

REPORT OF THE DIRECTOR OF PLACE

LOCAL ECONOMY UPDATE

Cabinet Member(s): Cllr Richard Chesterton
Responsible Officer: Richard Marsh, Director of Place

Reason for Report: To update members on the state of the local economy.

RECOMMENDATION: That members note the contents of the report.

Financial Implications: The report does not identify any new spend. Actions identified through the Shared Prosperity Investment Plan and the Rural Prosperity Fund are focused on tackling current economic problems. At the time of writing officers are still awaiting a government response to the submitted shared prosperity investment plan and approval to spend.

Budget and Policy Framework: The report provides an update on the local economy which has relevance to both the Corporate Plan and the Economic Strategy.

There are no budgetary implications arising from this report; with regard to economic recovery, existing budgets are being aligned to support national funding programmes such as the Shared Prosperity Fund and the Rural Prosperity Fund.

Legal Implications: There are no legal implications arising from this information report.

Risk Assessment: The impacts of economic uncertainty are significant and extremely wide-reaching, affecting our business community, our residents and the District Council itself. The ongoing work of the Economic Development Team only has a limited ability to mitigate the full impacts of these macro-economic factors on our businesses.

Projects emerging from the Investment Plans will need to be taken forward with accompanying risks assessments.

Equality Impact Assessment: The cost of living crisis will impact most on those who were already financially and medically vulnerable. Appendix 1 demonstrates how the impacts of the current economic crisis effects various age groups differently. Data from the Office for National Statistics(ONS) also shows that disabled people are 25% (2021) less likely to be in employment than non-disabled people. Analysis of this ONS data, undertaken by the Rural Service Network, suggests that this gap has been consistently higher in Mid Devon (37%(2021)).

Relationship to Corporate Plan: The work of the Growth, Economy and Delivery team supports the corporate objectives for the economy:

- Bringing new businesses into the District
- Business development and growth
- Improving and regenerating our town centres

- Growing the tourism sector

This update provides information with regard to the state of the local economy of relevance to the points above.

Impact on Climate Change: The inter-relationship of economic, social and environmental factors, often described as the triple bottom line, has generally shown that economies that are less prosperous find tackling climate change more challenging. Even greater creativity and imagination will be needed going forward to tackle climate change against the backdrop of challenging economic times. Given the growing problems associated with fuel poverty, continuing to support the delivery of energy efficient affordable/social housing becomes even more important. Support will be given to tackling climate change through use of Shared Prosperity Funding and Rural Prosperity Plan as part of the Investment Plans.

1.0 Background

1.1 This report provides an update on the latest statistical information available with regard to the Mid Devon economy. This report draws on two sources of information:

- Mid Devon Member Briefing: Oct 2022 (Produced by Devon County Council) (Appendix 1)
- GVA Benchmarking information undertaken by the Rural Services Network

This report provides an update on briefings that members have received at previous meetings.

2.0 Macro-Economic Factors & the UK Economy

2.1 Appendix 1 provides a detailed economic recovery update prepared by Devon County Council. This update was written shortly after the, then newly appointed, Chancellor Kwasi Kwarteng's 'mini budget'. As members will be aware the Government has since changed its stance with regard to this economic approach with another budgetary announcement being made on the 31st October 2022 by the new Chancellor Jeremy Hunt.

2.2 The County Council update report gives an overview of the key macro-economic factors. In short, we are living in extremely turbulent economic times with inflation at the highest levels for 40 years, the Bank of England predicting that inflation rates will continue to rise over the next quarter, and with real household disposable incomes forecast for 2022 to be the lowest in 60 years.

2.3 The County Council report acknowledges that the squeeze on incomes is likely to be felt most by:

- low-income households dependent solely on benefits or state pensions;
- rural households with higher transport and heating oil costs;
- single parent families with 3 or more children; and
- those households with poor energy efficiency or higher essential energy use.

- 2.4 In addition households coming to the end of fixed rates mortgages will be also badly affected. The report points out that around 80% of all mortgages are currently fixed rate.
- 2.5 Drops in discretionary spending by many households are expected and there has also been some shift towards value brands within food spending; which will compound the problems that many of our businesses face; particularly in the retail, hospitality and food and drink sectors.
- 2.6 The report refers to significant economic impacts felt as a result of the Russian invasion of Ukraine and ongoing Covid related lockdowns in China. This has created uncertainty in the global energy, food and commodity markets (particularly construction materials). These contribute towards increased costs to businesses along with the challenges of a weak pound and the key issues of cash flow which is still a problem for businesses which were hit hard by Covid lockdowns.

3.0 The Devon Economy

- 3.1 The County Council's analysis also refers to the Devon Economy which was already significantly underperforming, when compared to the national economy, prior to the pandemic with GVA at just 77.8% of the UK in 2019. By Spring 2020 Devon's economy was rated 'red' by Government due to its deteriorating situation. Since then Devon's economic performance has been volatile, with continuing low productivity, but with lower levels of unemployed and increasing labour market shortages. In 2020, 612,000 Devon residents were living in areas where productivity per head was equal to or poorer than Cornwall's, one of which being Mid Devon.
- 3.2 Despite the local economy recovering well in Autumn 2021 this recovery was stymied over the Christmas period, as a result of the Omicron variant and Plan B restrictions leading to an increase in cancellations, staff absences and reduced turnover, particularly among retail, other service and hospitality businesses.
- 3.3 In the period January to September 2022, there has been ongoing recovery within the Devon Economy as Plan B and Covid-19 restrictions have ended. However economic sectors which have still not yet fully recovered from Covid-19 include 'Other Services' (which includes hairdressers & beauty); high street retail; Public transport (bus, rail, air), Manufacturing and Real estate activities. Accommodation & Food, Construction and Arts, Entertainment and Recreation have recovered to pre-Covid levels of output but remain vulnerable to economic disruption. Agriculture also has some ongoing impact from the end of the Brexit transition period on animal and fish exports to the EU.
- 3.4 Recruitment activity has bounced back strongly locally (particularly in South Hams, East Devon and Mid Devon) following the lifting of Covid restrictions earlier this year, with recruitment difficulties and some skills shortages being reported in many sectors, especially in areas such as Health & Care; Social Work; Hospitality, Admin, Manufacturing and Transport, with rising wages also being seen in these sectors.

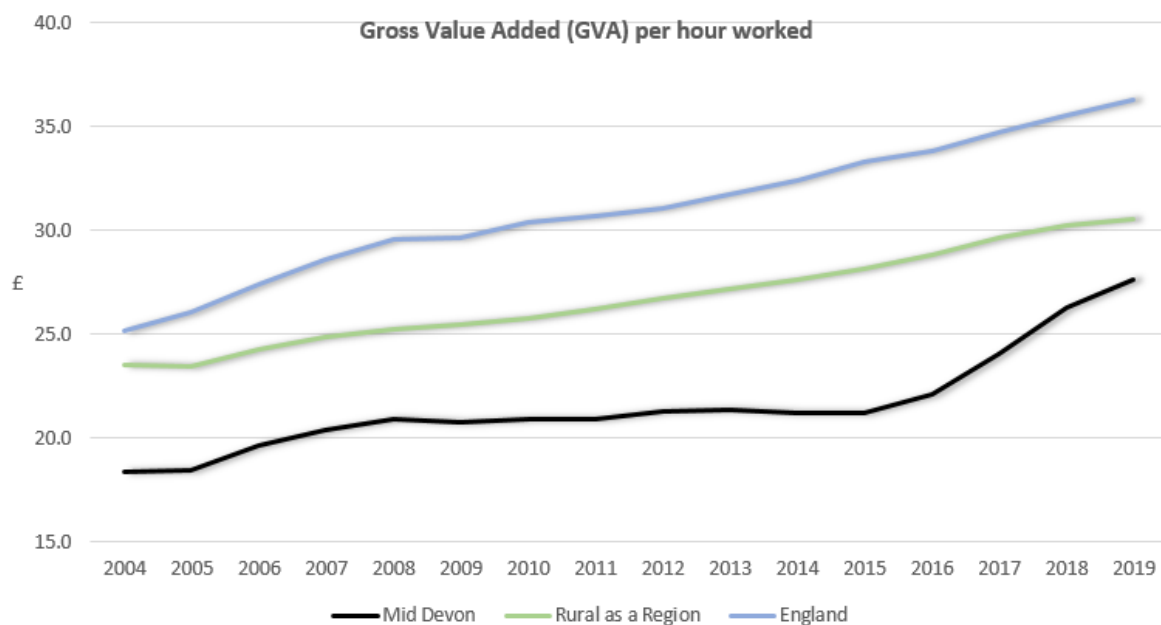
3.5 The report outlines a number of indicators of economic challenges the County faces. One such example is that the usage of foodbanks across Devon is expected to increase further. A recent survey in March 2022 of charities which provide surplus food indicated 70% were seeing increased demand due to the rising cost-of-living, including energy and food bills.

4.0 The Mid Devon Economy

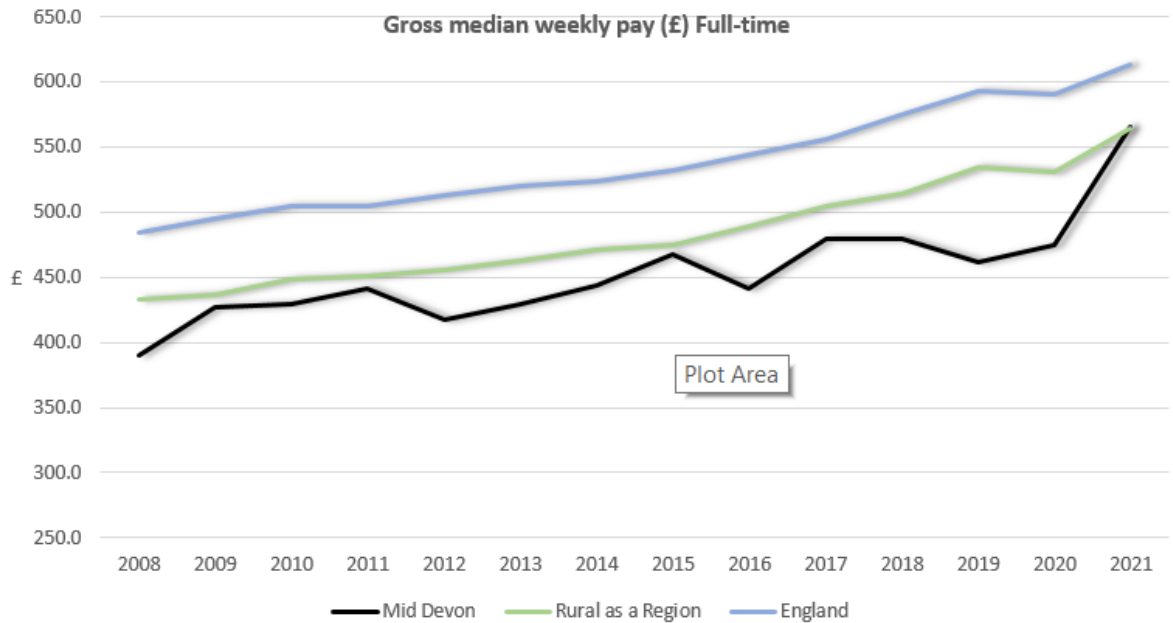
4.1 In addition to the information gathered by the County Council in Appendix 1, the Rural Service Network has also undertaken analysis to track progress with regard to the Government's 'Levelling Up' agenda. The analysis shows how Mid Devon compares nationally and with others in the 'rural region' of the country with regard to closing "the significant and persistent spatial disparities in productivity, wages and employment across all regions and nations of the UK".

4.2 This assessment has some very interesting findings particularly in relation to productivity, average earnings, disposable income and proportion of low paid jobs.

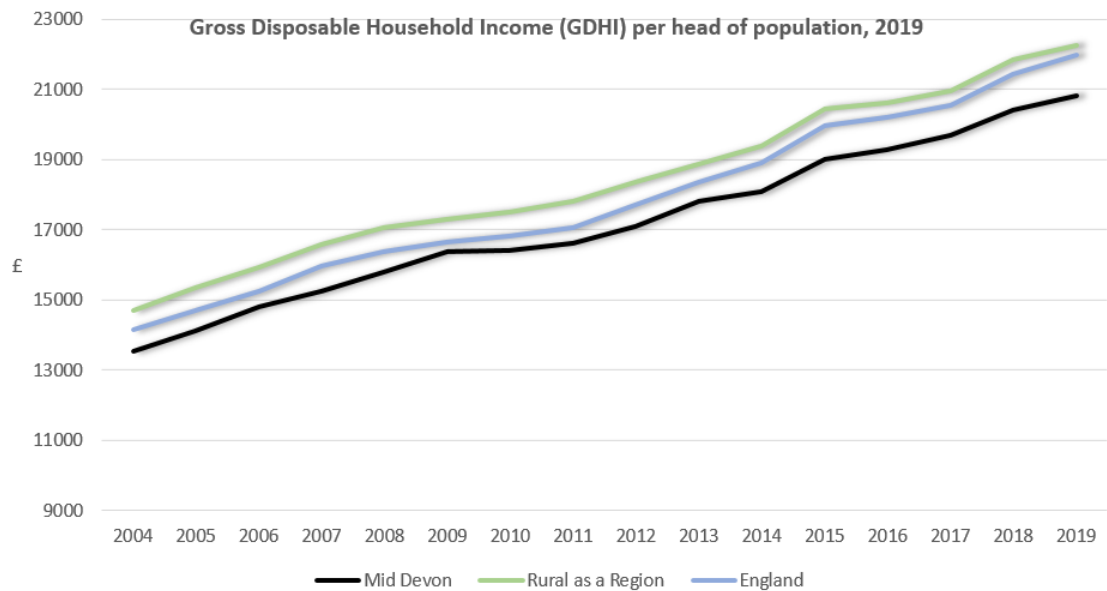
4.3 The chart below shows the **Gross Value Added (GVA) per hour worked** as an economic productivity metric. The chart shows that GVA per hour worked for 'Rural as a Region' has been consistently lower than that seen for England from 2004 to 2019, with both increasing, but England increasing at a greater rate thus widening the gap. GVA per hour worked for Mid Devon is consistently around 20% lower than that of 'Rural as a Region' from 2004 to 2016, although this gap reduces to 10% by 2019.



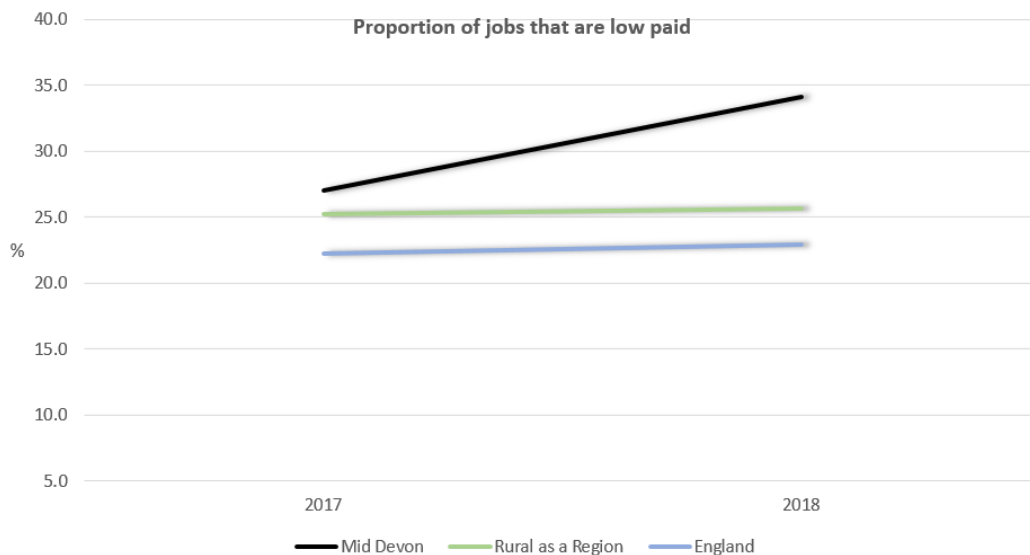
4.4 Another interesting indicator is that relating to **gross median weekly pay**. Gross median weekly pay for full-time employees in 'Rural as a Region' has been consistently below that seen for England, with the gap being consistent between 2008 and 2020. The pay in Mid Devon has fluctuated a little over the years, but is consistently below, or in line with, the rural average situation.



4.5 **Gross Disposable Household Income (GDHI) per head of population** has been consistently greater for 'Rural as a Region' than seen in England overall, although it should be noted that it is an urban biased measure that does not capture differing costs of living i.e. higher fuel costs, need for car ownership in locations where no public transport is available. Despite the GDHI increasing over the years, Mid Devon has consistently remained below that of England overall and the 'Rural as a Region'. The relatively low levels of disposable income within the District is important and diminished consumer spending adversely affects the District's businesses particularly the retail and hospitality sectors.



4.6 The Rural Services Network also analysed the proportion of low paid jobs for the two years 2017 and 2018. ‘Rural as a Region’ on average has a higher proportion of jobs that are low paid than England. This is even more marked for Mid Devon. In 2017 Mid Devon is above both that for ‘Rural as a Region’ and England, and a significant increase to 2018 increases the gap further.



4.7 The County Council Update Report (Appendix 1) also provides a variety of useful indicators with regard to the Mid Devon economy. Mid Devon saw a significant rise in unemployment particularly among young people and the over 50s during the initial phase of the Covid-19 pandemic. As the economy reopened in 2021 and early 2022, recruitment activity picked up (particularly in the hospitality and retail sectors), which has led to a reduction in the claimant count, although currently it still remains slightly above the pre-pandemic levels.

- 4.8 Appendix 1 includes a variety of indicators regarding cost of living price rises such as house and rental prices, fuel dependency and costs, claimant rates and vulnerable neighbourhoods. One of the many interesting findings in the report is that 'The End Fuel Poverty coalition' has estimated the number of households in fuel poverty in Mid Devon as 23% of households.

5.0 Conclusion

- 5.1 As shown above, and in the accompanying County Council report, the District's businesses are facing tremendous challenges. The Growth, Economy and Delivery team will continue to maximise funding opportunities to play its part in supporting our business community. On this meeting's agenda is a report which sets out some of those opportunities such as the Shared Prosperity Fund. The District Council will also work in partnership with the County Council as part of the 'Team Devon' initiative to support the local economy during these tumultuous times.
- 5.2 As the economy continues to change post-Covid, with the war in Ukraine and with turbulent global financial markets, future changes are expected and the Growth, Economy and Delivery team will continue to work closely with Devon County Council to monitor any economic impacts and opportunities and report them back to the Economy Policy Development Group.

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Circulation of the Report:

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List of Background Papers:

[Rural Services Network Levelling Up:
Missions & Metrics – Analysis of Mission 1](#)