Written evidence submitted by Cornwall Council / Cornwall and the Isles of Scilly (CIoS)

Context: the state of the Cornish Economy

With one in three private sector jobs in Cornwall linked to the visitor economy through hospitality, the impact of the initial lockdown has been more severe in Cornwall than elsewhere in the country. This sector has once again been disproportionally hit by the second lockdown and been forced shut during November.

While government support packages have successfully protected a large proportion of jobs and businesses, and while the reopening of the economy from July onwards has allowed the local economy to recommence trading, the local economy carries significant risk into the autumn and winter of this year.

Resilience, both in terms of cashflow and in terms of business confidence, is at an all-time low with businesses having used up their reserves in dealing with the first phase of the crisis. Now into a second national lockdown, these issues have only exacerbated.

While is it good news that Cornwall and the Isles of Scilly (CIoS) as two of only three areas in the country will move into tier 1 restrictions when the national lockdown ends on the 2nd December, it would be a mistake to think that our economy is not in an extremely difficult situation:

- A weakened labour market; CIoS have had a total of 37% of its employees furloughed at some point since March. CIoS furlough rates is the 13th highest in the UK. At of the end of September there were 15,700 people furloughed in CIoS, which represents 7% of employees. In spite of the furlough scheme, unemployment has increased significantly with the alternative claimant count for Cornwall being 151% higher in September 2020 (21,139) compared to September 2019 (8,407), which is significantly above the national trend where the increase has been 118%. Universal Credit claims in Cornwall increased by 96.5% between March and September 2020. Those searching for work peaked in May, however in October it is still double what it was in March, with 16,235 people searching for work in Cornwall and 35 in the Isles of Scilly.
- Fragile signs of recovery; Anecdotally, businesses within our visitor economy have reported a busy summer and good levels of activity continued into September and October. However, we expect with the second national lockdown, that November will be harsh on the visitor economy, especially given the already depleted funds that many businesses experienced during the first lockdown. We are starting to see a slight turning of the tide in terms of unemployment statistics with August numbers (alternative claimant count) improving to 21,139 from 22,579 in May. This is in contrast to the Great Britain and England figures which both saw continued increases in numbers. Local vacancy numbers are also starting to pick up with October 2020 vacancies being up 45% compared to October 2019. However, since the second national lockdown, vacancy figures has started to decline again, in the week ending 15th November there was a 22% decrease in vacancies compared to the same week in 2019.
- The visitor and hospitality economy having incurred huge losses in 2020; A survey conducted by South West Research company found that in Cornwall and the isles of Scilly, while 68% of tourism related businesses were now operating at +76% capacity, 5% of businesses still remained closed. Since March, 51% of businesses has experienced a decrease of more than half of their turnover. Only 2% of tourism businesses have experienced some increase in

turnover. The research also estimated that between January and July 2020 CIoS lost an estimated £585 million within the tourism sector. During the pandemic 21% of tourism businesses in Cornwall have reduced hours for staff, 7% have put staff on unpaid leave and 1% have made staff redundant. Only 30% of South West tourist businesses currently anticipate that they will be able to survive beyond summer 2021 (September 2021 onwards) without further support. 23% of businesses anticipate they will only be able to survive until winter 2020 (to 31st March 2021) and 21% of businesses don't know/are unsure how long they will be able to survive without further support.

There were knock-on impacts of the tiered system introduced during October with many people from tiers 2 and 3 cancelling their autumn and Christmas holidays in Cornwall and this will only have been exacerbated given the second national lockdown where the visitor sector had to close again. Newquay airport has also had to close temporarily, an important regional transport link which helped with not only the visitor economy, but also our connection to London and other major cities, helping to mitigate impacts caused by peripherality. With ferry routes to Plymouth not starting until the spring, there are now limited ways for people and goods to enter and exit Cornwall.

- Even before the second lockdown, the surge in cases in the UK and abroad did have an impact; It is important to note that even before the second lockdown was imposed in Cornwall, our economy was still being impacted by the 2nd wave, through supply chain disruption and loss of consumer confidence. Our food and drink producers already started to report the impact of European restrictions on their exports before the second lockdown in the UK (e.g. bars and restaurants being closed in major cities across Europe decreased demand for high-end food and drink products). Similarly, our university sector is experiencing lower demand from international students. According to Tortoise media, the reduction of international student intake will cost Falmouth university around £5.3 million or 8.1% of its full income. Exeter University is also set to lose an estimated £30.8 million and while this is not specific for the Penryn campus it is significant as the University of Exeter plays an influential role in the Cornish economy through research and joint projects brought about via EU funding. Even after the current national lockdown ends, the Cornish economy will continue to be fragile, with surges elsewhere in Europe and the UK impacting supply chains and tourism in the region.

To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?

To what extent are Government measures value for money for the taxpayer? How effective is the Government support to businesses and individuals across different regions and sectors?

The measures and support schemes have been a lifeline to otherwise thriving local businesses, who due to Covid-19 have been struggling to pay bills and remain solvent. In Cornwall the discretionary grant scheme budget of £13.5million enabled us to support more than 1200 local businesses, which is in addition to the more than 20,500 businesses supported in Cornwall under the original small business and retail, hospitality and leisure grant schemes.

We have, however, identified the following issues, which we'd like to bring to your attention:

Furlough scheme: part-time option

The furlough scheme was too inflexible as staff needed to be off for two weeks. Many businesses that needed a full compliment of staff to operate would have preferred the option of working for one or two days per week to fulfil orders and then furlough their staff for the rest of the week.

Support for the self-employed

Limited support for the self-employed – which make up a disproportionately large part of our economy.

Unlocking discretionary grant money

As pointed out earlier, the visitor and hospitality economy having incurred huge losses in 2020. To help Cornish small businesses make it through the winter and survive beyond the summer of 2021, we requested the remaining budget (approximately £31 million) of the original Small Businesses Grant scheme allocated to Cornwall to be unlocked. This would have allowed the Council to support Cornish businesses who applied under the discretionary grant scheme and who were (some still are) in desperate need of support. These businesses did not get the grant support they needed simply because of the administrative hitch that they are not registered for small business rate relief.

We very much regret that government did not remove this red tape that separated the two budget allocations and allowed us to use the budget from the small business grant scheme for the discretionary scheme, so we could support all those local businesses that need it.

Seasonal Agricultural Workers Scheme (SAWS)

Agriculture as a whole represents around 3% of the Cornish economy - double the national figure - with daffodil and fresh vegetable producers representing a larger proportion of the agriculture sectors' overall economic contribution than elsewhere. Losing these businesses would impact the national Exchequer as well as the Cornish economy. Our daffodil industry alone contributes at least £20 million a year of VAT.

With non-food crop production (including daffodils) not covered by the current SAWS scheme, and the imminent closure of the SAWS pilot scheme at the end of December 2020, our farming businesses are very concerned. It appears that seasonal labour is being caught up in Government policies relating to immigration rather than being treated separately. Due to the current immigration policy focussing on skills - defined as qualifications - field operatives are not considered for visas. The industry estimates 70,000 workers are needed nationally each year.

We appreciate that with rising unemployment, this is a challenging time to review the pilot. While migration may not always be the solution, an extension of the current SAWS pilot scheme into future years – and to cover non-food crops such as daffodils and bulbs - is the sensible thing to do. Indeed, it is paramount to the survival of this crucially important sector in Cornwall during a time of unprecedented challenge to our local economy.

Non-food crop production and quarantine requirements

Seasonal workers coming into the UK can go to work on a farm to pick edible crops immediately while isolating on the farm. However, seasonal workers picking non-edible crops have to be quarantined for 14 days before they are allowed to venture out in the fields. This is required even if both crops are on the same farm. This means that a flower grower has to pay wages and accommodation for 2 weeks before workers can start to be productive.

Does the effectiveness of the Government support vary across different regions?

Yes – A collaborative publication led by Cornwall Council entitled 'Britain's Leading Edge' shows that there is a systematic bias in national policy and funding decisions toward cities that, in turn, deprives more rural regions of investment and thereby limits their ability to contribute fully to the national economy. In this context, Cornwall and the Isles of Scilly are not currently delivering its full potential. The Centre for Cities report on levelling up concluded that "The different nature of the challenge in each place means that the policy approach must also vary".

As the Industrial Strategy also acknowledges, a one-size-fits-all approach does not work. Rural proofing – a commitment made by government to ensure that people and locations in predominately rural areas of the UK receive comparable policy treatment to those in more urban parts of the country – has proven to be flawed, as its application has been inconsistent and there has been insufficient consideration of rural needs [1].

The failure of blanket policy frameworks with an urban bias is laid bare by the practical examples that previously Cornwall was deemed too rural to receive funding for the creative sector, despite being the recognised trailblazer for the development of the creative sector in a rural area.

Locally led, place-based support and investment is critical. Different places have experienced economic growth, change, and inequalities in strikingly different ways. Local economies across England are very diverse, ranging from metropolitan city-regions whose economies include extensive knowledge intensive business services, to coastal communities with strong hospitality sectors, and towns with older demographics and historical dependence on declining industries. Centralisation within England has meant that variation in productivity, income, health and employment are higher than in almost any other developed country.

Regional inequality is one of the key factors that determine the UK's overall productivity performance, and growing inequality indicates that regions are not supported to deliver on their full potential. Place-based variation in the size of economic contraction, requires a place-based recovery response. A large body of recent research reports[2] conclude that the current centralised system of government funding and policy design, delivery and decision-making delivers sub optimal results in terms of levelling up and addressing economic inequalities between different areas of the UK. They also all support a more localised approach with devolution of budgets and decision making to local areas as a key design principle. This need for change is of particular relevance to areas that are outside the agglomeration impact of metropolitan areas.

What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?

---

[1] Morgan, C. & Shepherd, J. (2020) *Land of Opportunity – England's Rural Periphery.* New Local Government Network. House of Lords (2019) House of Lords Rural Economy Committee Report: Time for a Strategy for the Rural Economy.

[2] Grant Thornton's Placed Based Growth – Unleashing counties' role in levelling up England report; the UK2070 Commission independent inquiry into City and Regional inequalities in the UK; Joseph Rowntree Foundation research; the Local Government Association/ Localis study into "Fiscal Devolution" and the opportunity to adopt an international approach "Rethinking Local"; and The Institute of Fiscal Studies report entitled "Sharing Prosperity? Options and issues for the UK SPF"

We acknowledge that the government has allocated vast amounts of money to help people and businesses survive lockdown. Being designated as 'Tier 1' has been universally welcomed by our businesses. As pointed out in our 'context' section, businesses within our visitor economy have reported a busy summer and good levels of activity continued into September and October. However, with the second national lockdown, November will be harsh on the visitor economy.

What is crucial to our businesses, for many whom cash flow is the primary concern at the moment, is the timing of support ending. Repayments for the bounce back loans and the VAT deferral should not kick-in before Easter 2021. Due to the seasonal nature of the Cornish economy cash flow for many of these businesses will not improve until the tourism season starts again.

Moreover, while government support schemes during the both national lockdown were successful in protecting a large proportion of jobs and businesses in Cornwall, it is likely that a return to the tiered system will cause business support to be focused on other areas.

Grant support, the furlough scheme, the self-employed income support scheme, the extension of the VAT scheme and the softening of terms for the Covid-19 loans scheme had been identified as the measures most helpful to the private sector in impact in CIoS.

However, given the cumulative impact of the Covid-19 crisis over the year there will be a need for specific support measures well into 2021 for sectors particularly negatively impacted by covid19 including hospitality, the cultural sector and tourism.

The Spending Review was originally due in the Autumn 2019 but has now been postponed for more than a year. How robust is it in times of crisis?

For the long-term, structural change: we cannot afford to slip backwards. Cornwall's economy has been growing over the past 25 years as a result of locally led, evidence-based decisions and long-term strategic European funding. The delivery of economic development funding, including European programmes matched by national, local and significant levels of local private sector investment, has enabled us to put in place the foundations for growth: two universities, major road upgrades, the UK's fastest growing regional airport, start-up space with streamlined business support for local businesses, a rapidly growing low carbon sector, and digital connections that make Cornwall and the Isles of Scilly more 'technology-ready' than Greater Manchester.

This Government has pushed geographic inequalities to the top of the policy agenda. Levelling-up is a strong commitment to reducing spatial inequalities over the medium to long term. The UK Shared Prosperity Fund (SPF) is one of the Government's main policy instruments to deliver levelling-up across the UK.

The Chancellor's announcement on UK SPF on the 25 November was a very welcome confirmation that vital EU funding for economic development will be replaced via a UK SPF. However, many questions remain around the UK SPF.

CIoS have proposed a delivery model, which includes a pilot during 2021/22 of £38m (£25m investment from central government) and our offer to pilot the following issues for government stands. It would:

- Demonstrate the benefit of delivering funding in a single pot that embeds skills delivery and employment support alongside business support, infrastructure, innovation and workspace as part of a holistic support package
- Demonstrate how devolved decision-making can work effectively in a rural local authority area building on CIoS existing devolution deal
- Prove that an outcome rather than output performance framework leads to better delivery and test a mixed approach to programme delivery that tests the benefits and costs associated with calls, bid-led, commissioning, co-design, delegated grant schemes models of delivery and local action groups

What changes to the economy are now permanent?

• What difference will the discovery of a vaccine and/or treatment make?

• Will behavioural changes such as working from home necessitate structural changes, whether or not a vaccine is discovered?

The pandemic and lockdown have once more brought to the fore Cornwall's reliance on the tourism and hospitality sectors. It is, however, just one (albeit very important) reason we are more vulnerable to the coronavirus crisis than elsewhere in the UK. Other vulnerabilities include our relatively high incidence of self-employment, a group that is likely to be less well positioned to withstand the sudden drop-of in economic activity this year, relative to employees of larger businesses. This is most clearly illustrated by the loss of jobs and the sharp increase in the Universal Credit figures.

Any recovery plan should therefore not just enable us to go back to a pre COVID-19 performance. To be effective it should also enable us to address some of the fundamental weaknesses in our economy by learning the historic economic lesson's that the crisis has provided. By building the foundations for a more resilient economy we can also consider the potential negative impacts of other well-known future systemic threats such as Climate Change. As our climatic conditions change pandemics may become much more frequent and if our recovery plans simply attempt to return us to the old normal, we will remain just as vulnerable to future shocks.

Government's calls for a 'green recovery', and similar calls from the likes of the Confederation of Business Industry, the International Monetary Fund and our own decision to declare a Climate Change Emergency also recognise this imperative. Covid-19 should therefore be seen as a catalyst for change that starts the process of re-engineering our economy so that it efficiently confronts the triple-threat of the climate emergency, the ecological emergency and environmental adaptation. By accelerating Cornwall's ambitions to decarbonise our economy and restore nature we will help to seize the economic opportunities implicit within the recovery phase, whilst securing a more durable and inclusive future economy.

The CIoS draft Local Industrial Strategy echoes this ambition for carbon neutrality by 2030 and the Great South West's ambition to be the first net zero carbon region in England both create the policy and strategy alignment required to deliver the necessary change. The distinctive opportunities for investment in Cornwall and the Isles of Scilly going forward are:

- Clean energy resources – Capitalising on our unrivalled natural resources; leading innovation in floating offshore wind (FLOW) and deep geothermal.

- Geo-resources – Harnessing our expertise as well as the critical minerals necessary for the low carbon transition, in a sustainable way.
- Data and space – Exploiting the unique physical, digital and intellectual assets in the region, and using data to overcome local and global challenges.
- Visitor economy – Making Cornwall and the Isles of Scilly the global leader for low-carbon experiences for visitors and residents, maximising links to the environment, heritage and culture.
- Agri-food – Creating a productive and sustainable sector, maximising market opportunities for land and marine management, as well as food processing and production.

What are the productivity challenges in the wake of the coronavirus crisis?

• How has the crisis impacted on innovation and technological development? What problems could technology solve and what problems will it cause?

The immense productivity gap that currently exists between the prosperous South East of England on the one hand and the rest of the country on the other must be therefore be levelled-up by investing in the LEP areas that are currently lagging behind. In addition, Government must recognise that for those areas that are outside the agglomeration impact of a city region or large metropolitan area, the need for an alternative to the current "trickle down" policy environment is paramount.

The economic shock caused by COVID 19, which the OBR estimates as the largest ever shock to the UK economy, has also hit some areas in the UK worse than others and this impact is expected to exacerbate the need for significant and sustained levelling up. In addition evidence from the financial crash of 2008 shows that areas that were performing badly prior to an economic shock take longer to recover after it is over.

There is no 'one size fits all' solution to lifting productivity and "levelling up". The productivity challenge in CIoS is multi-faceted, requiring orchestrated and long-term action across the foundations of productivity. Therefore, we believe that the focus for recovery should not be on national priorities for certain specific sectors but on the challenges, goals and vision for the future economy at a local level. This approach will enable us to build on our existing foundations (e.g. University provision, Enterprise Zones for Food and Energy, Innovation Centres and RD&I) as well as develop new activity (e.g. Enterprise Zones for Space and Marine and a Tourism and Creative Innovation Zone).

If Government focuses on the Five Foundations of productivity at national level, local areas can then define how these relate to their local economy, sector mix, etc. Conditions attached to future support should also focus on the delivery of "outcomes" (e.g. % improvement in productivity) required for sustainable and inclusive growth for the identified local area rather than arbitrary outputs (e.g. number of businesses supported).

December 2020