Kent and Medway
Economic Renewal and Resilience Plan

Economic impacts evidence base

August 2020

Summary

- This report sets out a high-level assessment of the impacts of the Covid-19 crisis on the Kent and Medway economy to inform a Renewal and Resilience Plan for the next 12-18 months.
- Output fell sharply from the start of lockdown. Between March and May, the economy shrank by about 20%. All sectors experienced contraction, with hospitality and tourism the worst hit.
- Since then, there has been some recovery as restrictions have eased. But over the course of 2020, the economy is still likely to shrink by 11-14%
- Unemployment has risen rapidly, with the claimant count across Kent and Medway increasing by around 36,000 between March and May. However, potential unemployment has been mitigated by the Government's furlough scheme, which currently accounts for 232,000 workers in Kent and Medway. There is a significant risk of a rise in unemployment as the furlough scheme unwinds into the autumn, and a series of Government initiatives seek to mitigate this.
- The outlook – even in the near term – is uncertain, and will depend on the prevention of further outbreaks of Covid-19, the extent to which emergency support to businesses can be withdrawn without extensive disruption, and the way in which the crisis evolves in the UK's trading partners.
- Building on recent analysis by the Office for Budget Responsibility, this paper sets out three scenarios for the medium term and applies these to Kent and Medway's major economic sectors. All of these scenarios anticipate a very sharp downturn in 2020, although the depth and length of the downturn varies. At this stage, all three scenarios are plausible, and can help to guide thinking in planning the actions we should take to support economic recovery and renewal. But the situation will evolve over the second half of 2020, and the analysis in this report should be kept under review.

Contents

For the latest economic data, including the Covid-19 Economic Dashboard, please visit the Kent County Council Strategic Commissioning Analytics page at www.kent.gov.uk/research

Introduction

- In July 2020, many of the public health restrictions imposed to contain the Covid-19 pandemic have been lifted, and the Government has taken far-reaching action to mitigate the impacts of the economic crisis. However, output has fallen sharply, unemployment has risen, and it is likely that the economic downturn will be severe in the medium term.
- In this context, Kent and Medway Economic Partnership is developing an **Economic Renewal and Resilience Plan**, setting out the actions that must be taken over the next 12-18 months to support jobs, businesses and a sustainable path to economic growth.
- To inform the Economic Renewal and Resilience Plan, this report sets out an assessment of the economic impacts of the crisis on Kent and Medway so far. It outlines:
    - the state of the Kent and Medway economy and its strengths and weaknesses as it entered the crisis
    - the impacts (and potential impacts) on output, businesses and the labour market
    - some high-level scenarios for economic recovery
    - a review of impacts by sector – taking account of opportunities for future growth, as well as mitigation
- It is important to note that the speed of the crisis means that the evidence of impact is changing rapidly. ‘Conventional’ economic data is also of limited use, given the time lag within many datasets. This report builds on an earlier review of emerging impacts published in May and draws on a range of sources, both official and unofficial, to provide a ‘best estimate’ of the economic impacts on Kent and Medway. However, it the picture is changing rapidly and the evidence base will need to be updated as further, and more accurate, information becomes available.

Kent and Medway Economic Renewal and Resilience Plan
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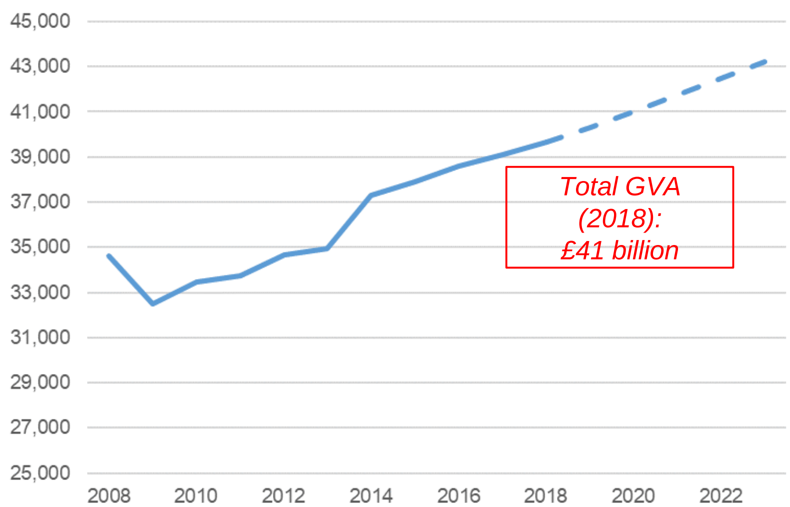
Output, jobs and businesses: Overall impacts

Before the crisis: 'Business as usual'

What was the outlook before the crisis hit?

- In terms of **output**, Kent and Medway's GVA was growing steadily, albeit slowly, in line with the UK picture, following a relatively slow recovery from recession at the start of the last decade.
- Average national forecasts in February anticipated modest GDP growth of 1.2% in 2020, rising to 1.4% in 2021[1].
- **Unemployment** was low by historical standards, at around 3.8% of the workforce (slightly below the national average)[2]. Claimant count levels rose somewhat in the first months of 2020 (although partly linked with the rollout of Universal Credit).
- **Business stock** had grown steadily over the past decade – by around 27% between 2010 and 2019[3]. Recent survival rates in Kent and Medway have also been slightly better than the national average.
- Historically, the county's economy has been **resilient** (given sectoral diversity and proximity to London and the Greater South East), with a strong SME base – although there is substantial variation in local assets, opportunities and weaknesses.

Recent and projected GVA (£m), Kent & Medway

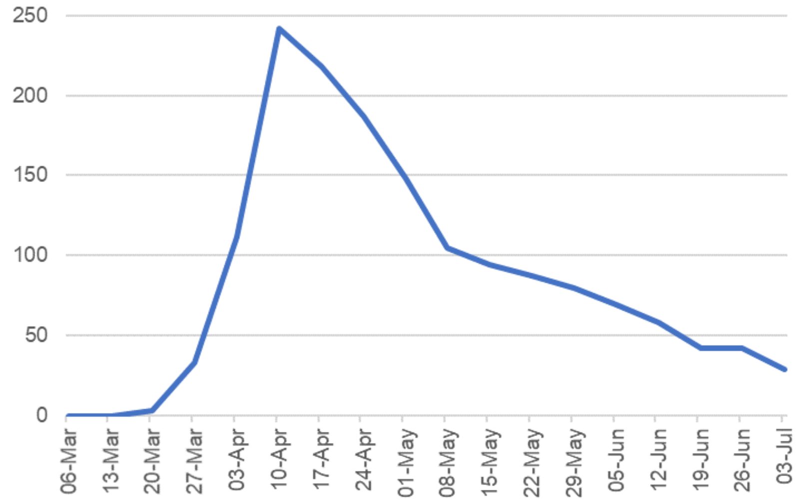


Source: Cambridge Econometrics, East of England Forecasting Model

- In terms of **productivity**, for each filled job, the Kent and Medway economy generated around £52,000 GVA.
- **Productivity growth** averaged 1.9% between 2008 and 2018[4]: a weaker rate of growth than the longer term average, and slightly below the UK growth rate. Increasing productivity growth has been a major focus of national and local strategy.

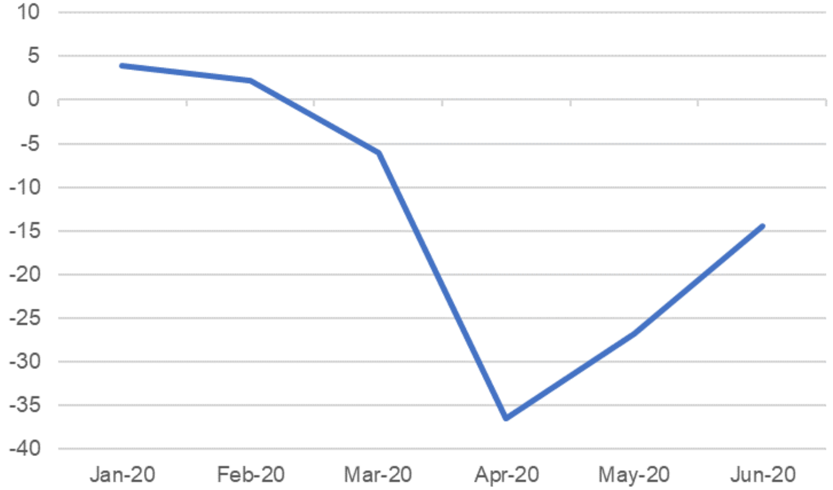
Into the crisis: Lockdown and gradual relaxation

Weekly deaths involving Covid-19, Kent & Medway



Source: ONS[5]

Consumer spending (UK, % change, year-on-year)



Source: Barclays, UK Consumer Spending Report[6]

- Economic activity was already falling in March, in the light of the crisis in China and Italy and the likelihood of restrictions in the UK. The ONS business survey in mid-March showed that almost half of firms had experienced reduced turnover, and about a quarter had reduced staffing levels.
- The Government announced legal restrictions on travel and economic activity on 23 March, in the context of the growing public health crisis. This resulted in the temporary closure of a large part of the economy, including most non-food retail activity, and virtually all tourism, hospitality and leisure services.

- Consumer spending fell sharply (and household savings balances and debt repayments rose as a result of enforced restriction on demand).
- Since June, restrictions have been gradually released as Covid-19 deaths and new cases have fallen. Most of the service economy is 'open' once again, and limitations on travel have been relaxed. But the continued need for social distancing measures and caution regarding the prospect of local spikes in infection and a 'second wave' of the pandemic means that consumer activity remains subdued.

Thinking through the economic impacts

- The immediate ‘emergency’ presented a major shock to demand and supply:
  - On the **demand** side, people were forced to curtail normal activities and much everyday trade temporarily ceased. Demand may continue to be weak, due to ongoing restrictions, public health concerns and uncertainty regarding future prospects
  - On the **supply** side, the pandemic caused some bottlenecks in production and access to labour – some of which could be persistent
- In the UK, we are moving out of the immediate emergency phase. But the crisis isn’t over yet:
  - Ongoing measures to prevent the spread of the virus are still in place and are likely to remain for some time – and restrictions may need to be reimposed
  - Short-term shocks can have longer term impacts, as businesses and jobs are permanently lost and markets are restructured.
- The crisis is global:
  - All of the UK’s main trading partners are impacted and face significant falls in output this year. Although responses to the crisis are largely driven by national governments, it could lead to significant disruption
- The crisis has (so far) impacted different sectors in different ways:
  - Some industries were largely shut down, and some remain in that state (parts of the creative and cultural sector for instance). As restrictions are released, we might expect activity in these industries to return
  - However, some changes will be permanent and structural.
- But…
  - Government has taken active measures to support economic activity
  - While the crisis has had a universal impact, there is no loss of physical capital stock and not much loss of human capital: the building blocks are there for ‘recovery’, although the post-Covid economy will present different opportunities and challenges
- The diagram on the next page sets out a framework for thinking through the impacts

Thinking through the economic impacts

Lockdown initially, but social distancing measures more persistent

Pandemic containment measures

Severe impacts on demand, plus some supply constraints and disruption to labour. The extent of these impacts on industry vary by sector, business model and customer base…

Demand ↓

Falling local/ domestic demand for tourism, leisure, retail, etc.
Falling international demand for tourism, HE, consumer-facing manufacturing and non-essential services

Supply ↓

(Goods and services)

Transport restrictions
Closure/ part-working of suppliers
Delays in components, etc.

Labour ↓

Staff absence (isolation, illness, reduced working/ furloughing
Lack of overseas labour

… and result in lower economic activity and disruption

Lower output > business closures > higher unemployment

But this is partially mitigated by changed working practices/ use of technology and by substantial state intervention (in the UK and in major customer/ supplier countries). And a few industries will see growth

Demand ↑

Health and health supply; some food manufacturing and online services

State intervention ↑

Government action to stabilise employment and support businesses

Adaption ↑

Industry use of technology; supply chain diversification; reorganisation of workforce

This disruption will have long-term consequences (changes in demand, changes in industrial structure (exits, consolidation, etc.), permanent shifts in working practices… but unknown at present

Long-term changes in demand and industrial structure

Source: SQW

Output: Sharp contraction between March and May

- The Office for National Statistics estimates that the UK's GDP fell by around 19% in the three months to May.
- All sectors experienced contraction (with the exception of public administration and defence). Unsurprisingly, the output loss was greatest in those sectors that largely 'shut down', with a 72% contraction in hospitality and food service activities.
- No GDP estimates exist below national level. However, applying the estimated national change to the Kent and Medway economy suggests a total loss in the three months to May of around £2.3 billion (or almost 20% of GVA – slightly greater than the UK average, reflecting Kent and Medway's sectoral balance).
- It should be noted that the ONS's estimates are subject to revision, especially given the substantial changes associated with the pandemic. Local analysis should also be seen as indicative. Sector impacts and more local factors are considered later in this report.

Estimated output change, March to May (estimate for Kent & Medway, based on UK monthly GDP data)

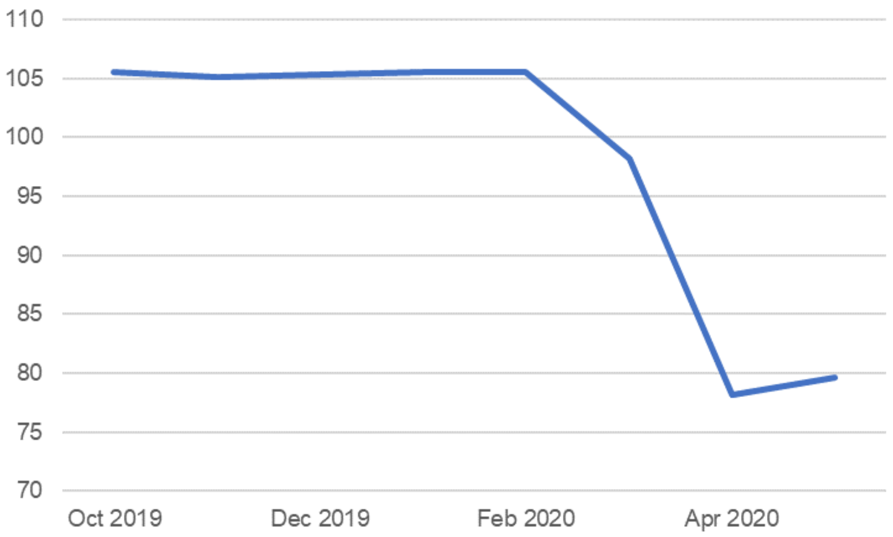
Sector	Output loss (%)	Kent & Medway output loss, £m
Accommodation and food services	-71.7	-208
Education	-37.8	-292
Other services	-37.6	-171
Construction	-29.8	-350
Transport and storage	-29.5	-180
Administrative & support services	-28.3	-181
Human health & social work	-24.2	-203
Wholesale, retail and motor trades	-23.7	-326
Manufacturing	-18.0	-151
Professional, scientific & technical	-15.5	-100
Information and communication	-10.8	-42
Mining, energy & water supply	-8.0	-35
Agriculture	-6.3	-7
Financial and insurance services	-2.5	-12
Real estate	-2.1	-41
Public administration & defence	0.2	10
Total	-19.9	-2,288

Source: ONS, GDP Monthly Estimate, May 2020[7], SQW analysis

Output: Some growth as restrictions ease

- The greatest fall in output took place in April, when restrictions on activity were most severe.
- Across the UK, May saw a very modest return to growth of 1.8% across the economy as a whole: the small uptick on the chart opposite. This was mostly driven by construction (mainly housing) and manufacturing activity, and a lesser extent some return of retail demand (especially driven by record online sales).
- However, output as reported for May remains around 25% below February levels.
- Recent weeks have seen a further relaxation of restrictions and growth in consumer spending (as highlighted on page 5, and linked with growth in online retail and suppressed demand during the lockdown phase. Commentators' opinions vary regarding the extent to which the small observed uptick will translate into a 'v-shaped' recovery[8] – although travel data (for Kent & Medway and nationally) still shows a levels of movement substantially below those at the start of the pandemic[9].

Index of UK GDP (2016 = 100), October 2019 – May 2020

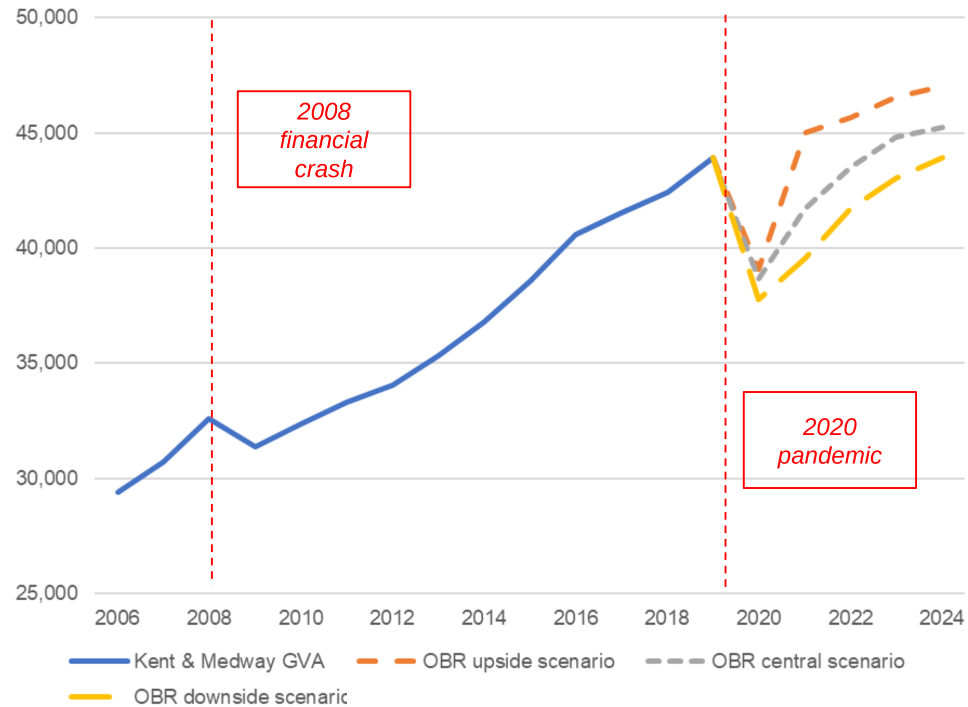


Source: ONS, GDP Monthly Estimate, May 2020

Output: 2020 and beyond

- The Office for Budget Responsibility has prepared a range of national output scenarios, the implications of which are considered in more detail later in this report
- For 2020, the OBR anticipates a sharp contraction, ranging from -11% to -14%. For Kent and Medway, this would suggest a negative impact of between £6.7 billion and £5 billion over the course of the year.
- This is much sharper than the level of output loss following the 2008/09 financial crash (which saw a year-on-year reduction in Kent and Medway's GVA of about 5% or £2 billion).
- In all scenarios, this is followed by a return to growth in 2021. However, the longer term outlook is uncertain – in the OBR's most pessimistic scenario, the economy does not return to its 2019 level of output until 2024.
- However, the true extent of the contraction (and its impact in Kent and Medway) will depend on the impacts on specific sectors, the effectiveness of the Government's mitigation measures and any further public health restrictions

OBR scenarios applied to Kent and Medway GVA (£m)[10]



Source: ONS, Regional Gross Value Added (chained volume measure) in 2016 prices, estimated to 2020 with OBR UK scenarios applied; SQW analysis

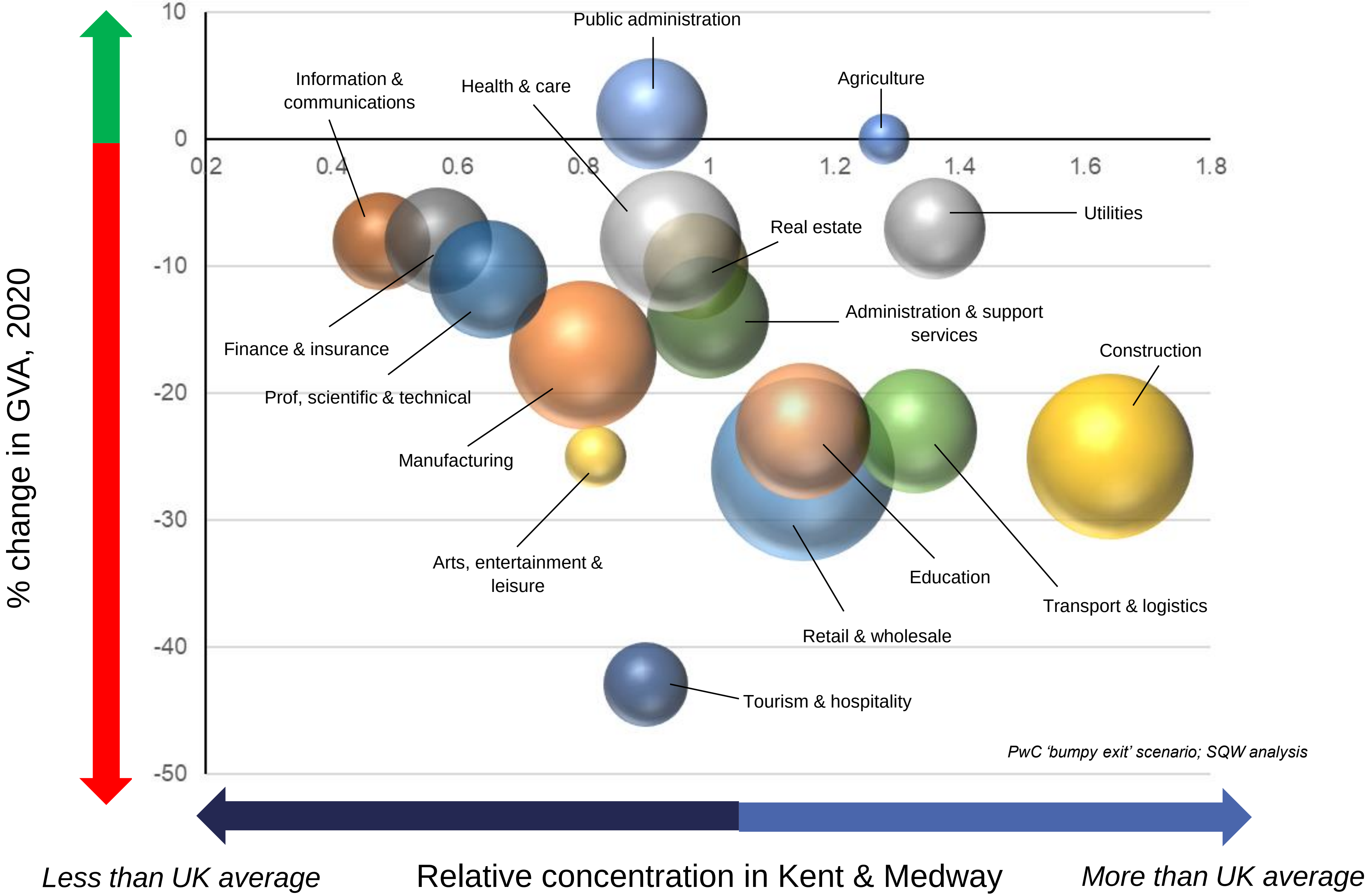
Output: Sectoral impacts

Brexit and estimates of future output

- The Covid-19 pandemic is not the only external factor with the potential to impact on economic output in Kent and Medway over the medium term. In particular, the nature of the UK's trading relationship with the EU after the end of the Brexit transition period is a significant uncertainty.
- The OBR's scenarios beyond 2020 assume that *the UK will "move in an orderly fashion to a new trading arrangement with the EU – with the effect broadly consistent with the terms of a conventional free trade agreement".* However, it is possible that the transition period could end in December without a trade agreement being in place, meaning that the UK would revert to trading on World Trade Organisation terms.
- In this event, this "*would pose downside risks to short-and medium-term growth prospects on top of the economic challenges created by the pandemic"*

- As the data for the early impacts in March – May indicate, the crisis has divergent sectoral impacts.
- The chart on the next page illustrates the impact by sector across Kent and Medway, highlighting:
  - The *size* of each sector in terms of its contribution to Kent and Medway's GVA (the size of each bubble on the chart)
  - The relative *concentration* of each sector (in summary, sectors further to the right on the chart are larger in Kent and Medway (as a contribution to GVA) relative to the UK average; those to the left are relatively smaller
  - The estimated *change* in each sector's overall GVA in 2020. This is based on a scenario developed by PwC, which anticipates a contraction of around 15% this year (slightly worse than the OBR's downside scenario)[11].
- Overall, those sectors that were impacted the most in the immediate shutdown phase will still be worst hit at the end of the year – as growth fails to make up for the sharp contraction at the start and continuing restrictions still have an impact

Output: Sectoral impacts in 2020



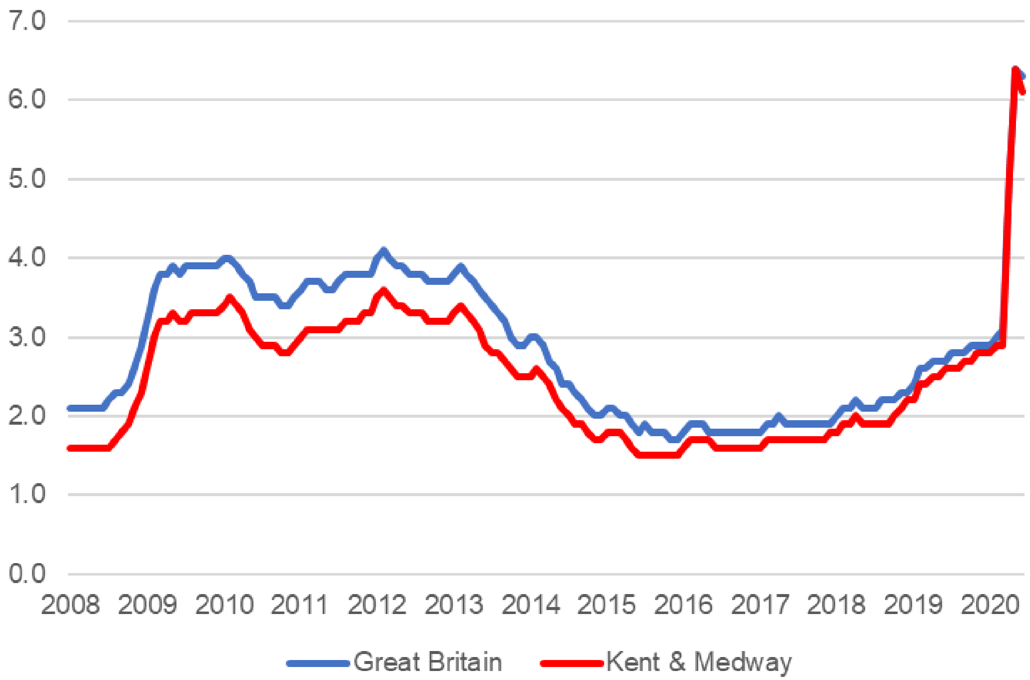
Jobs: The rising unemployment challenge

- The ‘claimant count’ (those claiming Jobseekers’ Allowance and those claiming Universal Credit and required to seek work) rose rapidly between March and May. There was a small fall in Kent and Medway’s claimant count in June (from 72,000 to 69,000) – but since March, claimant numbers have increased by 110%, a slightly greater rate of increase than across Great Britain as a whole.

Measuring unemployment[12]

- Claimant count data should be treated with some caution. On the one hand, the sharp increase may be capturing some claims due to temporary loss of income, rather than job losses. On the other, not all people who are out of work will be claiming benefits.
- The alternative ‘unemployment rate’ ought to provide a better measure, although nationally, the unemployment rate seems to have been suppressed by the practical difficulties of actively seeking work in lockdown.
- Better local data is not yet available, but it will be important to review the claimant count against other labour market measures as they emerge

Claimant count as % of population aged 16-64



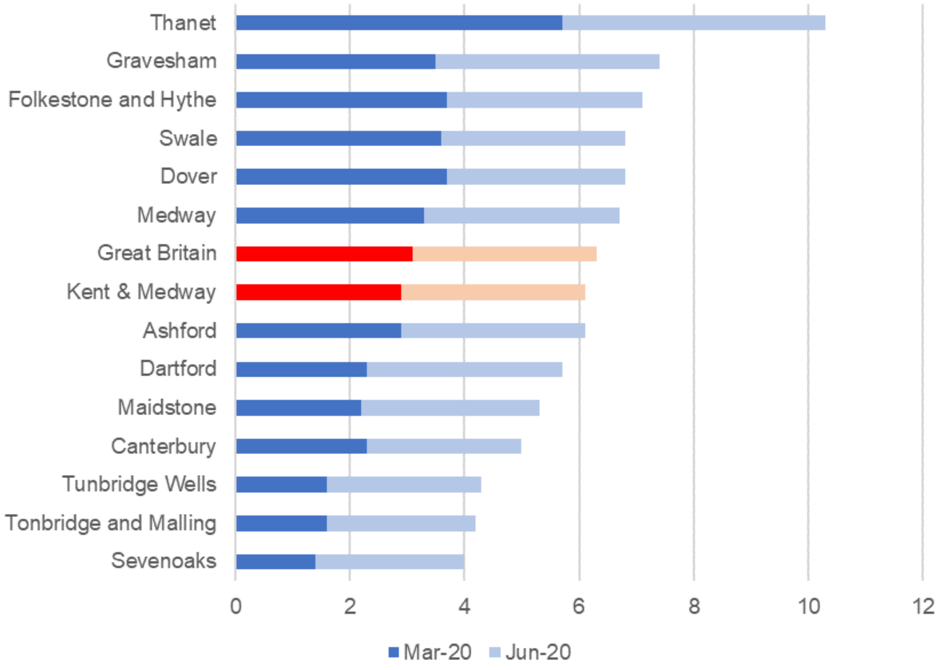
ONS, DWP

Jobs: Local unemployment

- The sharp increase in the claimant count is reflected in every local authority area in Kent and Medway.
- Between March and June, the highest rate of increase was in Sevenoaks, reflecting the very low claimant count rate in the district at the start of the crisis.
- However, Thanet, which entered the pandemic with the highest claimant count rate by some margin, continues to experience very high levels of unemployment (at over 10%, one of the highest rates of any local authority in the country).
- Consistent with the national picture, all areas saw a fall in the claimant count between May and June, albeit of a modest level. In every area, the fall in the claimant count was greater than the national average – although as highlighted elsewhere in this report, this apparent positive indicator comes before the academic year has ended, and before the furlough scheme starts to unwind.

Claimant count as % of population aged 16-64

March to June 2020



ONS, DWP

Jobs: Retention of existing employment

- The Government has taken action to limit job losses through the **Coronavirus Job Retention Scheme** (CJRS), which enables employers to furlough staff, with up to 80% of salary costs paid for by the state (tapering down from August). By 30 June, around 232,000 workers in Kent and Medway had been furloughed (with the take-up rate broadly in line with the England average).
- A further 79,000 people in Kent and Medway had also been supported through the **Self Employment Income Support Scheme** (SEISS) – a taxable grant worth up to 80% of profits and capped at £7,500 (and subsequently extended to a second grant worth up to 70%.
- These schemes have probably played an important role in maintaining existing employment: it will be important to monitor the impact on unemployment as they are wound down

Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme: Beneficiaries and take-up rates to 30 June

	CJRS		SEISS	
	No. furloughed	Take-up rate	No. beneficiaries	Take-up rate
Ashford	17,400	29%	5,500	73%
Canterbury	18,800	30%	6,200	75%
Dartford	16,000	29%	4,900	78%
Dover	13,300	29%	4,600	74%
Folkestone and Hythe	12,700	29%	4,600	75%
Gravesham	14,500	30%	5,000	75%
Maidstone	22,600	28%	7,700	74%
Medway	35,300	28%	12,700	77%
Sevenoaks	15,100	29%	5,000	73%
Swale	18,100	28%	6,300	75%
Thanet	16,800	31%	6,700	77%
Tonbridge and Malling	17,200	29%	5,300	74%
Tunbridge Wells	14,500	28%	5,100	74%
Kent and Medway	232,300	29%	79,600	75%

Source: BEIS. For CJRS, take-up means the number furloughed as % of eligible employments. For SEISS, it means claims as % of potentially eligible population

Jobs: Job losses and vulnerabilities

- Despite the mitigation measures put in place by the Government, several firms have announced redundancies. These include a number of national retailers and leisure operators that have been structurally impacted by the crisis; in Kent, major employers announcing job losses include P&O and Saga, both of which have significant exposure to the travel and tourism industry.
- Currently, furloughed jobs are especially concentrated in retail, hospitality, manufacturing and construction (and the SEISS scheme has very strong take-up in construction and related trades). This highlights areas of vulnerability as these schemes come to an end.
- Further analysis of employment in 'shutdown' sectors (hospitality, retail, personal service and leisure) highlights specific distributional vulnerabilities, with employment in these sectors disproportionately female, composed of younger workers and dominated by lower earners: those in the lowest decile of earnings are seven times more likely to work in 'shutdown' sectors than those in the highest[13]. So overall, impacts are likely to be greatest on groups with relatively low incomes in the first place.

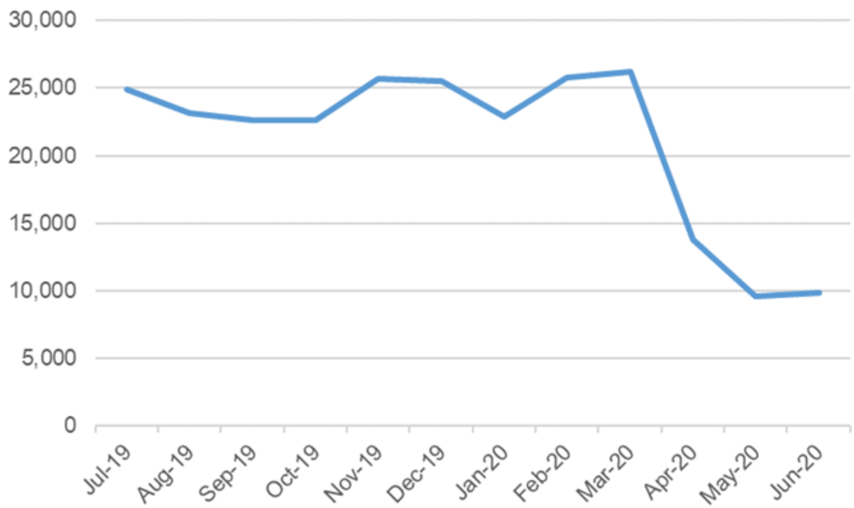
Unemployment and younger workers

- Evidence from previous recessions suggests that younger workers and new entrants to the labour market are especially at risk of unemployment. Younger workers are also especially vulnerable to longer term 'scarring', with periods out of work at the start of their career affecting job and wage prospects in future years[14].
- This has informed the Government's measures to support employment among younger people, including the Kickstart job guarantee scheme and additional funding to support Traineeships and Apprenticeships.
- In June 2020, there were around 14,600 people aged 18-24 claiming out-of-work benefits in Kent and Medway. This represents an increase of 111% since March – roughly in line with the growth of the claimant count overall, although there is a risk that this could increase further as the academic year comes to an end.

Jobs: Vacancies

- **Job vacancies fell during lockdown and have not yet recovered**. Data from the online jobs brokerage Adzuna (which manages the Government's Find a Job scheme) shows that vacancies in Kent fell by 63% between March and May – and although numbers plateaued in June, they are still far below 'normal' levels.

Advertised job vacancies in Kent



Source: Adzuna (based on 'Kent' location search)

Apprenticeships

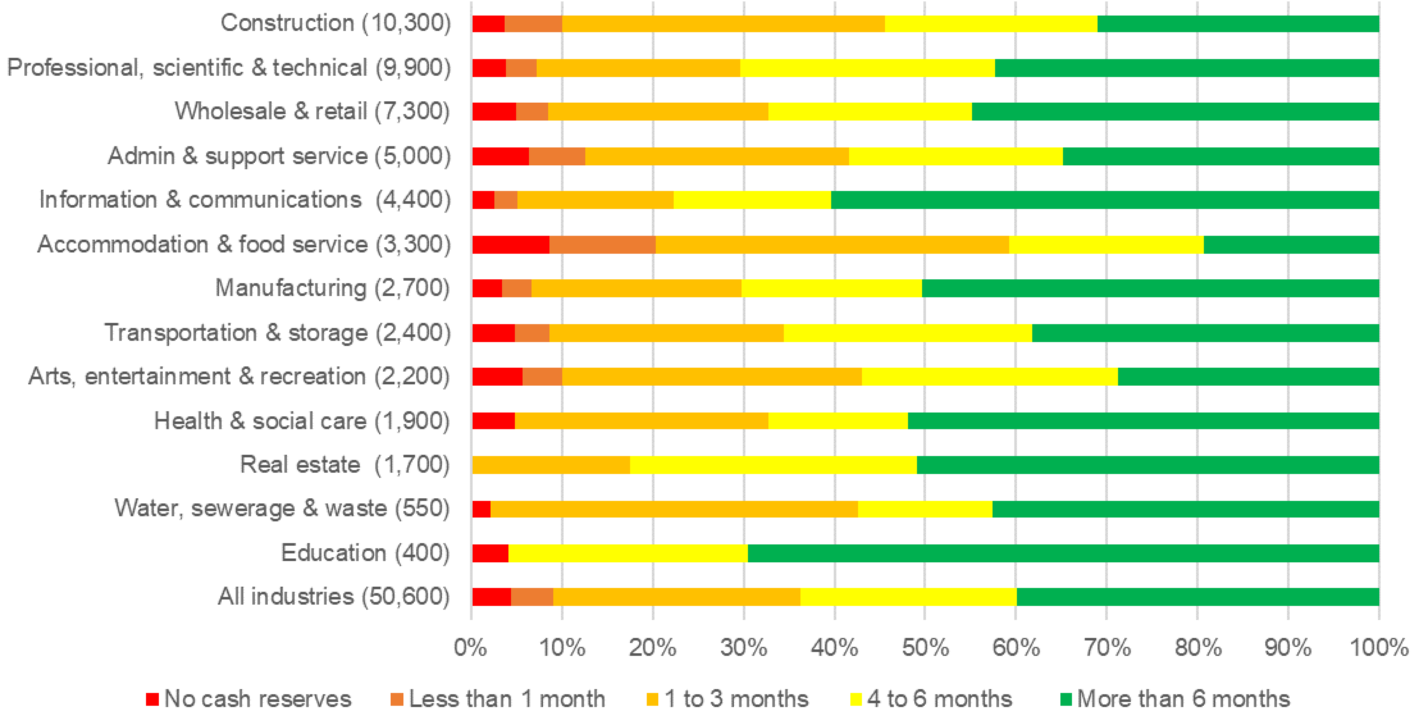
- Specific concern has been expressed about the impact of the crisis on Apprenticeships. Apprenticeship starts have been on a downwards trajectory for several years, reflecting the national picture.
- Nationally, apprenticeship starts fell in the first half of the 2019/20 academic year.
- Earlier on in the crisis, the Sutton Trust found that while over half of employers considered that all their apprentices would return once the Covid-19 restrictions were released, around a third felt that they would be less likely to recruit apprentices in 2020 than they were last year, reflecting the falling volume of job vacancies[15].

Jobs: The future employment outlook

- Historically, the unemployment rate in Kent and Medway tracks the national average (usually slightly below), although there is substantial diversity at local level. Given the universal nature of the crisis, and Kent and Medway's sectoral composition, it is reasonable to assume that this should continue to apply in the medium term.
- The key issue in the future labour market outlook is what happens as the CJRS and the SEISS schemes unwind. The OBR assumes that between 10% and 20% of those currently furloughed will move into unemployment when the subsidy ends – so unemployment will continue to rise later in 2020, even as output returns to growth.
- Within the OBR's three scenarios:
    - In the **'upside'** scenario, unemployment peaks at 9.7% and quickly falls, returning to pre-crisis levels in 2022
    - In the **'central'** scenario, unemployment peaks at about 12% at the end of 2020 and is still above pre-crisis levels in 2025
    - In the **'downside'** scenario, unemployment rises until early 2021, peaking at 13.2%
- The point is that **on all scenarios, unemployment rises substantially**, despite the apparent plateauing in the claimant count that occurred in June.
- This is consistent with the aftermath of previous recessions, in which employment lagged behind output growth (as firms remain cautious about new hiring commitments and workers dislocated from previous activities are hard to absorb into new industries). But the scale of the furlough scheme is unprecedented, and in some industries, demand for labour is likely to remain very limited.
- The Government has announced a raft of measures to support the labour market as CJRS and other mitigation schemes unwind. Making these work and ensuring that the employment outcome is close to the upside scenario is likely to be an important pillar of the recovery strategy.

Businesses: Impacts on cash reserves

Business stated cash reserves, Kent & Medway estimated, June 2020 (total number of businesses in brackets)



Source: ONS, Business Impact of Covid-19 Survey, 15-28 June; modelled to approximate impact in Kent and Medway. KCC Strategic Commissioning Analytics

- Many businesses in Kent and Medway have experienced pressure on cash reserves during the crisis, as trading opportunities diminished. Using evidence from the national Business Impact of Covid-19 Survey modelled to Kent and Medway's sectoral composition, it is estimated that around 36% of firms had less than three months' worth of cash reserves at the end of June.
- Consistent with the earlier analysis, there are significant differences by sector. In accommodation and food service, 59% had less than three months reserves, possibly also reflecting lower general reserves within SMEs in high-volume, labour-intensive activities.

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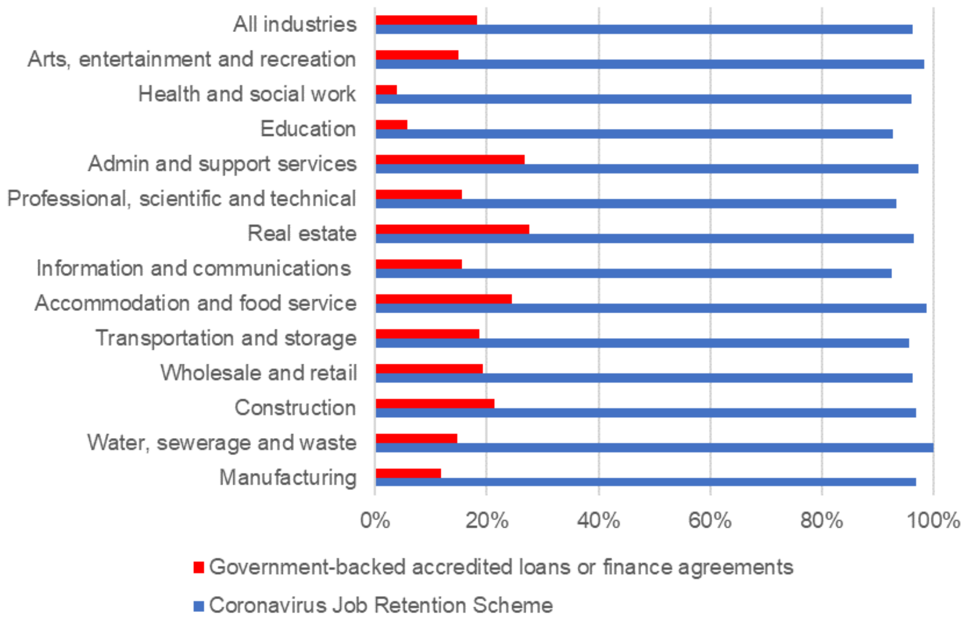
Businesses: Government support

- The Government's initial response to the Covid-19 economic shock included a series of measures to provide direct support to business. In addition to the Coronavirus Jobs Retention Scheme (highlighted earlier), these included:
  - VAT deferrals
  - Business rates holidays for retail, leisure and hospitality businesses
  - A series of loan schemes, including the Coronavirus Business Interruption Loan Scheme (CBILS) and the simpler Bounce Back Loan Scheme
  - Cash grant schemes for small businesses and retail and hospitality businesses, administered via local authorities and supplemented with an additional discretionary grant
- By 5 July, the Kent and Medway authorities had allocated some £373 million to business through the cash grants scheme, around 87% of the original Government allocation, and some authorities were still managing a second round of discretionary grant funding.

Take-up of Government support by sector, June 2020 (UK)



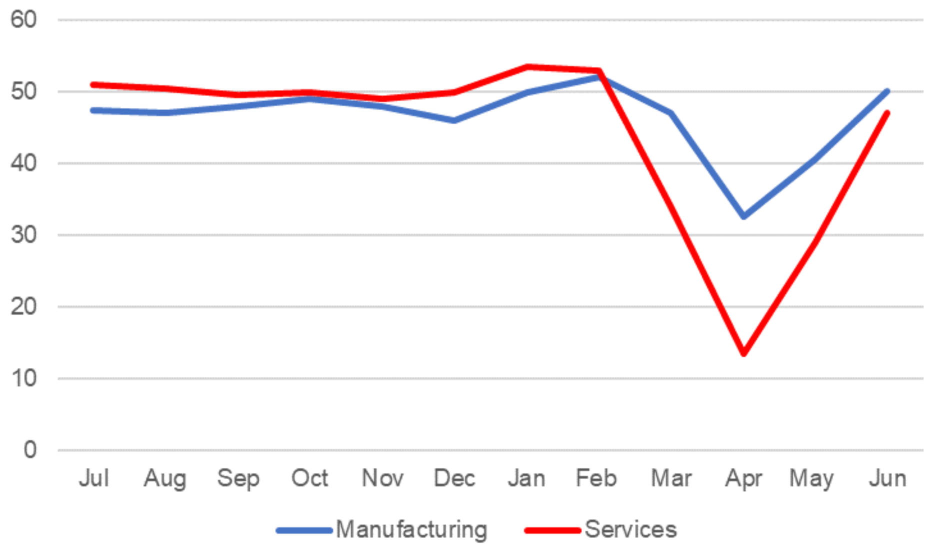
Source: ONS, Business Impact of Covid-19 Survey, 15-28 June;

- The Government's support package has been a significant response: according to the Business Impact of Covid-19 Survey, most firms have taken advantage of the furlough scheme, with nearly a fifth accessing Government-backed grant and loan products

Businesses: Future outlook

- While the national schemes have had an important role in supporting businesses during the crisis, they will be wound down following the end of the ‘lockdown’ phase.
- Feedback from the Kent and Medway Growth Hub indicates growing demand for business advice and support to help firms restructure and find new opportunities for growth – with a recognition in some cases that market conditions may have fundamentally changed, at least for the medium term.
- More immediately, the UK Purchasing Managers Index shows a relatively strong ‘bounce back’ from the early stages of the pandemic:

UK Purchasing Managers Index, 2019/20



Local support

- The Kent and Medway Growth Hub launched a Covid-19 Helpline in March, to provide businesses with advice and support through the crisis (including in accessing Government support schemes).
- Since March, the service has taken over 8,000 calls (and over 1,800 webchat contacts), and has delivered over 3,000 telephone advice sessions[16].
- As the situation changes from managing the emergency towards ‘renewal and resilience’ in the changed environment, the Covid-19 Helpline is evolving, with the launch of a Business Recovery Support Programme.
- As national Government financial support starts to wind down, local programmes will continue to be important – including through the recent relaunch of the Kent and Medway Business Fund.

Source: IHS Markit/ CIPS PMI, via Trading Economics;

Businesses: Productivity and growth

- The Covid-19 pandemic has involved a short-term collapse in hours worked (so far, mostly through furloughing, rather than through unemployment). The consequence of this is that there is likely to be a sharp rise in productivity (measured as output per hour worked) in 2020: the OBR's central scenario anticipates a 5% increase in output per hour worked this year, although this will fall back as the economy stabilises in future years.
- Potentially, some of this productivity growth could be permanent, if (for example) the crisis leads to better use of technology or a shift to more productive activities and ways of working.
- But in any case, in the longer term, we will need productivity growth to drive economic expansion: this was a policy concern before the crisis, and will continue to be afterwards – especially given the need for growth to offset substantially increased public debt.
- This suggests support for technology adoption and adaption; innovation and the commercialisation of innovation; and SMEs with the potential for growth and the capacity to bring new competition to markets. This might be especially important if there is a countervailing pressure towards consolidation in some markets.

Reporting the impacts on high-growth businesses[17]

- The business data firm Beauhurst has tracked around 28,500 'high growth' businesses nationally to measure the potential impact of Covid-19:
- Across the dataset, Beauhurst report that around 68% are able to broadly able to maintain operations with a low to moderate level of disruption, with around 15% potentially benefiting from the crisis (mostly tech businesses operating in sectors where there is likely to be greater demand for digitally-based services).
- But scaleup businesses are seen as especially vulnerable during the pandemic: increased staff levels reduces agility to respond, and a high proportion of those within the dataset operate in areas of activity that demand high levels of interaction and are therefore vulnerable to shutdown.
- Later stage businesses also face significant risks, especially in the leisure and industrial sectors.

Kent and Medway Economic Renewal and Resilience Plan
Economic impacts evidence base

Scenarios for 2020 and beyond

Future scenarios: Overview

- In the previous Economic Impacts Report, we set out three high-level economic scenarios, based on analysis prepared by think tanks, banks and the major consultancies. These reflected the Reference Scenario published by the OBR in April; a scenario which anticipated a slower rebound; and a scenario which anticipated a lengthy depression.
- Since then, we have 'hard evidence' of the impact to date on output and the labour market, and while the outlook remains uncertain, substantial new analysis has been prepared by Government and independent observers. Following the 'mini-Budget' in July, the OBR published further analysis of the medium-term outlook within its *Fiscal Sustainability Report*: this set out three quantified scenarios, which we have outlined in the pages that follow as a basis for considering potential impacts on Kent and Medway.
- The three scenarios should be considered indicative. They are not 'predictions'; rather, they are intended to set out the range of possibilities which should be borne in mind when thinking about the further actions that the UK Government might take to support economic recovery, and the actions that might be considered at more local level.
- The three scenarios all assume a sharp downturn in 2020 – and this has already happened. However, there is still uncertainty about the length and severity of recession. Several variables will influence this, most fundamentally the future direction of public health restrictions; the effectiveness of Government action in mitigating the effects of the shock; and the wider international context.
- There is probably not much that can be done locally to fundamentally change the nature of each scenario (and each scenario has been developed based on national data). But each will imply local action, whether as 'Government agent', filling the gaps in the national offer, reorienting existing services and priorities to meet changed demand, and planning for longer-term investment.

Future scenarios: Scenario 1 – Upside scenario

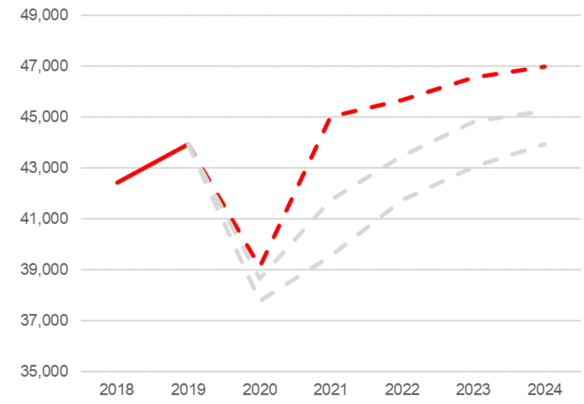
Overview

- Following release of lockdown, public health measures are successful in managing the spread of the virus
- Despite a sharp fall in 2020, recovery gains pace. A strong return to growth in 2021 offsets losses this year and growth returns to a pre-Covid trajectory
- Assumes that Government intervention is successful in maintaining business links and relationships and in effectively managing the wind-down of CJRS and other support measures
- Implicit assumption that Europe and US follow similar path
- Scenario broadly similar to the OBR's 'Reference Scenario' in April, and approximates to consensus view at the start of the crisis

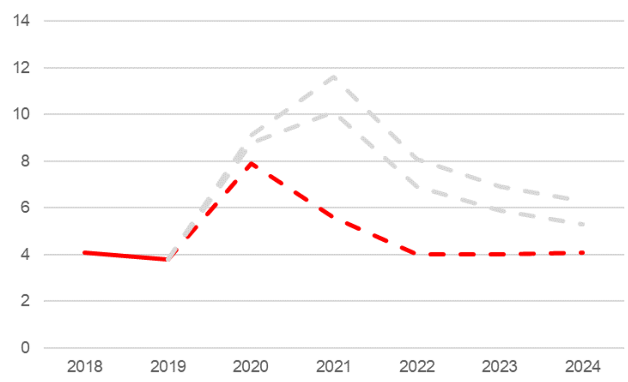
Implications for Kent and Medway

- Unemployment is much higher than before and will take time to taper down (although not at the scale of 1980s unemployment). So active labour market measures will be important.
- Focus likely to shift to maintaining long-term growth and business resilience, within the context of a focus on productivity growth and the transition to a low-carbon economy. But even in the upside scenario, a return to growth is likely to be uneven in its impacts, especially for tourism, hospitality, etc.
- Growth in confidence should support recovery across the economy. For example, the OBR anticipates a rapid recovery in the housing market in this scenario, with house prices rising strongly in 2022.

GVA, £m (est. Kent & Medway)



Unemployment (%, UK)

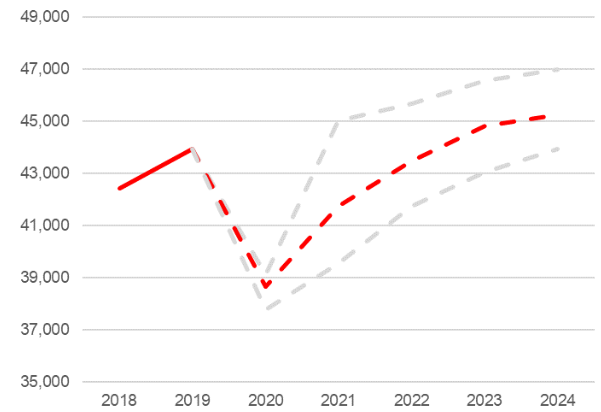


Future scenarios: Scenario 2 – Central scenario

Overview

- While public health restrictions are eased, people are cautious about returning to pre-crisis patterns of behaviour – so economic activity remains subdued. This would seem to be consistent with the emerging pattern of behaviour so far.
- Although the crisis is broadly managed successfully, with no return to widespread restrictions, the economy is slower to respond, due to (some combination of) local restrictions, poor investor confidence or savings hoarding and continued challenges in overseas markets
- So output recovers more slowly – still 8% below the pre-virus peak at the end of 2020, although growth of 8-9% expected in 2021

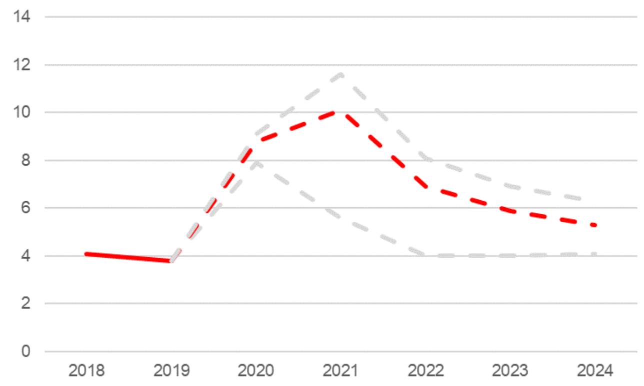
GVA, £m (est. Kent & Medway)



Implications for Kent and Medway

- Unemployment rises in 2020 at roughly the same pace as in Scenario 1. But the peak is higher given weaker recovery, and it takes longer for employment levels to catch up with output growth, as firms are cautious about additional risk.
- Some changed patterns of consumer behaviour may become more embedded over time – with implications for structural change in some industries (as well as some new market opportunities)
- The likelihood is that active labour market measures will need to be sustained for longer – but as subsidies and stimulus packages wind down, hard choices will need to be made

Unemployment (%, UK)



Future scenarios: Scenario 3 – Downside scenario

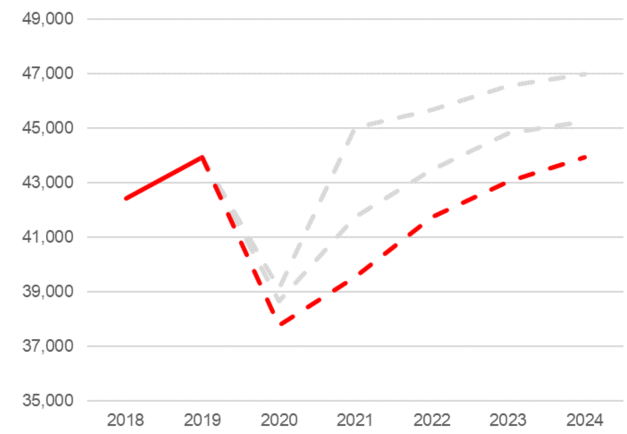
Overview

- Slow recovery in 2020 means that output at the end of the year is about 14% below pre-crisis levels. This is slightly worse than the OBR's April Reference Scenario.
- But growth is weak thereafter – for example, due to temporary shutdowns, loss of capacity through business failures and weaker investor confidence. The economy does not recover to pre-Covid levels until after 2024. While this represents a major slump, this pace of recovery is actually stronger than after the 2008 financial crisis – so it isn't necessarily the 'worst case' scenario.
- Likely that this scenario is accompanied by poor outcomes in other major trading partners, which made lead to wider economic crises.

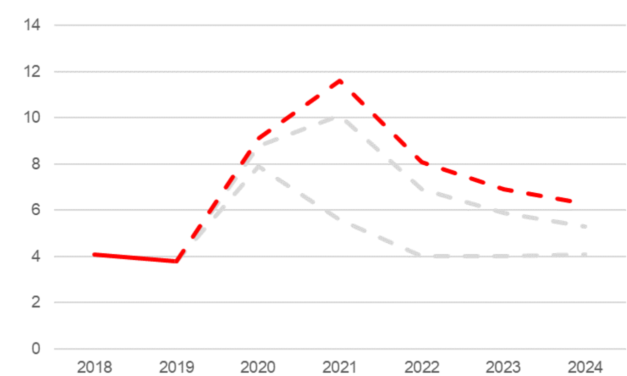
Implications for Kent and Medway

- Unemployment rises significantly, reaching levels last seen in the 1980s/ early 1990s recessions. This will be accompanied by a risk of long-term scarring effects, especially for new entrants to the labour market – which may not be easily mitigated through temporary interventions
- Potentially, this scenario could mean a central policy focus on employment and jobs growth, in the context of very strong investment competition (within the UK and internationally). But a failure to achieve sustained growth could impact on the sustainability of interventions over time, both in terms of policy support and (real or perceived) affordability.

GVA, £m (est. Kent & Medway)



Unemployment (%, UK)



Kent and Medway Economic Renewal and Resilience Plan
Economic impacts evidence base

Sectoral prospects

Introduction to the sectoral analysis

- This section considers the implications of the Covid-19 crisis for each of the main sector groups in Kent and Medway.
- Consistent with the OBR's analysis, we have mostly used the main SIC sections, as set out on page 8 of this report. However, we have….
    - ➢ Considered 'construction' and 'real estate' together under a 'development and construction' heading, covering the property market as a whole
    - ➢ Included 'accommodation and food service' within a broader category of 'visitor economy', reflecting the importance of the latter to the county's economy and the existence of a strong sector identity
    - ➢ Included 'information and communications' within a broader definition of 'digital tech', elements of which overlap with other sectors
    - ➢ Set out specifically the implications for the cultural and creative sector (included within the OBR's analysis within the 'other services' definition
    - ➢ Included a additional reference to the life sciences sector – a very small sector in employment terms, but one in which Kent and Medway is seen as having some key strengths.
- This analysis has limitations: there are many businesses which in reality are in multiple sectors, and sectoral definitions are becoming less useful as technology converges. But they are a useful way of subdividing the economy into recognisable categories, and help us to understand the impacts on groups of businesses.

Sectoral vulnerability

- Sectors are not always useful units of analysis: increasingly, technology convergence and complex supply chain links make sector definitions somewhat arbitrary.
- However, the sectoral dimension has been important in the way the crisis has played out: as the output estimates in the past quarter illustrate, the impact of the crisis has varied substantially by sector.
- In the lockdown phase, the vulnerability of the retail, hospitality and creative sectors was obvious, and 'enforced contraction' was the driver of the collapse in output this year. But over time, changes in structural demand and productivity will return as key determinants of sector growth

Agriculture and horticulture: Overview

Scale of the sector			
Jobs (2018)	11,000	Output (GVA, 2018)	£351m
Enterprises (local units, 2019)	2,460	Output change (Mar-May 2020, outturn)	6.3
Location quotient (2018)	2.3	Output change (2020, estimate)	0.0

- While small as a share of Kent and Medway's overall output and employment, the agricultural sector is highly concentrated in the county, accounting for much of the country's soft fruit industry and associated with significant research capabilities (e.g. NIAB-EMR at East Malling). Although narrowly defined within the agriculture SIC code, farming forms a key component of the wider agri-food sector, linked with food development, manufacturing and distribution.
- While reported output fell nationally at the height of the pandemic, the overall output loss this year is likely to be modest (PwC's GVA estimates do not include an estimate for Agriculture, but we have applied the OBR's Reference Scenario estimate from earlier this year).
- Rising costs are a key challenge for growers, partly linked with increasing labour costs. These will potentially be further impacted by any reduction in international labour, in the context of the effects of the pandemic and the end of the Brexit transition period.
- There is reportedly very little capacity in the cold chain, partly due to the absence of a final market for goods destined for the catering sector, where demand remains weak
- There are also pressures on farm incomes linked with impacts on the hospitality and tourism sector. Despite these significant pressures, the National Farmers' Union reported earlier in the crisis that:

  "the farming sector is proving resilient during this period. For a majority of non-diversified farming businesses which have needed help to date, capital repayment holidays and, to a lesser extent, overdraft facilities are proving to be the most effective interventions being adopted to support cash flow rather than extensive take-up of the CBILS offer" [18]

- Longer term, there may be opportunities for the sector, either through public demand for greater food security and shorter supply chains, or through moves to diversify sources of supply from across the European retail market.

Agriculture and horticulture: Scenarios

Upside Scenario	• Short-term disruption to labour supply – partly resolved as public health restrictions eased, *but* limited prospect of additional domestic supply as wider economy returns to growth • Strong demand maintained domestically and internationally; potentially greater demand for local/ UK produce • No loss of output in 2020, and potentially some growth
Central Scenario	• Short-term disruption to labour supply – partly resolved as public health restrictions eased, *but* limited prospect of additional domestic supply as wider economy returns to growth • Generally strong demand, although demand from catering/ hospitality sector slow to return • Loss of output likely to be limited
Downside Scenario	• Significant labour supply challenges as other European countries (or the UK) suffer 'second wave' • Persistent weak demand from catering/ hospitality and specialist sector impacts some branches of food production • But demand still strong and output loss limited
Risks and opportunities	**Risks** • Labour shortages and supply chain impacts linked with unfavourable Brexit deal **Opportunities** • Preference for local production • Investment in technology and productivity improvements • Further development of near markets

Energy, utilities and envirotech: Overview

Scale of the sector			
Jobs (2018)	8,800	Output (GVA, 2018)	£1.47bn
Enterprises (local units, 2019)	530	Output change (Mar-May 2020, outturn)	-8.0%
Location quotient (2018)	0.9	Output change (2020, estimate)	-4% to -7%

- The data above relate to the ‘mining, electricity and gas, and water supply and remediation’ sectors, although in Kent, the sector is essentially made up of energy, utilities and environmental technology (recycling, waste-to-energy, land remediation, etc.).
- In Kent and Medway, the sector is mainly concentrated in Swale, Medway and Tonbridge and Malling.
- Employment grew by around 12% in 2015-18, reflecting the increasing complexity of the energy sector
- There was a significant loss of output during lockdown (likely through temporary closure of recycling and reprocessing activities). On the whole though, the sector provides essential services to population-derived demand, so is likely to be resilient, and some of this loss will be made up over the course of the year.
- In the long term, there are strong prospects for sector growth in Kent & Medway, linked with the need for greater resource efficiency and the potential for renewable energy generation. In the shorter term, falling prices for fossil fuels (in the context of a collapse in demand) could present a competitive challenge, although the UK’s overall commitment to carbon reduction is very unlikely to change.

Energy, utilities and envirotech: Scenarios

Upside Scenario	• Domestic demand remains constant; limited contraction this year and strong return to growth • Some projects temporarily delayed due to earlier lockdown phase and wider disruption • Positive impacts from Government decarbonisation measures and businesses' willingness to invest
Central Scenario	• Market uncertainty and investor reluctance delays some new projects • Continuing weak general demand places downward pressure on energy and commodity prices, potentially weakening the case for new investments • Firms focus on short-term cost savings rather than long-term investments
Downside Scenario	• Persistently weak energy and commodity prices, coupled with a lengthy contraction mean that investment projects are cancelled or postponed indefinitely; fewer opportunities for supply chain firms • Climate change and decarbonisation become less of a priority in the face of extended economic recession
Risks and opportunities	**Risks** • Persistently low energy prices linked with global over-capacity **Opportunities** • Long term opportunities associated with decarbonisation and demand for greater resource efficiency

Manufacturing: Overview

Scale of the sector			
Jobs (2018)	47,000	Output (GVA, 2018)	£3.375bn
Enterprises (local units, 2019)	3,795	Output change (Mar-May 2020, outturn)	-18.0%
Location quotient (2018)	0.8	Output change (2020, estimate)	-10% to -17%

- Following declining output (in real terms) and employment in the mid-2000s, Kent and Medway's manufacturing sector has stabilised and grown since 2015. It currently accounts for about 8% of GVA and 7% of employment (although is quite concentrated locally, accounting for 14% of employee jobs in Swale, and with a large presence in Medway and Ashford).
- The sector is largely SME-based, with relatively few large 'anchor' businesses, and sub-sectorally diverse (outside traditional areas of strength such as paper manufacturing and construction materials, which are quite concentrated locally).
- Around 80% of manufacturers have taken advantage of the Jobs Retention Scheme – but most have only furloughed a small proportion of staff. This reflects firms' continued production – but businesses have also highlighted the inflexibility of the scheme (for example, compensation for short-time working or reduced shift patterns might be more appropriate in some cases than furloughing individual posts).
- Around 6,000 jobs in Kent and Medway are in the food and drink manufacturing sub-sector (with an important overlap with agriculture). Overall, food demand has remained high: firms supplying the retail market have been resilient, and Kent Invicta Chamber reports strong demand for suppliers of flavourings and ingredients, although foodservice businesses supplying the hospitality trade have experienced challenges, which may continue into the medium term.
- There is evidence of some firms switching to production of products for NHS use (e.g. from drinks manufacture to production of hand sanitiser), and this ability to shift production has anecdotally been important in enabling firms to maintain cashflow. It would be useful to have further evidence on the extent of this.
- Looking to the future, MAKE UK's latest Manufacturing Monitor notes that almost all manufacturers are operational, with evidence of recovery in sales and orders – although most manufacturers surveyed are operating below capacity, and about 40% consider that it will take over 12 months to return to 'normal' conditions.[19]

Manufacturing: Scenarios

Upside Scenario

- Sharp contraction and manufacturers operating under capacity
- Some job losses as furlough unwinds, but sufficient demand to mitigate this
- Some restructuring – substantial in some sub-sectors (e.g. aerospace, aviation), although Kent's exposure limited
- Potentially a driver to new investment in techolology to support competitiveness

Central Scenario

- Weaker outlook means ending of furlough causes significant disruption, with widespread job losses and industry restructuring
- Potentially some wider supply chain disruption, especially assuming major trading partners experience similar scenario
- Some firms unlikely to survive

Downside Scenario

- Ongoing disruption drives significant changes in consumer demand and behaviour, increasing the need for firms to seek new products and markets
- Loss of key supply chain partners leads to substantial reorganisation of industry
- Potential opportunities… but risk of lack of investor confidence

Risks and opportunities

Risks

- Loss of skills through workforce attrition and under-investment
- 'No deal' Brexit impacting on markets and supply chains

Opportunities

- Investment in technology and management capacity

Development and construction: Overview

Scale of the sector			
Construction			
Jobs (2018)	45,000	Output (GVA, 2018)	£4.146bn
Enterprises (local units, 2019)	12,780	Output change (Mar-May 2020, outturn)	-29.8%
Location quotient (2018)	1.4	Output change (2020, estimate)	-14% to -25%
Real estate			
Jobs (2018)	10,000	Output (GVA, 2018)	£7.146bn
Enterprises (local units, 2019)	2,610	Output change (Mar-May 2020, outturn)	-2.1%
Location quotient (2018)	0.8	Output change (2020, estimate)	-6% to -10%

- Kent and Medway has a large construction industry, linked with the scale of current (and planned) development in the county and the Greater South East market. The industry is widely distributed: its share of employment is greater than the national average in all but two of Kent's districts (Canterbury and Tunbridge Wells), although with a relatively high concentration in Dartford.
- Total construction activity fell sharply in April, with the construction sector experiencing one of the sharpest short-term output declines of any sector. However, as activity resumed in May, there appears to have been a sharp recovery, with the Construction Purchasing Managers Index in June showing growth for the first time since February. This has mostly been driven by the residential market[20].
- The industry reports some supply bottlenecks as firms buy up material stocks ahead of anticipated growth later in the year.
- The OBR's recent economic scenarios provide estimates of potential impacts on house prices. In the central scenario, house prices fall in 2020 and 2021, before a strong rebound in 2022, with property transactions exceeding 2019 levels by next year.

Development and construction: Scenarios

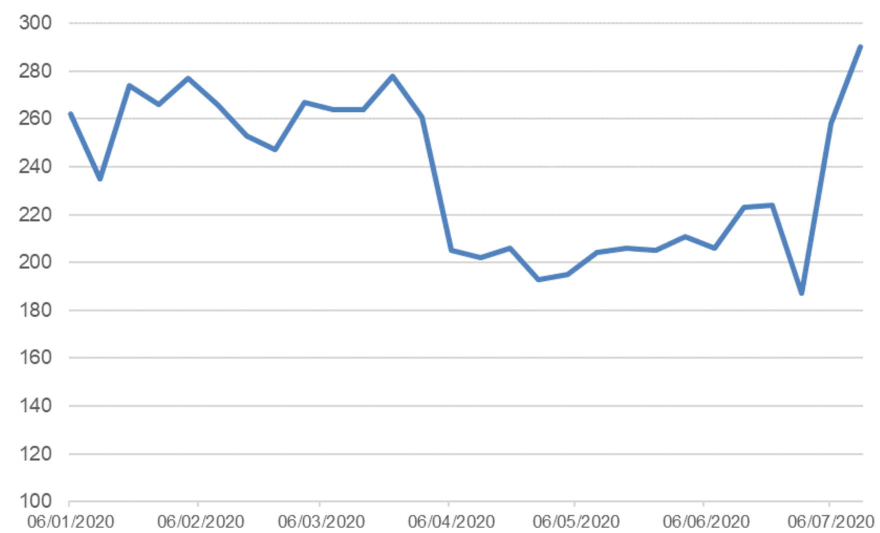
Upside Scenario	• Housing market recovery, releasing pent-up demand as restrictions eased, leading to 'v-shaped' recovery from very sharp fall during lockdown • Continued commitment by Government to invest in infrastructure helps to drive demand locally • Sustained activity helps to retain SME contractor and skills base
Central Scenario	• Housing market slower to recover as consumers nervous about future prospects. Very weak commercial demand given extended uncertainty • Some attrition of skills and capacity, although mitigated by Government investment • Potentially inflationary pressures if supply chain response to development demand compromised by reduced working
Downside Scenario	• Very weak recovery in context of lack of market confidence. Public sector investment insufficient to bridge the gap (and harder to justify as receipts fall and debt rises) • Further restrictions cause sites to close and reopen, reducing efficiency • Permanent loss of skills and SME capacity as firms exit
Risks and opportunities	**Risks** • Skills attrition, taking a long time to resolve • Industry consolidation and loss of diversity/ competition **Opportunities** • Decarbonisation in the construction industry, supporting higher value and sustainable employment

Transport and logistics: Overview

Scale of the sector			
Jobs (2018)	40,000	Output (GVA, 2018)	£2.225bn
Enterprises (local units, 2018)	3,475	Output change (Mar-May 2020, outturn)	-29.5%
Location quotient (2018)	1.2	Output change (2020, estimate)	-17% to -29%

- The transport sector is substantial in Kent and Medway, with a distinctive sub-sectoral profile (including the UK's largest passenger port at Dover and international passenger operations via Eurotunnel/ Eurostar; and international freight activity through Dover, Sheerness and Eurotunnel).
- The distribution system has been highly successful in maintaining consumer supplies (although pressure increased on storage capacity as orders placed pre-pandemic continued to arrive, but without an outlet to final demand). Manufacturers have also highlighted some vulnerabilities in the distribution system that emerged at the height of the pandemic, which may need to be addressed in the return to growth[21].
- Some labour supply challenges have been identified within the sector, especially given the ageing haulage workforce (although the Government put in place a package of temporary regulatory relief, to allow longer hours working, etc[22].
- Weekly shipping through the Port of Dover fell at the end of March and remained low through most of the crisis. But traffic volumes have recently rebounded sharply:

Weekly ship visits through Port of Dover



Source: ONS, Weekly Shipping Data, 13 July 2020;

Transport and logistics: Scenarios

Upside Scenario	• Reduced demand for freight services in short term – but rapid bounce back as general activity resumes this year, and online purchasing grows • Passenger travel remains very subdued for the remainder of this year, with some behaviour change likely to be permanent. This leads to some job losses and restructuring • Continued investment in port operations
Central Scenario	• Steady return to growth similar to upside scenario, although weaker demand plays this out over a longer period. Investment continues, given long-term outlook • Passenger transport experiences continued weak demand and some services become unviable.
Downside Scenario	• Overall demand sluggish and similarly severe downturns overseas cause international freight volumes to decrease – potentially leading to reduced capacity at major ports and logistics operations.
Risks and opportunities	**Risks** • Skills attrition, given aging logistics workforce • End of Brexit transition and specific impacts on Kent **Opportunities** • Growth of LogiTech and automation in logistics sector • New Government proposals (including Freeports proposition)

Retail and wholesale: Overview

Scale of the sector			
Jobs (2018)	123,000	Output (GVA, 2018)	£4.967bn
Enterprises (local units, 2018)	13,165	Output change (Mar-May 2020, outturn)	-23.7%
Location quotient (2018)	1.2	Output change (2020, estimate)	-15% to -26%

- The ‘conventional’ retail sector was severely impacted by lockdown, with much of the industry shut down. Non-essential spending fell by around 36% in May, although the year-on-year decline improved to 22% in June, partly offset by strong essential spending demand[23].
- The way in which consumers are spending has unsurprisingly been strongly affected by the crisis. Online spend rose to over 50% of total consumer spend earlier in the year, partly driven by a surge in demand for online grocery purchasing[24].
- This will likely compound the longer term structural challenges facing the retail sector, and some multiples have already announced store closures and redundancies. While footfall will return, the fact that the pandemic follows trading conditions that have been weak for some time means that for some firms, the current situation may be the ‘final straw’, despite the impact of Government mitigation schemes[25]
- In the medium term, continued social distancing measures will especially impact the leisure/ food and drink offer which has become a more important part of the town centre experience in recent years, impacting comparison retail even as demand for purchases rises.
- However, the increased pace of structural change may lead to a changed landlord/ tenant relationship and to new opportunities for independents

Retail and wholesale: Scenarios

Upside Scenario	• 'Reopening' of the high street enables some return to 'normal' trading – although traffic remains low for the rest of 2020. • Extended job losses in retail sector, with loss of less competitive firms, although mitigated by return to confidence and national and local initiatives • Strong rise in online sales driving retail growth and innovation in the sector
Central Scenario	• Limited high street/ conventional retail recovery, as aftermath of crisis accelerates previous trends. • Significant loss of retail market, although possibly mitigated by reduced rents over time • Online market grows as in upside case, although at a slower pace, reflecting weaker confidence
Downside Scenario	• Reduced spending overall impacts on stronger retail players, driving consolidation and widespread exits • Online market grows as in upside case, although at a slower pace, reflecting weaker confidence
Risks and opportunities	**Risks** • Lack of capacity to 'rethink' the retail offer (and to invest in the wider town centre mix) **Opportunities** • Massive growth in online trading • 'Shake out' of weaker operators and opportunity to bring forward new retail models

Visitor economy: Overview

Scale of the sector (accommodation and food service)			
Jobs (2018)	51,000	Output (GVA, 2018)	£1.032bn
Enterprises (local units, 2018)	5,365	Output change (Mar-May 2020, outturn)	-71.7%
Location quotient (2018)	1	Output change (2020, estimate)	-23% to -44%

- Kent's visitor economy is a major employer, and impacts on a number of other sectors, including elements of retail, cultural and creative activities, transport and agriculture.
- Tourism and hospitality have been among the worst hit sectors, given both the immediate and total loss of demand. The phased return to 'normality' is likely to benefit the sector later than most other branches of the economy (and some social distancing measures (e.g. fewer covers per restaurant) may not be viable within existing business models). The timing of the crisis has also been important, given that much of the peak season is likely to be lost. According to Visit Kent, some operators are facing tough decisions about whether to close for the remainder of the year.
- Reductions in business travel may also persist in the longer term, due to social distancing measures and potentially the permanent use of digital communications by employers.

Defining the visitor economy

- The data above relate to the 'accommodation and food service' sector. However, the visitor economy is larger than that, including a range of leisure activities, as well as part of the retail and cultural sectors. On a broader definition (not including the supply chain, the sector accounts for around 69,000 jobs, and around 5,400 businesses.

- This could potentially be offset later in 2020 (or next year) by an increase in domestic demand, as consumers remain cautious about international travel. To support this, Visit Kent is investing in a major campaign aimed at the South East regional market.

Visitor economy: Scenarios

Upside Scenario	• Easing of lockdown successful; no further 'spikes'; confidence to travel grows • Demand increases in domestic market, with additional activity this year partly compensating for the spring – although this is insufficient to make up the gap, and there is still a substantial fall in output in 2020 • Government support measures work, although ending of furlough very challenging
Central Scenario	• Modest return to domestic demand this year, although public still cautious • Scale of the contraction earlier in the year is such that firms are unable to withstand the ending of Government support measures. Continuation of leisure industry failures • Social distancing impractical and makes some operations unviable • But sluggish overall growth might support the domestic market next year
Downside Scenario	• Further public health restrictions (including local lockdowns) have a major impact, since visitor economy activities are likely to be the first to close/ last to open. Potentially significant impact on firm survival. • Major reduction in foreign travel may lead to opportunities (but overseas operators will be competitive)
Risks and opportunities	**Risks** • Impact of social distancing and local outbreaks • Permanent 'scarring' and loss of previously viable SMEs **Opportunities** • Domestic market demand, linked with strong Kent brand

Digital tech: Overview

Scale of the sector (information and communications)			
Jobs (2018)	19,000	Output (GVA, 2018)	£1.367bn
Enterprises (local units, 2018)	5,480	Output change (Mar-May 2020, outturn)	-10.8%
Location quotient (2018)	0.6	Output change (2020, estimate)	-5% to -8%

- The ‘digital sector’ is hard to define – increasingly, all businesses are ‘digital’, and some firms that rely on the exploitation and development of new digital technologies as their ‘core business’ will be included within other definitions (e.g. fintech within financial services). But the concept of the ‘digital tech’ sector is widely recognised, and set out in (for example) the Tech Nation report series. The definition that Tech Nation uses defines the sector as somewhat smaller than the numbers above suggest, with about 16,000 jobs and 4,600 businesses.
- Within Kent and Medway, the sector is especially concentrated in West Kent, although it is generally seen as having widespread prospects for growth.
- Digital solutions have been an important part of the mitigation strategy for the current crisis, enabling much of the service sector to function remotely, and there has been an increase in the use of digital communications and services.
- Some of these changes may become permanent; more broadly, there is likely to be increased demand for digital health-related services, and for the further use of data in building supply chain and operational resilience[26]
- In relation to ‘high growth’ businesses analysed by Beauhurst, those in ‘tech sectors’ are most likely to be resilient, especially in e-health, EdTech and VoIP [27]
- However, in parts of the sector, such as digital marketing and communications, face-to-face activity remains important – although the barriers to re-engaging should be relatively modest. More challenging for this area of activity is likely to be the general buoyancy of the economy overall.

Digital tech: Scenarios

Upside Scenario	• Strong demand for new digital products and services – crisis reinforces existing trends and supports broader digitalisation • Some corporate ICT projects potentially, but as activity resumes, these move forward as firms invest in resilience • Some demand for more supply chain diversity (c.f. reliance on China)
Central Scenario	• Weaker demand overall feeds into the digital tech sector – demand for products and solutions rises, but at a slower pace • Demand from firms for greater digital resilience is sustained – and perhaps greater demand in the event of further restrictions/ disruption
Downside Scenario	• Consumer demand falters • Business demand compromised by multiple challenges and unwillingness by firms to invest • Uncertainty limits the digital tech investment market
Risks and opportunities	**Risks** • Lack of investor confidence **Opportunities** • Continued demand for new solutions – potentially reinforced by the crisis

Financial, prof. and business services: Overview

Scale of the sector	Financial & insurance	Professional, scientific & technical	Business admin & support
Jobs (2018)	20,000	44,000	61,000
Enterprises (local units, 2018)	1,935	12,685	7,190
Location quotient (2018)	0.8	0.7	1
Output (GVA, 2018)	£1.64bn	£2.29bn	£2.159bn
Output change (Mar-May 2020, outturn)	-2.5%	-15.5%	-28.3%
Output change (2020, estimate)	-5% to -8%	-7% to -11%	-8% to -14%

- Although rarely defined as a 'priority sector' in local policy, financial, professional and business services are a major employer, accounting for retail financial services (banks, building societies, etc.) and a diverse range of legal, accountancy, payroll, advisory and other services. It is widely distributed and largely responsive to local demand.
- However, the wider impact of the sector on the Kent economy is likely greater than the headline figures suggest, given the importance of financial and professional services to the London economy and the number of Kent and Medway resident commuters who work in the sector (many of whom will currently be working from home). There are potential opportunities for Kent linked with 'de-concentration' from London, but these should be set against the risks of reduced activity in this major commuter destination (and customer market)
- Financial services are likely to be resilient: much employment is delivering an essential service and substantial volumes of work can be done remotely. The contraction to date has been among the smallest of any sector. However, the sector is subject to rapid technical change (e.g. the use of AI in determining insurance claims) and significant workforce change is anticipated in the next few years. The current crisis could accelerate this.
- Sectors reliant on more B2B interaction will face a deeper contraction over the course of the year, although likely to be relatively resilient longer term. But we should probably know more about the composition and local growth challenges/ opportunities relating to this important sector group.

Financial, prof. and business services: Scenarios

Upside Scenario	• Financial and professional services generally resilient – limited impact from lockdown and adaption to new ways of working relatively straightforward • Some challenges for business services firms reliant on face-to-face activity, but these are mitigated as confidence returns • Potentially some opportunities for 'localisation' as more work remotely
Central Scenario	• Sector is resilient, but impacted by generally weaker demand, leading to pressure to reduce costs • Prolonged social distancing forces fundamental review of business practices, with implications for commercial property stock
Downside Scenario	• Weak general demand reduces business services market • Structural change in firm location patterns and staffing structures weakens London's role as Europe's primary financial and business services centre – negative impacts on Kent are likely to outweigh the gains from 'localisation', home working, etc.
Risks and opportunities	**Risks** • Risks to London market, including through Brexit • Automation potentially leading to widespread restructuring **Opportunities** • Online services and innovation in FinTech and new services and systems

Cultural and creative industries: Overview

Scale of the sector			
Jobs (2018)	12,000	Output (GVA, 2018)	£553m
Enterprises (local units, 2018)	3,705	Output change (Mar-May 2020, outturn)	**
Location quotient (2018)	0.7	Output change (2020, estimate)	-15% to -25%

- Like ‘digital tech’ the economic footprint of cultural and creative activity is greater than its formal sector definition, given its relationship with the visitor economy, leisure activity and ‘sense of place’ that is important in driving some location and investment decisions. There is also an overlap with ‘digital’ (e.g. creative media, gaming, etc.). Prior to the crisis, the sector was growing rapidly and has long been seen as a priority sector for development.
- The sector is characterised by high levels of self-employment and freelance working, which are not reflected in employee jobs data.
- Cultural and creative activity was largely closed down during lockdown, and while restrictions on much activity remain in force, the sector continues to be one of the worst affected by the crisis. The OBR does not make a formal estimate of the output loss between March and May, but it is likely to along the lines of the scale of loss endured by the visitor economy (around 70%). Across the year as a whole, Oxford Economics estimates the sector will be hit twice as hard as the rest of the economy[28].
- Key challenges include the fragmentation and fragility of parts of the sector, given its reliance on micro businesses and freelancers *“Income breakdown and lack of access to credit can wipe away much of the productive fabric”* [29.] While there can be strengths in flexibility, the risks to employment – especially freelance employment, which may not have been covered by the Government mitigation schemes – are substantial.
- There are close associations between commercial creative activity and those reliant on charitable or public funding (such as arts venues, theatres, academic institutions such as UCA, and so on)[30] . These have also been impacted, and the Government has made sector-specific financial support available, although there is a risk that some smaller institutions will fail to benefit[31]. There is a challenge in ensuring that as activity resumes, their long-term economic and social value is recognised in the context of competing demands for public support.

Cultural and creative industries: Scenarios

Upside Scenario	• Within the upside scenario, the outlook for 2020 is still negative • Continued social distancing reduces the prospect of live events and cultural activities for most of this year • Some support from Government for cultural sector, but significant job losses, including among freelancers • Gradual return to growth in 2021
Central Scenario	• Negative prospects for 2020 extended • Widespread job losses and likely scarring as valuable activities/ institutions are permanently lost
Downside Scenario	• As the central scenario, but in the context of a widespread downturn with high unemployment and multiple calls on diminishing Government resources (including from cultural organisations in the major cities. Risk that Kent and Medway is marginalised in that context, as other Government priorities take precedence
Risks and opportunities	**Risks** • Permanent loss of talent from an important UK growth industry **Opportunities** • Community and sector leadership • Innovation to monetise virtual activities

Health and social care: Overview

Scale of the sector			
Jobs (2018)	95,000	Output (GVA, 2018)	£2.838bn
Enterprises (local units, 2018)	4,325	Output change (Mar-May 2020, outturn)	-24.2%
Location quotient (2018)	1	Output change (2020, estimate)	-5% to -8%

- The scale of the reported national output loss in health and care in March-May is surprising. In the OBR's 'Reference Scenario' published in April, health and care was the only sector anticipated to show growth in Q2 of this year (an intuitive expectation given the nature of the crisis), although the outturn data shows a substantial contraction. This may be due to cancelled and postponed operations and the closing down some non-essential health-related activities. However, in the short term, demand from the health sector has helped to drive activity elsewhere (e.g. through the need for increased equipment and consumables supplies for the NHS).
- The sector is essentially local demand-driven, so impacts in Kent will mostly reflect those in the rest of the country
- Longer term, investment in the health economy is seen as a priority (for example through the investment in Kent and Medway Medical School), both to cater to rising demand and to potentially secure medical research capabilities in the county. Rising investment in the sector is therefore likely to be beneficial, socially and economically.
- In the shorter term, social care has been in the frontline of the human cost of Covid-19.
- It is likely that the current crisis will highlight the challenges facing the social care sector, including its future sustainability in the context of rising demand, downwards pressure on costs and recruitment challenges (potentially exacerbated following the end of Brexit transition). Changes in Government policy could lead to changes to the established business model.
- There are pressures on voluntary and community sector providers as demand for services rise, there are increased pressures on cost and potentially impacts on retail and voluntary-based funding sources

Health and social care: Scenarios

Upside Scenario	• Largely responsive to local demand; returns to normal activity as disruption settles down • Public support and concern following pandemic has positive consequences in terms of investment in care system, and interest in health and care careers • Demand for investment in digital health, with wider economic benefits
Central Scenario	• Further outbreaks prompt continued responses from public health authorities and re-focusing of effort on the immediate crisis. But the system is broadly able to cope and learns from experience of the first wave
Downside Scenario	• Widespread disruption to the system from further Covid-19 outbreaks (or coincidence with seasonal flu or other public health matter) • In context of general economic downturn and continued pandemic, limited capacity to address long-term structural issues related to the health and care economy.
Risks and opportunities	**Risks** • Loss of staff (major risk, given Kent's current vulnerabilities) • Resources diverted to immediate crisis **Opportunities** • Digital health, likely to have new impetus • Links with research base

Life sciences: Overview

Scale of the sector	
Jobs (2018)	2,000
Enterprises (local units, 2018)	125
Location quotient (2018)	0.7

- In terms of jobs and business stock, the life sciences are a small sector in Kent and Medway. However, they have been regarded as a policy priority for some time (especially linked with Discovery Park), and support the UK's comparative advantage in the sector.
- In Kent and Medway, the sector is dominated by biopharmaceuticals (with a smaller medtech segment). It is generally 'higher value' and research intensive, although much of the employment base is in manufacturing
- In the short term, the Covid crisis has led to opportunities for the sector, for example in rising consumer demand for personal medtech products (sanitising products, over-the-counter medicines, etc.) and in wider demand for medical devices.
- More fundamentally, the life sciences are currently at the forefront of the response to the Covid-19 pandemic, with the industry in the UK leading the way in efforts to find a vaccine.
- Linked with this, the Government response following the pandemic may increase the availability of research and innovation funding available to the sector, which has long been a national priority for support.
- Looking to the future, recent analysis suggests opportunities in relation to:
  - Manufacturing and supply chain disruption linked with the vulnerabilities highlighted by the pandemic. This could lead to be policy backing for increased domestic manufacturing and storage capabilities, which could benefit the sector locally
  - Increased use of digital technologies, focused on clinical trials, supporting accelerated medicines development.
- Kent is well placed to take advantage of these developments. However, there are however some challenges to the sector in Kent, partly linked with its relatively small scale compared with other concentrations of activity: over the medium/ long term, increasing sector scale and developing the ecosystem (e.g. through the expansion of relevant university activity) will continue to be important.

Life sciences: Scenarios

Upside Scenario	• Demand for medical devices and pharmaceuticals grows through the crisis – potentially linked with the development of a vaccine or treatment(s) in the UK • Further investment (commercial and public) in the sector, which Kent can benefit from given existing assets • Supply chain vulnerabilities prompt action to build stronger base locally
Central Scenario	• As upside scenario, although in generally weaker market conditions, potentially impacting the ability of innovative SMEs to secure capital
Downside Scenario	• Pressure on Government finances reduces industry support • Inability to secure funding damages the innovation base (especially if accompanied by a reduction in university capacity). Potentially this impacts Kent significantly as a 'second tier' location for life science activity
Risks and opportunities	**Risks** • Weaker Government commitment • Failure to respond to opportunities **Opportunities** • Existing life science asset base • Opportunity for collaboration with NHS, business and university sector

Education: Overview

Scale of the sector			
Jobs (2018)	72,000	Output (GVA, 2018)	£2.661bn
Enterprises (local units, 2018)	2,000	Output change (Mar-May 2020, outturn)	-37.8%
Location quotient (2018)	1.2	Output change (2020, estimate)	-13% to -23%

- The education sector (covering a very broad range of activities) is a core enabler of economic growth: strengthening Kent and Medway's skills base and supporting its research and innovation capabilities are obviously at the heart of economic strategy.
- However, the sector makes an important *direct* contribution to the economy in its own right, with elements of the higher education sector effectively operating as 'export' industries, directly attracting external spend and investment into the county. The universities are also strongly place-based, at Canterbury and Medway, playing an important role in the local visitor and creative economies in addition to their core roles.
- Within the education sector, higher education is likely to be significantly impacted by the crisis, through changes in student numbers (especially if there are fewer international students from September).
- The Government has announced a loan-based package for universities to manage a reduction in international student numbers, although the disruption to income and established teaching models could be significant. This was followed by the publication of a Higher Education Restructuring Regime in July, linking support for institutions with the Government's wider restructuring policy objectives.
- Beyond the higher education sector, the crisis presents a challenge to all providers in delivering services while adjusting to the realities of social distancing. Linked with the challenging (and potentially very negative) employment outlook highlighted earlier in this report, education institutions will also have a key role in working with employers to maximise employment.

Education: Scenarios

Upside Scenario	• New academic year is successful: social distancing measures are effective and inspire confidence and new methods of delivery successfully introduced • Shortfall in student numbers this year, but international student numbers grow again in 2021 in the absence of a major 'second wave' • Labour market challenging for new graduates and education leavers
Central Scenario	• Extended fall in income as overseas students are slow to return. Potentially this leads to restructuring/ consolidation considerations • Risk of loss of research income as Government funds under pressure and commercial partnerships more difficult to achieve
Downside Scenario	• Long term/ structural changes in demand prompt restructuring/ reorganisation, with consequential impact on the graduate talent pipeline and support for the local and regional economy • Risk of student population/ potential student population being under-served if institutions contract
Risks and opportunities	**Risks** • Risks to the existing model • Loss of staff and capacity, impacting on future resilience **Opportunities** • New methods of delivery and the ability to develop new partnerships

Kent and Medway Economic Renewal and Resilience Plan
Economic impacts evidence base

Annexes

Annex 1: Sector definitions

- Sector definitions have been applied using SIC codes, as follows:

  - Agriculture: A
  - Energy, utilities and environmental technologies: B, D, E (this sector group is typically referred to as mining, electricity, gas and water supply, but the mining component in Kent is negligible)
  - Manufacturing: C (food manufacturing is defined as SIC codes 10 and 11)
  - Development and construction: F (construction) and L (real estate)
  - Transport and logistics: H
  - Retail and wholesale: G (retail is defined as SIC code 47)
  - Visitor economy: 55, 56, 79, 90, 91, 93. This is a broader definition than ‘accommodation and food service’ (Group I), recognising the relevance of visitor attractions, cultural activity, etc. There is some overlap with creative and cultural industries
  - Digital tech: 2620, 5821, 5829, 6110, 6120, 6130, 6190, 6201, 6202, 6203, 6209, 6311, 6312, 9511. This is the definition used by Tech Nation. It is somewhat narrower than the Information and communications SIC group (Group J)
  - Financial and professional services: K, M, N
  - Creative and cultural industries: 7311, 7312, 7111, 3212, 6010, 6020, 7410, 7420, 7430, 5811, 5812, 5813, 5814, 5819, 9101, 9102, 9001, 9002, 9003, 9004, 5911, 5912, 5913, 5914, 5920, 8552
  - Health and social care: Q
  - Life sciences: 2110, 2120, 2660, 3250, 7211
  - Education: P (higher education is defined as 854)

Annex 2: Economic impact calculations

Quarterly sectoral output change

- Outturn data exists for UK GDP growth between March and May this year (and preceding months) at sectoral level. Since GDP is not published at local level, it is not possible to directly translate from this to an estimate of local impact. However, it can be useful to have a 'rough' understanding of the *relative* impact on Kent (for example, does the local sectoral balance make the county more or less vulnerable?).
- To provide an indication of this, we have:
    - Inflated the most recent gross value added by sector for Kent and Medway (2018) to 2020, using 20-year average growth rates
    - Applied the OBR output change to the resulting estimated quarterly GVA for Kent and Medway

The OBR scenarios

- The three scenarios presented in this report are derived from those published by the OBR in the Fiscal Sustainability Report in July. We have applied the change in output in Kent and Medway in the same way as described above, to provide a rough indication of the scale of the output loss (although the scenarios remain the same as those published nationally). The OBR's national unemployment scenarios are simply applied straightforwardly to Kent and Medway, since the county's unemployment rate typically tracks the national average.

Sector change in GVA in 2020

- Rough estimates of the change in GVA by sector in 2020 are derived from scenarios developed by PwC[33]. These provide estimates of GVA change in the event of 'bumpy' and 'smooth' scenarios. These cover a wide range of outcomes, with the 'bumpy' scenario slightly more pessimistic than the OBR downside scenario, and should be seen as indicative.

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For the latest economic data, including the Covid-19 Economic Dashboard, please visit the Kent County Council Strategic Commissioning Analytics page at www.kent.gov.uk/research

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