the last recession. Third, it explores the policy measures and metrics for success to help hold the government to account in two domains: 1) shoring up the economies hit hardest initially by the recession, and 2) levelling up those areas likely to find economic recovery particularly difficult without further intervention.

The current crisis could change the nature of place-based inequalities, exacerbating preexisting economic and social challenges while revealing some new ones

2 Islam, F. (2020) *Government pays nearly quarter of worker wages*. Available at: <https://www.bbc.co.uk/news/business-52539203>

3 These changes are related to several different areas such as: council tax relief, housing benefit, statutory sick pay and universal credit (amongst others). For a useful summary see: <https://www.carersuk.org/help-and-advice/coronavirus-covid-19/a-z-of-changes-to-benefits-assessments-and-support-covid-19>

4 ONS (2018) *The 2008 recession 10 years on*. Available at: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/the2008recession10yearson/2018-04-30>

5 ONS (2020) *Labour market economic commentary: February 2020*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/labourmarketeconomiccommentary/february2020>

6 Based on ONS GVA CVM estimates by local authority for 2018. Data is available at: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedbalancedlocalauthoritiesbynuts1region>

The short and long-term effects of the crisis

1



Initial impact

The immediate economic effects of the Covid-19 outbreak stem from the social distancing measures put in place by the government. Forcing people to stay in their homes and not interact with almost every physical aspect of the economy is having a profound impact on economic activity.

This impact is already being felt by individuals and businesses across the country. According to the ONS's Business Impact of Covid-19 Survey, 27% of the workforce has so far been furloughed as a result of Covid-19.⁷ As business activity has collapsed, the composite Purchasing Managers' Index, an indication of the health of the economy, has fallen at the fastest rate on record.⁸ Evidence suggests that this is already feeding through into higher unemployment, with daily Universal Credit claims reaching twice the pre-crisis weekly rate.⁹ The first set of GDP figures to be released since the outbreak show the UK economy shrank by 2% in the first quarter of 2020, which included just one week of lockdown.

The Office for Budget Responsibility (OBR) recently estimated that economic output could contract by 35% in the UK in the second quarter of 2020. Previous CPP analysis using the OBR methodology and sectoral GVA data for local authorities found significant variation in the expected size of economic contraction in Q2 across the country.¹⁰ Parts of the Midlands and North West are predicted to suffer a decline of close to 50% (Figure 1), whereas the decline in other parts of the country is half that. In fact, of the 20 local authorities with the biggest reduction in Q2 GVA, 16 are in the Midlands or the North West.

The local authorities predicted to suffer the biggest initial hit to output tend to have significantly larger manufacturing sectors than average, which the OBR predicts will contract by 55% in Q2 (Figure 2). Manufacturing made up 28% of GVA in the twenty worst hit local authorities, compared to an average of 10% across the UK as a whole. These economies are also more dependent on wholesale and retail trade and construction, which the OBR predicts will suffer significant falls. Those local authorities with lower than average initial hits to GVA tend to have larger than average financial and health sectors, which the OBR expects to either be unaffected (financial sector) or experience relatively strong growth (health sector).

Box 1: A closer look into 'at risk' areas: Pendle

Pendle is a district in Lancashire which houses a number of small towns including Colne, Nelson and Barnoldswick. Pendle's economy is reliant on manufacturing, with 55% of GVA and 30% of jobs coming from this sector. The aerospace sector is particularly important to the local economy, and several engineering facilities are based there, including Rolls Royce's Wide Chord Fan Blades Facility, which was expanded in 2016. Pendle's specialised economy makes it vulnerable to the demand and supply chain shocks. High levels of unemployment and residents with no qualifications exacerbate this risk, making it more difficult for the area to rebound.

Table 1: Pendle vs UK average

	Pendle	UK average
GVA from manufacturing	55%	10%
Employee jobs in manufacturing	30%	8%
Employed in skilled trades (SOC10)	20%	10%
Unemployment	4.3%	3.9%
No qualifications	20%	8%

The local authorities predicted to suffer the biggest initial hit to output tend to have significantly larger manufacturing sectors than average

7 ONS (2020) *Furloughing of workers across UK businesses: 23 March 2020 to 5 April 2020*. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/furloughingofworkersacrossukbusinesses/23march2020to5april2020>

8 Romei, V. & Strauss, D. (2020) *UK business activity slumps at fastest pace on record*. Available at: <https://www.ft.com/content/46b262ab-20e5-4ef4-b31e-edbb5106d232>

9 Resolution Foundation (2020) *The economic effects of coronavirus in the UK: Utilising timely economic indicators*. Available at: <https://www.resolutionfoundation.org/publications/the-economic-effects-of-coronavirus-in-the-uk/>

10 Norman, A. (2020) *Which local authorities face the biggest immediate economic hit?* Available at: <https://www.progressive-policy.net/publications/which-local-authorities-face-biggest-immediate-economic-hit>

Figure 1: The 20 worst hit local authorities in the UK, decline in 2020 Q2 GVA

Estimated decline in GVA

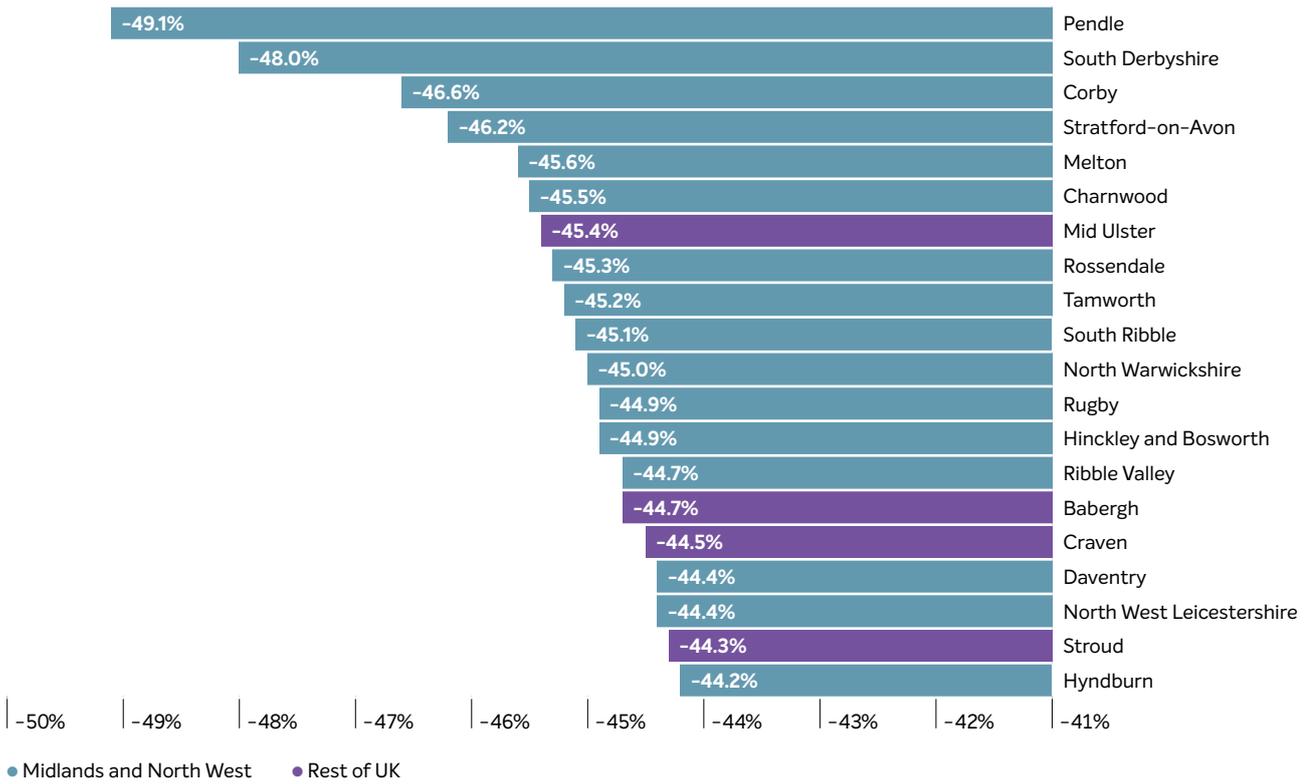
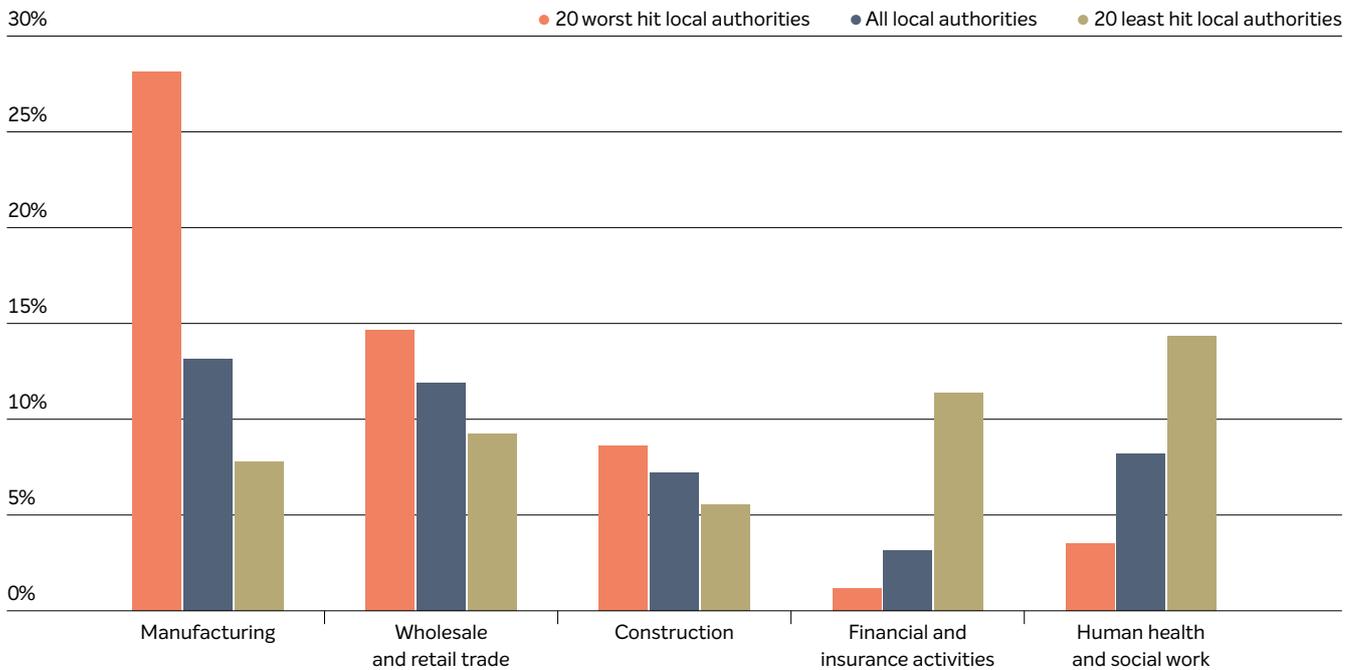


Figure 2: Average share of the local economy for various sectors

Sector share of local economy



Longer-term scarring

While the initial hit to economic activity will reach unprecedented levels, policymakers will be hoping for a quick bounce back in economic growth once the economy is opened up again, ensuring a V-shaped recovery. But IMF research suggests that all types of recession lead to a permanent output loss on average and it predicts “the worst recession since the Great Depression”.^{11,12} In previous UK recessions, the scarring effect – long-run output lost relative to the pre-crisis trend – has typically been at least twice the size of the initial impact.¹³

There are a range of mechanisms through which a recession leaves individuals and the wider economy permanently worse off. For instance, lack of opportunity in the labour market during the recession can reduce lifetime earnings, with long-run unemployment being the most extreme example of this. Time spent unemployed can also lead to a permanent loss of skills. The loss of income and unemployment can lead to lower educational outcomes in the next generation, reducing the economy’s long-term productive capacity.¹⁴ Similarly, in terms of business activity, recessions tend to increase uncertainty whilst reducing demand and access to credit. This leads to less investment in productivity enhancing capital – including human capital – fewer business formations and a higher rate of failure for businesses that would otherwise be profitable.¹⁵

These scarring effects often vary significantly by place, as seen in the aftermath of the 2008 recession. While some areas bounced back relatively quickly, real production levels have still not recovered in around 7% of local economies.¹⁶ In addition, some places recovered significantly more slowly than others irrespective of the initial size of the shock, suggesting that many areas are simply not resilient to economic shocks let alone in a position to thrive economically over the long-run. The central point is that by looking at the national picture, we risk ignoring the possibility of large permanent economic losses in certain places – losses that could be avoided.

In previous UK recessions, the scarring effect – long-run output lost relative to the pre-crisis trend – has typically been at least twice the size of the initial impact

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- 11 IMF (2017) Booms, Crises, and Recoveries: A New Paradigm of the Business Cycle and its Policy Implications. Available at: <https://www.imf.org/en/Publications/WP/Issues/2017/11/16/Booms-Crises-and-Recoveries-A-New-Paradigm-of-the-Business-Cycle-and-its-Policy-Implications-45368>
- 12 IMF (2020) The Great Lockdown: Worst Economic Downturn Since the Great Depression. Available at: <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>
- 13 Analysis of Gross Domestic Product: chained volume measures: Seasonally adjusted £m over time for UK recessions of 1975, 1980, 1991 and 2008.
- 14 See for instance, Brand, J. and Thomas, J. (2014) Job displacement among single mothers: effects on children’s outcomes in young adulthood. Available at: <https://www.ncbi.nlm.nih.gov/pubmed/25032267>
- 15 See Economic Policy Institute (2009) Economic scarring: The long-term impacts of the recession. Available at: <https://www.epi.org/publication/bp243/> and European Commission (2009) Economic Crisis in Europe: Causes, Consequences and Responses. EUROPEAN ECONOMY 7/200
- 16 Based on ONS GVA CVM estimates by local authority for 2018. Data is available at: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedbalancedlocalauthoritiesbynutsregion>

How could the pandemic affect local economies in the long run?

Understanding the differing levels of scarring at the place-based level is vital to calibrate an appropriate policy response. The unique characteristics of places mean that a national response will fail to address serious underlying causes of decline at a place-based level.

Here we present the results of CPP's model of the longer-term scarring effects of the crisis on local authorities. It explores a plausible long-run (5 year) economic scenario for all local authorities by placing them into groups based both on the initial sector impact as well as place-based vulnerability and resilience factors.

16%

The projected fall in GDP for 2020 given a phased move out of lockdown

Introducing the CPP's long-run economic scenario

We make three sets of assumptions in order to model the economic trajectory of local authorities in the UK. For a full rationale of these assumptions see the technical appendix which accompanies this document on our website.

1 The lockdown effects

We apply the OBR sector estimates to every local authority district in the UK, weighting the average sectoral hit by the distribution of each local authority's GVA by sector.

2 The national trajectory

We follow the OBR's projection that the 2020 Q2 effect will be -35%. We assume this will translate into a fall in GDP of 16% for the 2020 calendar year given a phased move out of lockdown. We assume that this unprecedented economic shock will lead to the level of permanent output loss seen in previous recessions – an 8% permanent output loss, the average based on four previous recessions.

Box 2: Defining local authority groups

A local authority is placed into one of 3 groups – vulnerable, resilient or moderate based on the following indicators (*for a full rationale of the use of each indicator see the Technical Appendix*):

- 1 The size of the lockdown effect. All else being equal, areas with a bigger initial impact are more susceptible to permanent loss of economic growth.
- 2 Time taken to recover from 2008 recession. Areas that have proven to be more resilient to the effects of a recession in the past are more likely to be resilient again in the future.

- 3 Unemployment level in 2019. Baseline unemployment levels going into a recession have been shown to be positively correlated with subsequent changes in unemployment.
- 4 Average skill levels. Areas with a greater proportion of residents with high level skills and a lower proportion without a formal qualification experienced a lower increase in unemployment in the aftermath of the 2008 recession. These places also saw a lower fall in GVA.

Local authorities are classed as vulnerable/resilient if they meet at least 2 of the following 4 vulnerability/resilience conditions.

Table 2: Vulnerability and resilience criteria

Indicators	Vulnerability criteria	Resilience criteria
The size of the lockdown effect	Highest 20% of local authorities	Lowest 20% of local authorities
Time taken to recover from 2008 recession	Not recovered by 2013	Recovered by 2010
Unemployment level in 2019	Highest 20% of local authorities	Lowest 20% of local authorities
Skill levels	Highest 20% of local authorities for % of residents without a formal qualification	Top 20% of local authorities for % of residents qualified to level 4 or above

3 The differences between places

Firstly, we assume that the initial lockdown effects on individual local authorities are carried through partially to the first recession year. This assumption reflects the fact that an area’s recession will partly be determined by local effects dependent on the scale of the lockdown, but also by national effects (i.e. reduced demand in the economy nationwide).

Secondly, each local authority is placed into one of three groups – vulnerable, resilient, or moderate – based on several key indicators (see Box 2). Vulnerable local authorities are assumed to fare 2 percentage points worse than average in the first year of the recession, and then a further 1.5 percentage points each subsequent year (Figure 3). Resilient local authorities are the mirror of this. The moderate category is assumed to recover in line with the national rate.

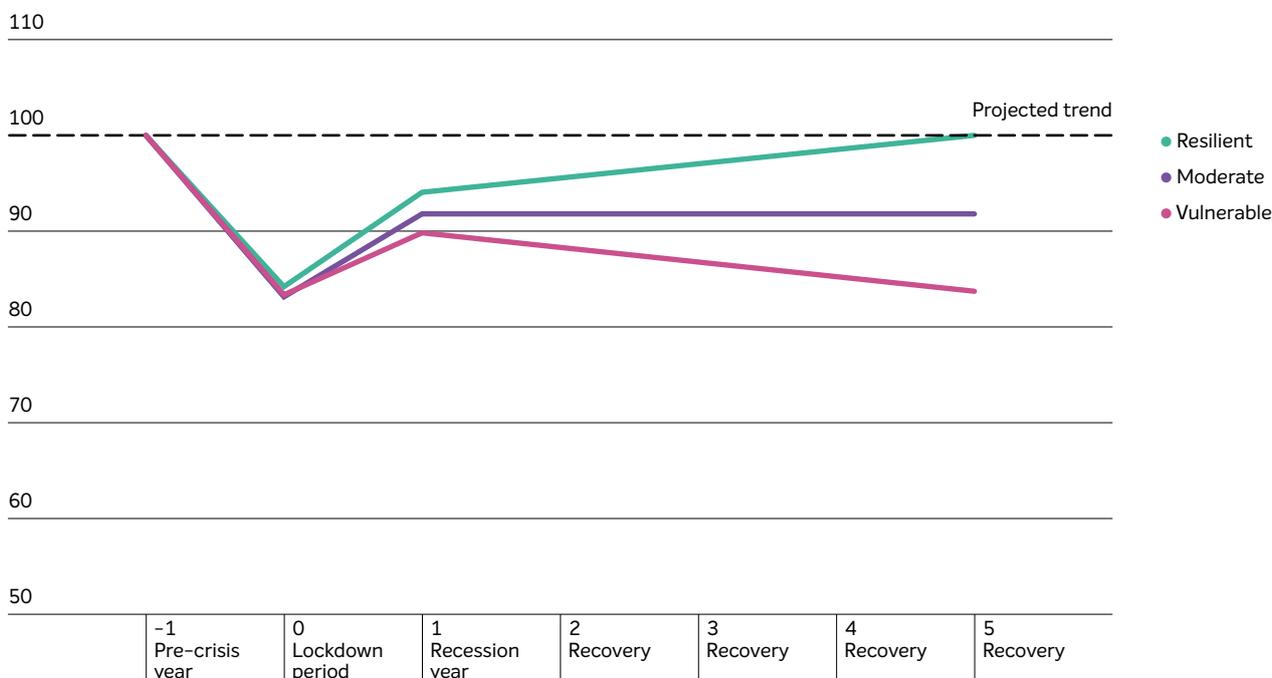
The scenario enables us to create stylised recovery paths for groups of local authorities, helping us identify which places and regions are likely to struggle the most over the long run, and the potential scale of the challenge.

What could the future hold for different local areas?

Headline insights from the scenario

- 76% of local authorities will not recover their expected GVA based on pre-crisis trends after five years.
- GVA in the twenty most vulnerable places could be an average of 18% below the expected level based on pre-crisis trends after five years.
- Average earnings in the twenty poorest local authorities will fall from £18,600 per annum to £17,300 in real terms in the three years after lockdown.
- Across all local authorities, earnings will fall by an average of £1,600 in real terms over the same period.

Figure 3: Average GVA trajectories of each group of local authorities



In detail: the different trajectories for local authorities

'Vulnerable' places

87 local authorities are vulnerable, with Northern Ireland (55%) and the North East (50%) having the highest proportion of vulnerable areas. At the other end of the scale, the South West is not home to any vulnerable local authorities. This is because, while immediate sector hits in some parts of the South West are large, these areas do not have pre-existing high unemployment, low levels of skills or a history of struggling to recover from the 2007-8 recession.

On average, vulnerable local authorities will be 16% below their pre-crisis trend 5 years after the lockdown. The range is -13% to -19%. This will have a significant effect on earnings. Average earnings in 2019 across vulnerable local authorities was £22,900. This is forecast to fall by £1,600 in real terms to £21,300 in 2022.

'Resilient' places

All resilient local authorities are expected to return to pre-crisis trend levels of GVA by the fifth year. The South East (43%) and London (33%) have the highest proportions of resilient local authorities. While resilient local areas will recover in terms of output, earnings will still fall in real terms by £1,700 between 2019 and 2022. While London has a high proportion of resilient local areas it also has a high proportion of vulnerable ones as well (30%).

'Moderate' places - neither resilient nor vulnerable

These local areas are projected to recover from the recession in line with the national rate. After five years, these areas will have lost an average of 8% of GVA relative to the pre-crisis trend. The worst affected of this group will lose 9% of GVA, compared to 7% for the least affected. Average earnings are projected to fall by £1,700 between 2019 and 2022.

The geography of levelling up

While levelling up has been frequently used in political soundbites, there is no precise definition of what it means in practice. Part of it is about delivering on a political imperative – keeping the Red Wall seats won at the 2019 general election, while part of it is a catch-all term for supporting areas with high levels of deprivation. In this context, prior to the Covid-19 outbreak, the areas covered by the Towns Fund and so-called Red Wall are reasonable geographic proxies for the levelling up agenda. The remainder of this section explores the extent to which these areas should remain the focus for levelling up in the aftermath of the lockdown.

Box 3: A closer look into 'vulnerable' areas: Hartlepool

Hartlepool is a coastal town in North East England. Here, people are employed in similar industries and occupations to those in the rest of the country, but they are far less likely to have a job in the first place as the pre-crisis unemployment rate is nearly twice the national average. This, alongside lower than average skill levels makes Hartlepool's economy vulnerable to economic scarring following a recession. It took eight years for the economy to recover output levels following the 2007-08 financial crisis. Life expectancy at birth has decreased in recent years, falling for men between 2012-14 and 2016-18.

Table 3: Hartlepool vs UK average

	Hartlepool	UK average
Unemployment rate	7.5%	3.9%
No qualifications	11%	8%
Long-term sick (% of working age population)	10%	5%
Healthy life expectancy at birth (2016-18) ¹⁷	58 years	63 years

87 local authorities are vulnerable, with Northern Ireland (55%) and the North East (50%) having the highest proportion of vulnerable areas

¹⁷ ONS (2019) *Health state life expectancy at birth and at age 65 by local area, UK*. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/datasets/healthstatelifeexpectancyatbirthandage65bylocalareasuk>

Figure 4: GVA indexed to pre-crisis trend 5 years after lockdown by local authority

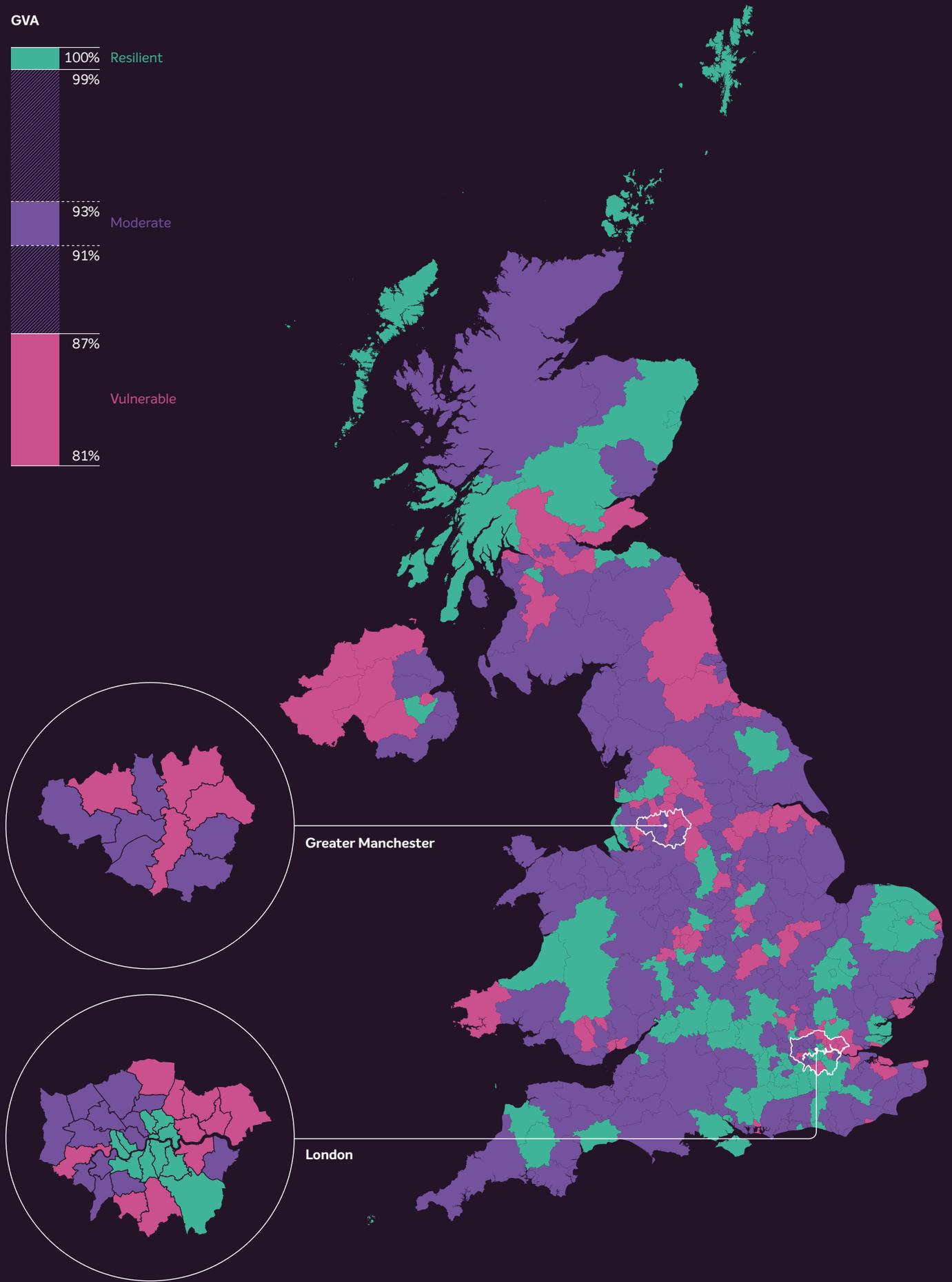


Figure 5: Average GVA loss in 2020 quarter 2 in local authorities by region and for local authorities in the Red Wall and covered by the Towns Fund

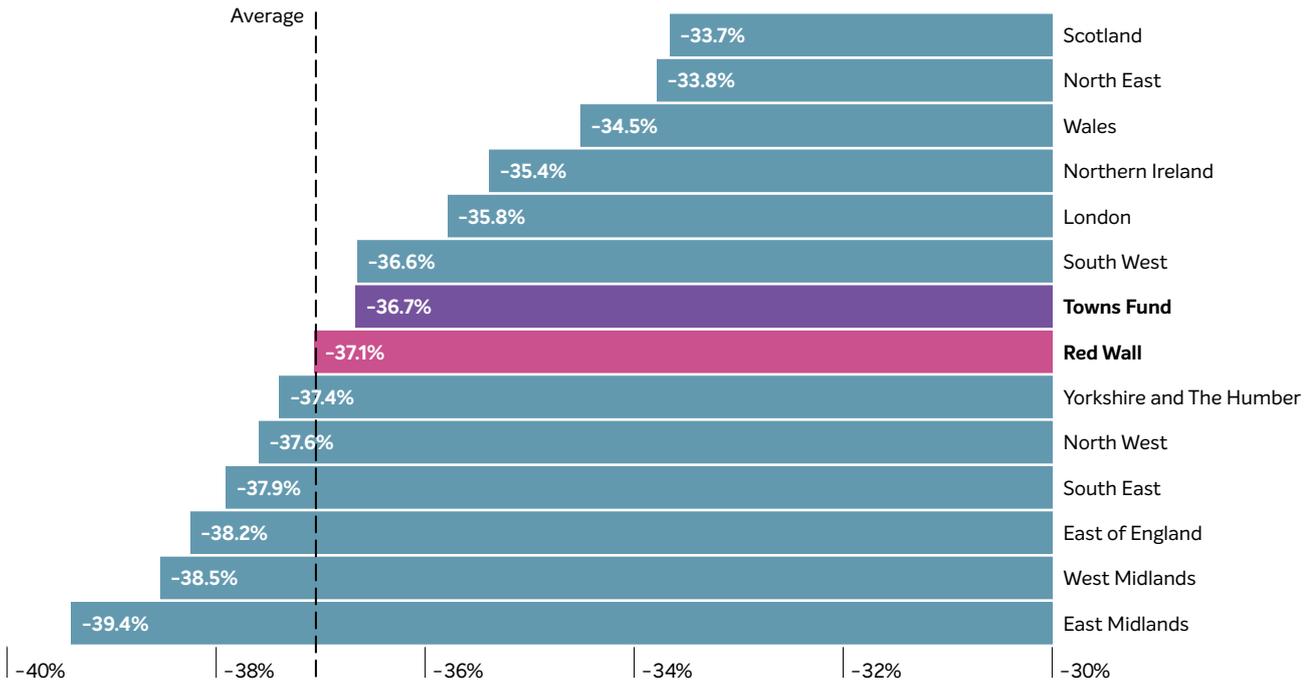


Figure 6: Share of local authorities in each group by region and areas covered by the Red Wall and Towns Fund



Midlands hit hardest initially

As shown in Figure 5, the average initial GVA hit in local authorities covered by the Towns Fund (36.7%) and the Red Wall (37.1%) is almost exactly the same as the average across all local authorities (37.1%). This suggests that the initial impact of the crisis is not skewed towards these areas. Regionally, the average is highest in the Midlands and lowest in Scotland and the South East.¹⁸ This is because the initial hit is driven by sector concentration within local areas rather than underlying factors that support local resilience to economic shocks such as a high level of skills or a speedy recovery from a previous recession.

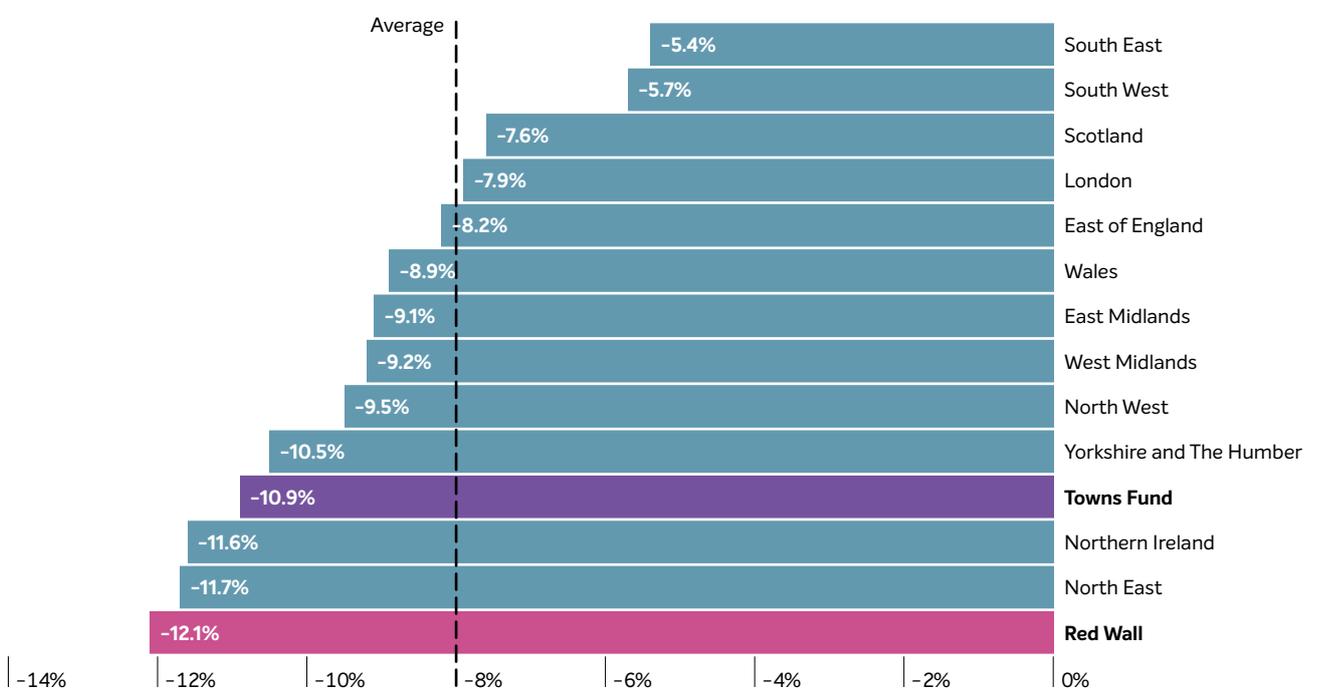
Nearly 50% of Red Wall local authorities and nearly 40% of Towns Fund local authorities are vulnerable

But longer term, the old geographic inequalities will remain and grow

Nearly 50% of Red Wall local authorities and nearly 40% of Towns Fund local authorities are vulnerable, compared to an average of 23% (Figure 6). There are only four Towns Fund local authorities classed as resilient – out of a total of 90 – and none from Red Wall areas.

This means that many (though not all) of the local authorities worst off after 5 years are likely to be aligned to those previously targeted under the levelling up agenda. It also means that without policy intervention, the old regional inequalities will remain and grow – resulting in even greater geographic imbalances. This is confirmed in Figure 7, which shows the average GVA loss after 5 years is highest in the North East and Northern Ireland (12%) in comparison to a loss of 5% in the South East.

Figure 7: Average GVA loss vs trend after 5 years in local authorities by region and for local authorities in the Red Wall and covered by the Towns Fund



¹⁸ Note Figure 5 is designed to show the average hit to local authorities within each region and treats each local authority as if it were of equal importance. Regional averages weighted by the size of each local authority – a more accurate picture of the regional impact as a whole – shows less variation.

Roadmap to recovery – from shoring up to levelling up

2

Economists agree that the short-term economic hit from Covid-19 will surpass anything in living memory. This paper has argued that, without significant and sustained policy intervention, this will leave the UK economy permanently worse off, scarring communities across the country.

In terms of the place-based economic effects of the Covid-19 outbreak, the analysis in section 1 shows a clear distinction between the short-run and the long-run. The short-run impact bears little resemblance to pre-existing place-based inequalities in the UK, with little relationship between the worst affected areas and economic vulnerability. On the other hand, the analysis also suggests the long-run effects more tightly reflect the distribution of the UK's 'left behind' areas, exacerbating existing inequalities. As such, a two-stage response is necessary. Firstly, the government must shore-up the worst affected local economies in the short-run in order to avoid the levelling down of some areas. Secondly, to avoid permanent scarring to some of the country's most vulnerable local economies, it must return to a revitalised levelling up agenda, one that is conscious of the changes made by the crisis to the geographic spread of prosperity in the UK.

In this context, the remainder of this section outlines 5 key tests for inclusive economic renewal which cover critical goals related to the shoring up then levelling up agendas and some of the immediate policy measures required to get there. The recommendations we present are necessary but not sufficient to achieve the ambitious targets described, and we will continue to explore what needs to be done to respond to the crisis as we move forward. The chapter concludes by introducing some of the metrics for measuring progress against these goals.

Test 1

Shoring up

Economic activity, income and unemployment to return to pre-crisis levels by 2021 in hardest hit areas

This is the key test for success in shoring up the economies likely to be hit hardest by the initial economic impact. It recognises that it will take time to recover from a substantial economic hit but that government should actively support a smooth and speedy return to pre-crisis employment, income and output. The policy response will need to include targeted measures to reduce the likelihood of long-run unemployment.

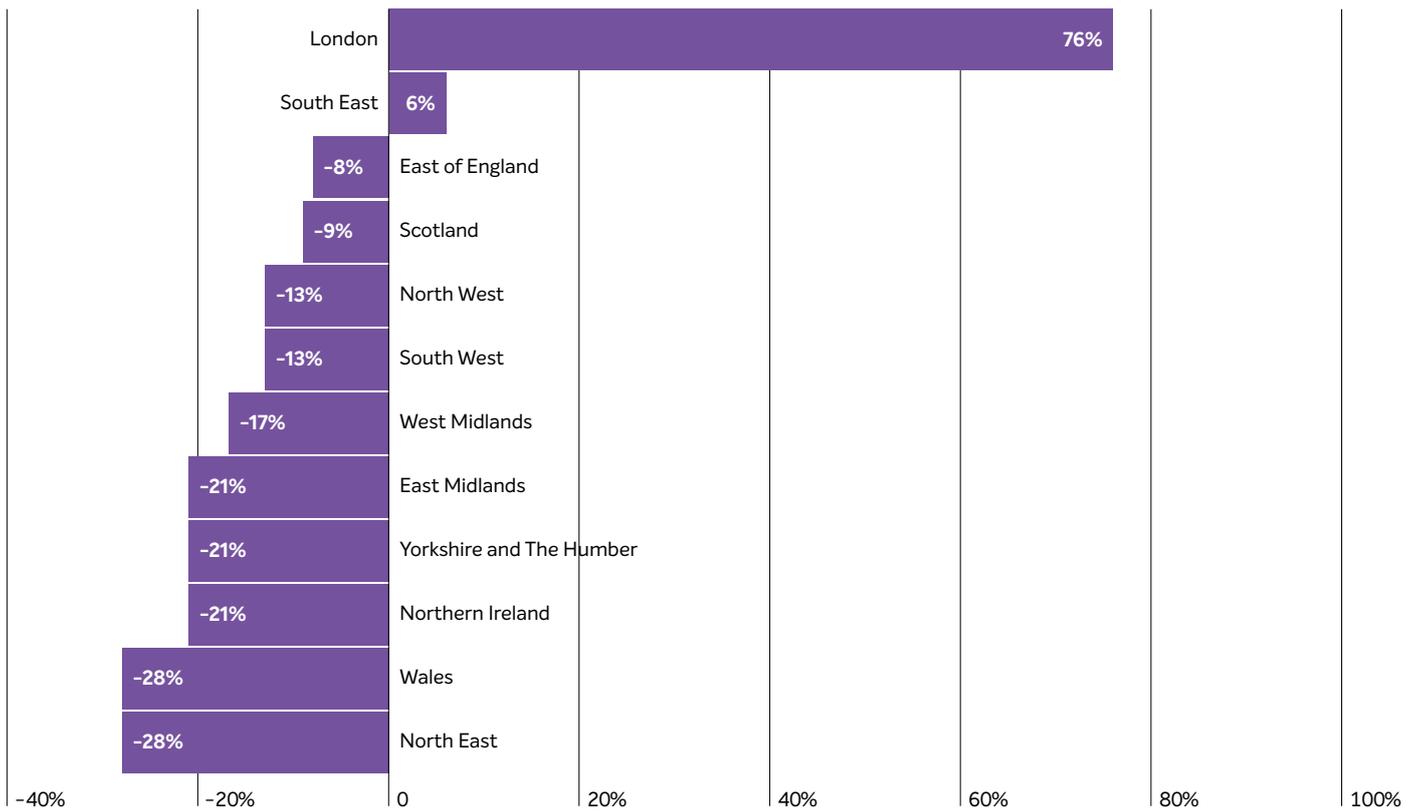
Policy recommendations: Reduce the risk of unemployment and incentivise good jobs

Whilst the government are taking immediate steps to support people in maintaining their contracts of employment, we must ensure support is not prematurely removed. We recommend:

- **Extend the government's furlough scheme beyond October for the worst affected sectors:** the government has offered an 80% subsidy of the wages of the employed and self-employed as a temporary relief from the crisis. However, government must recognise that the scheme will likely need to extend beyond October for the worst affected sectors. Ultimately, any withdrawal of the scheme will need to be gradual and undertaken in proportion to the speed of recovery.
- **Make good work the condition of any further business support:** good jobs are the ultimate marker of a labour market geared to increasing productivity and shared prosperity. Government support for employers has so far been universal (based largely on turnover) designed to maximise the administrative ease and speed of response. We recommend that any further support is given on the basis of good employment practices – including the payment of the real living wage and reasonable contract security.

Figure 8: Regional differences in GVA compared to the UK average (pre-crisis)

Percentage difference vs UK GVA per head



Low skill levels make places and their people less resilient to economic shocks. Increasing skill levels makes places more attractive to investors and higher value-added sectors that pay more

Test 2

Levelling up

Halve the gap in skills and good jobs between vulnerable and resilient areas within a generation

Levelling up has been called ‘the work of a generation’ and policies to address this agenda must persist in the long term.¹⁹ Once local economies have been shored up it is imperative that government revisits the structural, economic and institutional questions that it was looking to address before the crisis.

Whilst the anticipated fall in GVA of 16% for 2020 is unprecedented in size, it is playing out in a context in which London’s existing GVA per head is 76% above the national average, and the North East’s is 28% below (see Figure 8). This analysis suggests the current economic crisis will only exacerbate these regional differences, unless policy intervenes. Central to this should be a revitalised levelling up agenda, that seeks to spread opportunity and prosperity across the whole of the country.

Policy recommendations: Targeted and urgent investment in skills

Low skill levels make places and their people less resilient to economic shocks. Increasing skill levels makes places more attractive to investors and higher value-added sectors that pay more. Skill levels take time to develop and the policy landscape has long been characterised by change and disruption. However, the roll out of standardised technical education qualifications (T-levels), the devolution of the Adult Education Budget to Mayoral Combined Authorities and the Greater London Authority, the idea of a National Retraining Scheme and additional capital investment in Further Education have been steps in the right direction. To capitalise on this progress, we recommend:

- **Repurposing the National Retraining Scheme (NRS) and National Skills Fund (NSF) into a ‘Right to Retrain’ to respond to the Covid-19 crisis** and help transition to green jobs. Announced during Theresa May’s premiership, and originally designed to respond to the threat of automation, the initial NRS Get Help to Retrain scheme could be directed to combatting the immediate Covid-19 threat of place and sector-based job losses, including an active job matching service to link to sectors or technologies to have emerged as viable now and in the longer term. The financial backing could be provided by the NSF, currently worth £3bn, which was intended as a step towards a ‘Right to Retrain’. Adapting the NRS and NSF into a right to retrain could be extended into a long-term vehicle for supporting structural changes in the economy, with the coronavirus outbreak providing the short-term emphasis for determining the structure of the programme. This should explicitly include those jobs that form part of our transition to a low carbon economy, such as jobs to build renewable energy storage systems or bring forward grid modernisation and renovations and retrofits to improve insulation, heating, and domestic energy storage systems.²⁰
- **Skilling up workers on the furlough scheme:** some people currently on furlough will sadly become unemployed if the government’s support ends prematurely or if the business they work for becomes unviable in the meantime. Government should be aiming to reduce the number of people falling into unemployment without the skills to transition quickly into new sustainable employment. As such, local and national government should be encouraging furloughed staff, especially those who are eligible for Adult Education Budget funded schemes, to take up appropriate training. As a short-term measure, government should explore bearing the cost or redirecting funding from other programmes to support this.

¹⁹ IFS (2020) *Levelling up will be the work of a generation, not a single parliament*. Available at: <https://www.ifs.org.uk/publications/14757>

²⁰ See Hepburn et al. (2020) *Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?*, Oxford Smith School of Enterprise and the Environment, Working Paper No. 20-02 Available at: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

Test 3

Levelling up

Halve the gap in health between vulnerable and resilient areas within a generation

The current health crisis has laid bare the inequalities in the health of the UK population – with more deprived places suffering from higher mortality rates from Covid-19.²¹ Previous work by CPP has highlighted the chief social drivers of these health differences, including the quality of housing, levels of crime, skills deprivation, unemployment and homelessness.²² Health and the economy are intrinsically linked – good health and economic prosperity can reinforce one another while bad health and deprivation go hand in hand.

The current health crisis has laid bare the inequalities in the health of the UK population – with more deprived places suffering from higher mortality rates from Covid-19

Policy recommendations: Tackle place-based inequalities in health

- **Increasing and safeguarding public health budgets at a local level:** local areas need to be able to invest in the health of their local population and the range and severity of problems vary by place. The potential for locally-led health improvements through their role in public health extends to the prevention and reduction of substance misuse, obesity, smoking and sexual health, amongst others. Now the damaging effects of pre-existing conditions have been further revealed during the Covid-19 crisis, improving public health only grows in importance and therefore should be expanded. Evidence shows that the return on investment in public health is greater than in healthcare.²³
- **Broadening the definition of, and action on, prevention to include the social determinants of health:** this would have two effects. Firstly, to increase the scope of local Public Health Directors in making recommendations on other issues that drive the health of a population including housing and crime. Secondly, at a national level ensure the Secretary of State for Health has a role and oversight of the broader drivers of the health of our population.

One important question to explore in the aftermath of the crisis is whether and to what extent Greater Manchester proved able to cope better given its ability to pool NHS and Social Care budgets under a single point of accountable leadership, namely the elected mayor.

21 ONS (2020) Deaths involving COVID-19 by local area and deprivation. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/datasets/deathsinvolvingcovid19bylocalareaanddeprivation>

22 Franklin et al. (2019) *Beyond the NHS: addressing the root causes of poor health*. Report for the CPP. Available at: <https://www.progressive-policy.net/publications/beyond-the-nhs-addressing-the-root-causes-of-poor-health>

23 Martin et al. (2019) *Is an ounce of prevention worth a pound of cure? Estimates of the impact of English public health grant on mortality and morbidity*, Centre for Health Economics, University of York, UK. Available at: https://www.york.ac.uk/media/che/documents/papers/researchpapers/CHERP166_Impact_Public_Health_Mortality_Morbidity.pdf

Test 4

Levelling up

Completely close the investment gap between vulnerable and resilient areas within a generation

While persistent health and skills gaps will take many years to address because they are the result of multiple complex factors, the investment gap could be closed sooner as a direct result of redirecting government investment spending.

Investment in social infrastructure is just as important as investment in physical infrastructure

Policy recommendations: Invest in places that are not yet the most productive

To level-up we need to accept that investment in the short-term needs to be directed to the places that do not yet give the returns of more productive places if we are to get to the root of levelling up.²⁴ This could mean investing in the less productive parts of London, as much as places outside of London and the South East. It also means recognising that investment in social infrastructure is just as important as investment in physical infrastructure.²⁵ To achieve this, we recommend:

- **Updating the HM Treasury Green Book to facilitate appraisal of policies on regional rebalancing:** as others such as Diane Coyle²⁶ have set out, we tend to invest in the places that are already productive. However, if we want to level-up the UK, we must encourage both public and private sector investment in the places that are not yet the most productive, but demonstrate the potential to generate a long-term commercial/economic and social return. The HM Treasury Green Book should be updated to provide guidance to users as to how to make an assessment of regional impact as part of programme level assessments.
- **Redirecting health R&D to poorer places:** Those parts of the country which have a higher proportion of economic activity in the health sector will not be hit as hard initially as this sector expands during the crisis. There is an opportunity to redirect investment in health R&D (which is the largest component of government R&D expenditure) to those areas more reliant on the healthcare sector. Richard Jones has previously argued about the disconnect between healthcare research and the places where people are actually unwell.²⁷ It is time to address this imbalance.

²⁴ See Sensier, M. and Coyle, D. (2020) *Can we 'level up' transport infrastructure across the UK?* Available at: <http://blog.policy.manchester.ac.uk/devo/2020/01/can-we-level-up-transport-infrastructure-across-the-uk/>

²⁵ Stock Jones, R. (2020) *Productivity Knocks: Levelling up with social infrastructure investment*. Centre for Progressive Policy, London, UK. Available at: <https://www.progressive-policy.net/publications/productivity-knocks-levelling-up-with-social-infrastructure-investment>

²⁶ As above.

²⁷ Jones, R. (2019) *A Resurgence of the Regions: rebuilding innovation capacity across the whole UK*. Available at: http://www.softmachines.org/wordpress/wp-content/uploads/2019/05/ResurgenceRegionsRALJv22_5_19.pdf

Test 5

Levelling up

Reduce by half the inequalities between and within places within a generation

This is possibly the most challenging test. Both between and within place inequality is highly persistent. But government must be ambitious and target reductions in both between and within area inequalities. Our recommendations below suggest immediate actions that draw from the current Covid-19 crisis as a small part in addressing this critical issue.

The time has come to engage rigorous public discussion and to set the nations of the UK on a path to improving the quality and resilience of the sector

Policy recommendations: Joining up local and national leadership to reduce inequality

Out of necessity, this crisis has seen communication and collaboration between central and local government improve. Central government has sought to find and maintain a ‘grip’ on the rapidly evolving situation, yet knowing it is dependent on the actions of others on the ground – particularly local authority leaders and Local Resilience Forums in coordinating and delivering an effective, timely and tailored response. To build on this we recommend:

- **Local and national government leaders agreeing to maintain the new definition of key workers and urgently reviewing their contracts and status – with social care a priority:** the Covid-19 crisis has prompted a revisiting of what it means to be a key or essential worker. Overlooked and underfunded, the social care system – delivered by a range of public and private providers, commissioned by local government – has shown itself to be an integral pillar of the health care system. The time has come to engage rigorous public discussion and to set the nations of the UK (for social care is a devolved matter) on a path to improving the quality and resilience of the sector, including the pay and status of its workers.
- **Appoint a National Mayoral Council to be a critical feature of Whitehall decision making on strategic economic and social policy issues:** city-regional mayors have been involved in several recent reviews, notably High Speed 2. Regional representation should be a matter of course for long-term strategic planning processes, and could be readily enabled via the National Infrastructure Commission and other such bodies.

Check against delivery – measuring progress against the 5 tests

As we come out of this crisis, government will need a way of measuring its success in shoring up and then levelling up the economy. Below are a series of key metrics to show the severity of the challenge facing government and the minimum threshold for claiming success.

Table 4: Indicators of progress against the shoring up test

	Measure	Pre-crisis levels for the 20 hardest hit areas
Test 1: Hardest hit areas to return to pre-crisis levels of GVA, income and unemployment by 2021	GVA per person ²⁸	£25,200
	Unemployment rate ²⁹	3.1%
	Median income ³⁰	£23,300

Table 5: Indicators of progress against the levelling up tests³¹

	Measure	Vulnerable areas	Resilient areas	Difference	Target differences
Test 2: Halve the gap in skills and good jobs between places	Unemployment rate ³²	4.6%	3.0%	1.6 pp	0.8 pp
	Proportion without a formal qualification ³³	11%	6%	5 pp	2.5 pp
	Proportion with Level 4+ qualification ³⁴	34%	48%	14 pp	7 pp
Test 3: Halve the health gap between places	Healthy life expectancy ³⁵	61 years	66 years	5 years	2.5 years
Test 4: Close the investment gap between places	Investment ³⁶	Investment data is not available at local authority level but regional breakdowns of R&D expenditure show large disparities across the country. Nearly a fifth of all R&D is performed in the South East whilst the East of England has the highest spend per person at £962. Wales and the North East have the lowest spend per person at £238 and £267 respectively. ^{37, 38} Analysis of transport investment shows similar disparities; IPPR North has found that over the past 10 years London received 2.4 times more public spending per person on transport than the North. ³⁹			
Test 5: Halve the inequalities within and between places	Inequality: Proportion of deprived areas ⁴⁰	15%	4%	11 pp	5.5 pp

28 ONS data on regional gross value added (balanced) by local authority in the UK, chained volume measures (CVM) of 2018 GVA in 2016 prices.

29 ONS data M01 Regional labour market: Modelled unemployment for local and unitary authorities.

30 ONS data from the Annual Survey of Hours and Earnings, 2019. Ideally, this should be supplemented by data on savings rates as this is an effective indicator of household financial resilience. However, due to data limitations, timely estimates at the local authority level are not readily available. For a review of the data see page 29 of Narayan, K. (2020) *Household debt and problem debt in British*. Centre for Cities, London, UK. Available at: <https://www.centreforcities.org/wp-content/uploads/2020/04/Household-debt-and-problem-debt-in-British-cities-1.pdf>

31 Percentages may not match because original calculations use unrounded figures. Percentage points denoted by pp.

32 ONS unemployment data for Oct 18–Sep 2019. Quality data on good jobs is not available at local level.

33 ONS Annual Population Survey data, available on Nomis. Data is for 2019 and shows the proportion of resident population aged 16–64 with no qualifications.

34 ONS APS. Proportion of resident population aged 16–64 with NVQ Level 4 or greater qualification.

35 ONS data on Health State Life Expectancy at birth and at age 65 years by local areas, UK for 2016–18. Average of males and females. County figures used for English districts.

36 Whilst data on local authorities' capital expenditure is available, data on the geographical distribution of central government and business investment is not.

37 House of Commons Library (2020) *Research and development spending* Available at: <https://commonslibrary.parliament.uk/research-briefings/sn04223/>

38 Data is for 2017. R&D expenditure for 2018 was released in April 2020, however at the time of writing regional breakdowns were not available.

39 IPPR North (2019) *TRANSPORT INVESTMENT IN THE NORTHERN POWERHOUSE*. Available at: <https://www.ippr.org/files/2019-08/transport-investment-in-the-northern-powerhouse-august19.pdf>

40 IMD data for 2019 on % of LSOAs in 10% most deprived in country. Averages are for English local authorities only.

Conclusion

3



This paper has shown that, initially at least, economies in the Midlands will be the most affected by the coming recession, due to their large manufacturing sectors and a relatively high dependence on wholesale and retail trade and construction. These areas will require shoring up, with targeted sector-based support and worker protections to avoid long-term unemployment and ensure that otherwise productive industrial clusters are not lost.

In the long run, the shutdown of the economy and subsequent economic downturn could entrench existing place-based inequalities, as areas with lower skill levels, higher existing unemployment and having experienced a prolonged recovery from the last recession will be the least able to cope.

The government should not expect the economy to 'bounce back' on its own. Evidence from previous recessions suggests that, without strong policy intervention, our economy will carry the scars of this crisis for many years with output failing to reach its previous potential. In response to this unprecedented economic crisis, this paper argues for a shoring up then a revitalised levelling up approach, revealing the 5 key tests of success and some of the immediate policy measures that are required to get there.

Given the scale of the government response required, most economists expect the budget deficit and overall public debt to increase substantially in the short-term, likely by even more than during the financial crisis. But any return to austerity at this time would be a false economy. If we do not invest sufficiently in physical and social infrastructure to help to rebalance the economy, the most vulnerable places, including those in the Red Wall, will be unable to withstand the shock and face another lost decade. As experience from the last recession shows, an incessant desire to balance the books during an economic downturn only results in further economic pain and missed fiscal targets.

If we do not invest sufficiently in physical and social infrastructure to help rebalance the economy, the most vulnerable places will face another lost decade



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