Mid Devon Member Briefing: Oct 2022

Devon's Economy – Economic recovery update

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Pre pandemic Devon's economy already significantly underperformed the national economy, 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.

Teignbridge, Torbay, Torridge, Mid Devon, East Devon and West Devon.

It now remains to be seen how the rapidly changing situation with the UK and Global economies will impact upon Devon's residents and businesses and we will monitor this closely.

Overview on Economic Conditions

In September 2022 the Bank of England noted that the following for the UK economy:

Demand and output

- Output growth weakened in some sectors, reflecting a slowdown in demand due to the uncertain economic outlook

Employment and pay

- Employment intentions slowed and recruitment difficulties had stabilised; nominal wage inflation increased further

Costs and prices

- Input cost inflation remained high, with increasing cost pressures from energy and pay; companies expected to raise prices to protect margins

According to the OECD "The UK economy recovered from the Covid-19 shock well thanks to the emergency support measures protecting jobs and incomes and a rapid vaccine rollout, but is slowing amid persistent supply shortages and rising inflation. Fiscal policy has to balance gradual tightening with providing well-targeted support to households who are vulnerable to rising costs of living, supporting growth and addressing significant investment needs"

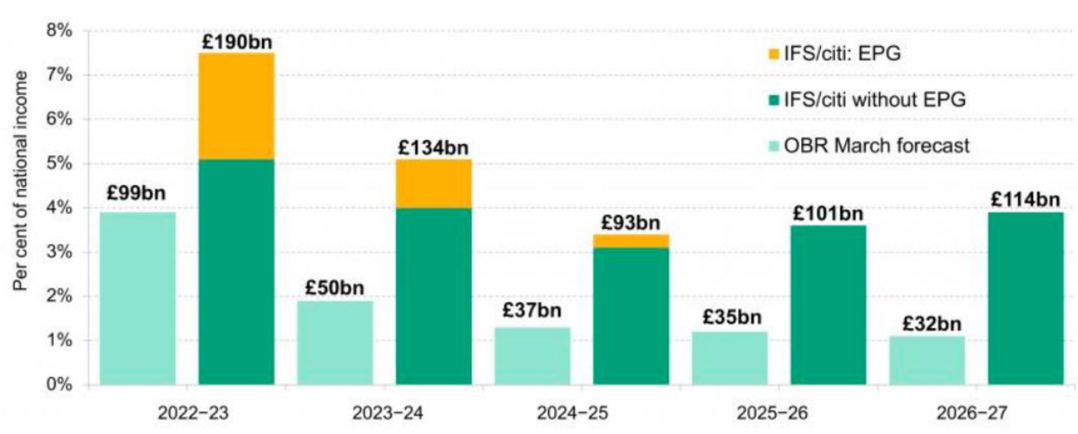
The recent Growth Plan announced by the new Chancellor Kwasi Kwarteng in combination with increased energy support measures for households and businesses represents a significant fiscal expansion including the biggest tax cuts for 50 years. Measures announced by the Chancellor included removing the 1.25p uplift in national insurance from 06 November; cutting the basic rate of income tax to 19p from April

2023; reducing stamp duty; holding corporation tax at 19p; holding the annual investment allowance at £1m and simplifying tax for off-payroll workers.

The additional energy support measures including the 2-year household Energy Price Guarantee of £2,500 (instead of it rising to £3,549 from October) together with the initial business support package have an estimated cost of £60bn over 6 months, although this will depend how wholesale energy prices evolve over time. This is a significant intervention that in itself is likely to reduce the short-term rate of inflation in the UK.

Nevertheless, continuing high rates of inflation and a low sterling/dollar exchange rate mean that the Bank of England is under pressure to continue to increase interest rates, with subsequent knock-on impacts on borrowing, including mortgage rates.

Public sector net borrowing forecast with and without Energy Price Guarantee (EPG) (23 September 2022)



Underlying government debt forecast as a percentage of national income (23 September 2022)

The Pound has recently fallen to record lows against the dollar due to rising borrowing and less clarity over long term public finances according to the IFS. Bank of England base rates were increased from 1.75% to 2.25% in September to help restrain inflation and are expected to rise further during 2022. 10 Year Gilt (Government loan) yields have also recently risen from 2.0% back in July to 3.8% in October, making it more expensive for the UK Government to borrow.

Annual CPI inflation fell slightly from 10.1% in July (the highest for 40 year) to 9.9% in August compared to 3.2% back in August 2021. Year-on-year electricity prices are up 54%; gas prices up 96%; heating oil prices up 86%; petrol & diesel prices up 32%; insurance up 14% and food prices up 13.4%. The Bank of England currently expects inflation to peak close to 13% in Q4 of 2022. Real household disposable incomes were forecast on average to fall by 3.3% in 2022, the most for 60 years. Consumer confidence has also recently fallen to a record low as a result of pressures on household budgets and a reduced outlook for household finances over the next 12 months.

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. Drops in discretionary spending by many households are expected as a result and there has also been some shift towards value brands within food spending. Should mortgage rates continue to rise this is likely to also impact upon household incomes, as Fixed Rate mortgage terms come to an end. Around 80% of all mortgages are currently Fixed rate.

Bank of England UK Forecasts – August 2022

	2022 Q3	2023 Q3	2024 Q3	2025 Q3
UK GDP Growth	2.3% (2.9%)	-2.1% (-0.8%)	0.0% (0.4%)	0.4%
CPI Inflation (Q3)	9.9% (9.5%)	9.5% (5.9%)	2.0% (1.8%)	0.8%
Unemployment (% 16+)	3.7% (3.5%)	4.4% (4.1%)	5.5% (4.8%)	6.3%
Base Rate (Q4) (market expectations)	1.6% (1.5%)	3.0% (2.6%)	2.5% (2.3%)	2.2%
Gas Price (pence per therm)	420 (242)	327 (242)	327 (242)	327 (242)

Source: Bank of England Inflation Report – August 2022.
Note: Figures in brackets are previous BoE May 2022 forecast.
Due to significant changes to the UK and Global economies in September 2022 subsequent updates may differ.

Significant economic impacts have been felt as a result of the invasion of Ukraine and some ongoing Covid related lockdowns in China. This has created uncertainty in the global economy, particularly in energy markets, with knock-ons also being felt in food and commodity markets. Higher energy, goods, food, and manufacturing input prices have significantly impacted the cost-of-living in the UK and are causing issues for instance with the price of construction materials. The repercussions of the invasion of Ukraine will add to these pressures and are expected to increase inflation further in coming months, with the long-term consequences still not yet being clear, although discretionary spend is expected to decline if pay rates do not maintain parity with inflation.

Devon Local Economy

The Devon local economy was recovering well in Autumn 2021 with economic output rising, unemployment falling and high levels of recruitment activity. Over the Christmas period, the impact of the Omicron variant and Plan B restrictions led to an increase in cancellations, staff absences and reduced turnover, particularly among retail, other service and hospitality businesses.

In the period January to September 2022, there has been ongoing recovery as Plan B and Covid-19 restrictions have ended. 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.

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 reporting 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.

Increases to the Cost of Living

Energy Costs

Gas and Electricity Bills have risen sharply in 2021 and 2022 with the household energy cap set by Ofgem having increased from £1,138 to £1,278 in October 2021 for an average bill and then rising a further 54% (£693) to £1,971 on 01 April 2022. For pre-payment customers the price cap increased £708 to £2,017. From October 2022, the Government is implementing a 2-year energy price guarantee of £2,500 for an average bill. The average unit price for a dual fuel customer paying by direct debit will be limited to 34.0p/kWh for electricity and 10.3p/kWh for gas from 01 October.

Property Type	Original 01 October Price Cap	New Energy Price Guarantee	Difference
All dwellings	£3,550	£2,500	£1,050
Detached	£4,700	£3,300	£1,400
Semi-Detached	£3,800	£2,650	£1,150
End Terraced	£3,500	£2,450	£1,050
Converted Flat	£2,750	£1,950	£800

Energy bills support factsheet - GOV.UK (www.gov.uk)

Household energy bill analysis from Nationwide suggests a property with an Energy Performance Rating of F/G will have an energy bill which could be twice the typical energy bill of an average property. Properties with an Energy Performance Rating of A/B/C may have an energy bill 10% below the typical property.

The Government's original household support package remains in place and includes the following:

- A £400 reduction in electricity bills in 2022/23 (at a cost of £12bn), now not repayable.
- A £150 reduction in Council Tax Bills for (Band A-D) properties at a cost of £2.9bn.
- £650 additional payment to the 8m lowest income households on Universal Credit, Tax Credits and Pensions Credit.
- A £300 separate additional payment to 3m pensioner households
- A £150 separate additional payment to 6m receiving non-means-tested disability benefits.
- Discretionary funding of £144m to support vulnerable people and those who do not pay council tax.
- An increased household support fund from £500m to £1.5bn raising the amount available to DCC from £5m (already spent) by an additional £10m to be spent over 2022/23.
- Eligibility for the Warm Home Discount scheme to be expanded by a third with a £10 uplift from £140 to £150 in winter 2022.
- A 5p per litre cut in fuel duty at a cost of £2.4bn.

The End Fuel Poverty coalition estimated the number of households in fuel poverty in England (defined as spending 10% of income on energy) was 6.3 million (26.7%) in April 2022. They also indicated the proportion of households with children in fuel poverty rose from 19.4% in 2019 to 39% from 01 April 2022 with 56% of single parent households in this position – before the current Energy Price Guarantee.

Area	% of Households in Fuel Poverty (from April 2022)	% of Households with EPC Band D or below	Median Energy Efficiency Score
Plymouth	24.6	56.7	67
Exeter	23.6	51.1	68
Torridge	23.5	63.0	63
Mid Devon	23.0	59.0	65
North Devon	23.0	60.8	65
West Devon	22.9	66.6	62
Torbay	21.0	66.7	64
Teignbridge	19.7	60.9	65
East Devon	18.8	59.4	65
South Hams	18.8	66.7	62
England	26.7	57.9	66

Source: End Fuel Poverty Coalition / ONS 2021

Note: 1. Fuel Poverty in this table is defined as spending 10% or more of disposable income on energy.
2. Energy efficiency rating D is equivalent to 55 to 68 on energy efficiency SAP score.
3. Energy efficiency also varies by age of property, size and type of property, and tenure.

Rural properties which are off gas-grid are also affected by rising heating oil and gas prices. Areas with the lowest average energy efficiency ratings in Devon include Lifton, Dunkeswell, Bampton, Stoke Fleming, Chulmleigh and Moretonhampstead. Areas with the highest estimated average energy costs in 2020/21 were Lifton, Bampton, Dunkeswell, Moretonhampstead and Pathfinder Village.

Proportion of Households by Main Heating Method

	Mains Gas	Electricity	Oil	Community Heating Scheme	Heat Pump
Plymouth	86.5	10.6	0.1	1.7	0.2
Exeter	80.0	15.1	0.2	3.4	0.9
England	78.6	11.9	3.0	4.2	0.8
Torbay	78.0	18.0	0.2	2.9	0.5
Teignbridge	74.8	14.4	6.1	0.6	1.5
North Devon	67.1	15.0	10.9	0.8	2.6
East Devon	65.9	13.3	8.3	8.1	1.3
Mid Devon	60.1	14.7	16.5	0.2	2.6
South Hams	57.0	19.6	14.3	1.0	3.2
West Devon	54.9	15.4	20.3	0.5	2.1
Torridge	50.0	17.4	20.9	1.0	3.4

Source: ONS 2021

Following the invasion of Ukraine in March the oil price initially rose from $90/barrel to $120/barrel in June, but has since fallen back down to $90/barrel in October. Over the same time the value of the pound has fallen 15% from $1.35 to $1.14 making oil imports more expensive.
Heating oil prices used by many rural homes in Devon peaked at about 150p/litre shortly after the invasion, but have since fallen to 95p/litre, although are still up 85% from 50p/litre a year ago.

Average petrol prices peaked at 191.5p/litre in early July, but have since fallen to 162.7p/litre in October, although still 20% higher than 136.1p/litre a year ago. Diesel prices peaked at 199.2p/litre in July, but have since fallen to 180.0p/litre in October, although still 30% higher than 139.2p/litre a year ago.

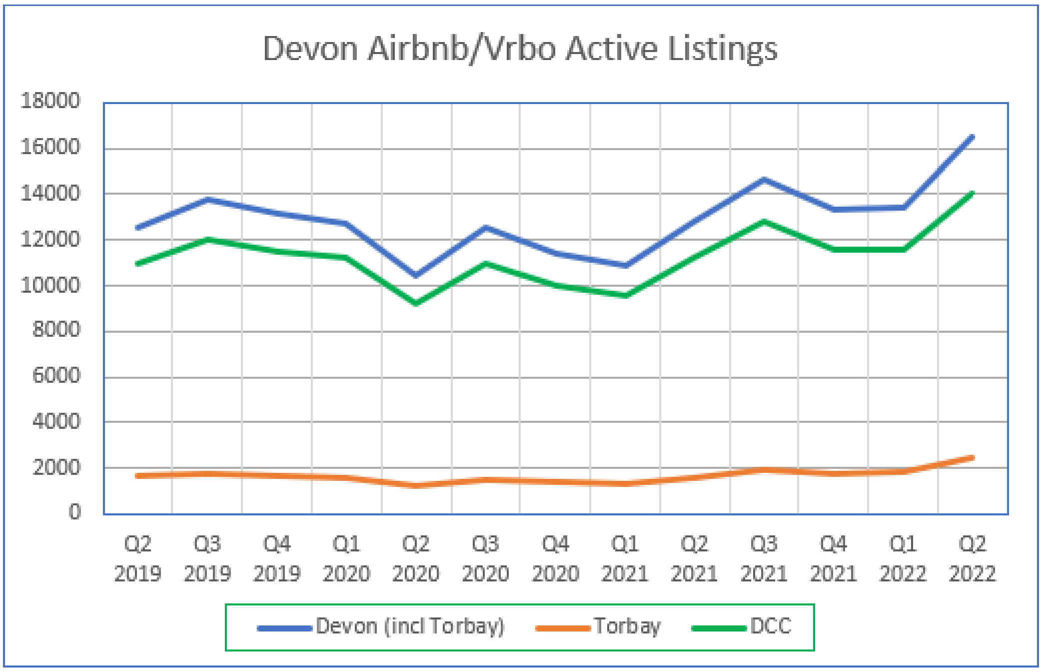
Food prices

- Annual food consumer price inflation rose from 12.6% in July to 13.4% in August.
- Current increases to input costs (including fuel and commodity prices), higher food processing costs (including wages) and the effects of supply chain disruption including from EU exit transition and especially Ukraine are likely to feed through into further retail price inflation in coming months.
- Food products which rely on wheat, fertilizer, oilseed, maize, energy, and seasonal labour have seen significant price increases due to global supply issues from Ukraine and Russia, with further impacts from global droughts and floods.
- 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.

Housing

- Affordability of housing is an increasing issue within the region, with prices reaching record highs in Summer 2022. People living in rural and coastal areas - particularly the young and those on lower incomes are at risk of being priced out of buying in the housing market.
- Changes during the pandemic such as the temporary stamp duty holiday and remote working have led to further house price inflation in these areas.
- The number of residential rental properties available nationally in 2022 is currently only half the level it was in the years 2017-19. Higher demand has recently led to rental prices rising which significantly increases cost of living pressures. Availability of rental properties in many parts of Devon, especially in coastal areas was at an all time low in 2020 and 2021, although has risen somewhat since then.

- Numbers of Airbnb and Vrbo style properties on the market as temporary holiday lets fell slightly in Devon between 2019 and 2021, but have risen sharply in 2022 and active listings are currently 30% higher than they were before the pandemic. In August 2022 the occupancy rate for these listings was 96%, the same level as August 2021. It remains to be seen whether these levels of occupancy can be sustained.



Source: Airdna

- The lack of available housing is contributing towards existing skills shortages in the tourism and hospitality industries as well as for key public services and care home workers. Workers are not willing to travel longer and longer distances for some more lower paid work. Jobs vacancies have remained very high since 2021 – meanwhile the number of people aged 50+ who have exited Devon's labour market remains high, although economic inactivity is lower than the peaks seen in 2021.
- House price expectations going forward remain mixed, with some forecasts expecting further small increases, but with many now expecting price falls. In such a market, availability of housing stock for sale is likely to be lower in the short-term, as people are less likely to wish to sell, although Government changes to stamp duty may act as a small incentive towards more sales and churn of stock.

Local Authority	Average House Price (£) Jul-2022	Annual HP (%) Inflation Jul-2022	House price to earnings ratio 2010	House price to earnings ratio 2021	Second Home Ownership 2021 (%)
South Hams	426,600	20.8	9.6	11.3	7.7
West Devon	318,386	13.3	8.7	11.3	2.1
East Devon	362,057	14.4	9.9	10.9	3.3
North Devon	319,680	16.0	9.6	10.7	3.8
Teignbridge	325,729	18.6	8.4	10.4	2.0
Devon CC	337,787	16.5	8.9	10.4	3.0
Torridge	316,567	18.9	9.4	10.0	3.0
Mid Devon	299,912	13.7	8.3	9.7	0.6
England	311,583	16.4	6.9	9.1	1.0
Exeter	322,619	15.8	7.9	9.0	1.0
Torbay	250,698	13.4	8.4	8.7	2.4
Plymouth	224,282	15.3	6.1	7.5	0.8

Source: ONS/Land Registry/Council Tax Base

Current data on UK house prices showed they were flat between August and September according to the Nationwide. Recent data from RICS showed a 40% drop in buyer enquiries in August, with the number of properties for sale at a new low, while demand for rental properties increased in the month. The faster rates of annual house price inflation in places like South Hams and Torridge will have impacted on housing affordability for residents, particularly in already expensive locations, which may impact on workers being able to live near their place of work. According to property site Rightmove private rents for (new lets) currently show an annual percentage increase of 13.7% in the South West (the highest for 16 years). For all private rented accommodation (both existing and new) the average rent in the South West has increased 4.3%. Data on lower quartile rental prices which may be a better measure affordability shows Exeter and South Hams are currently the most expensive places to rent, while rents are lowest in North Devon and neighbouring Plymouth and Torbay.

Lower Quartile Monthly Rental Prices 2020-21 to 2021-22

Area	Sample Size 2020-21	Sample Size 2021-22	Lower Quartile Monthly Rent 2020-21	Lower Quartile Monthly Rent 2021-22	% Increase (2020/21 to 2021/22)
England	448,060	475,030	565	595	5.3%
South West	56,370	59,130	610	650	6.6%
DCC	7,920	7,750	595	600	0.8%
East Devon	330*	1,080	675	650	n/a
Exeter	1,810	1,600	675	700	3.7%
Mid Devon	1,080	1,200	550	575	4.5%
North Devon	1,310	870	500	520	4.0%
South Hams	900	610	650	670	3.1%
Teignbridge	1,320	1,130	595	600	0.8%
Torridge	660	700	525	560	6.7%
West Devon	510	570	575	584	1.6%
Plymouth	4,920	4,340	458	477	4.1%
Torbay	1,580	1,500	495	525	6.1%

Source: ONS Private Rental Market Statistics.
% Change is excluded where sample size is below 500.

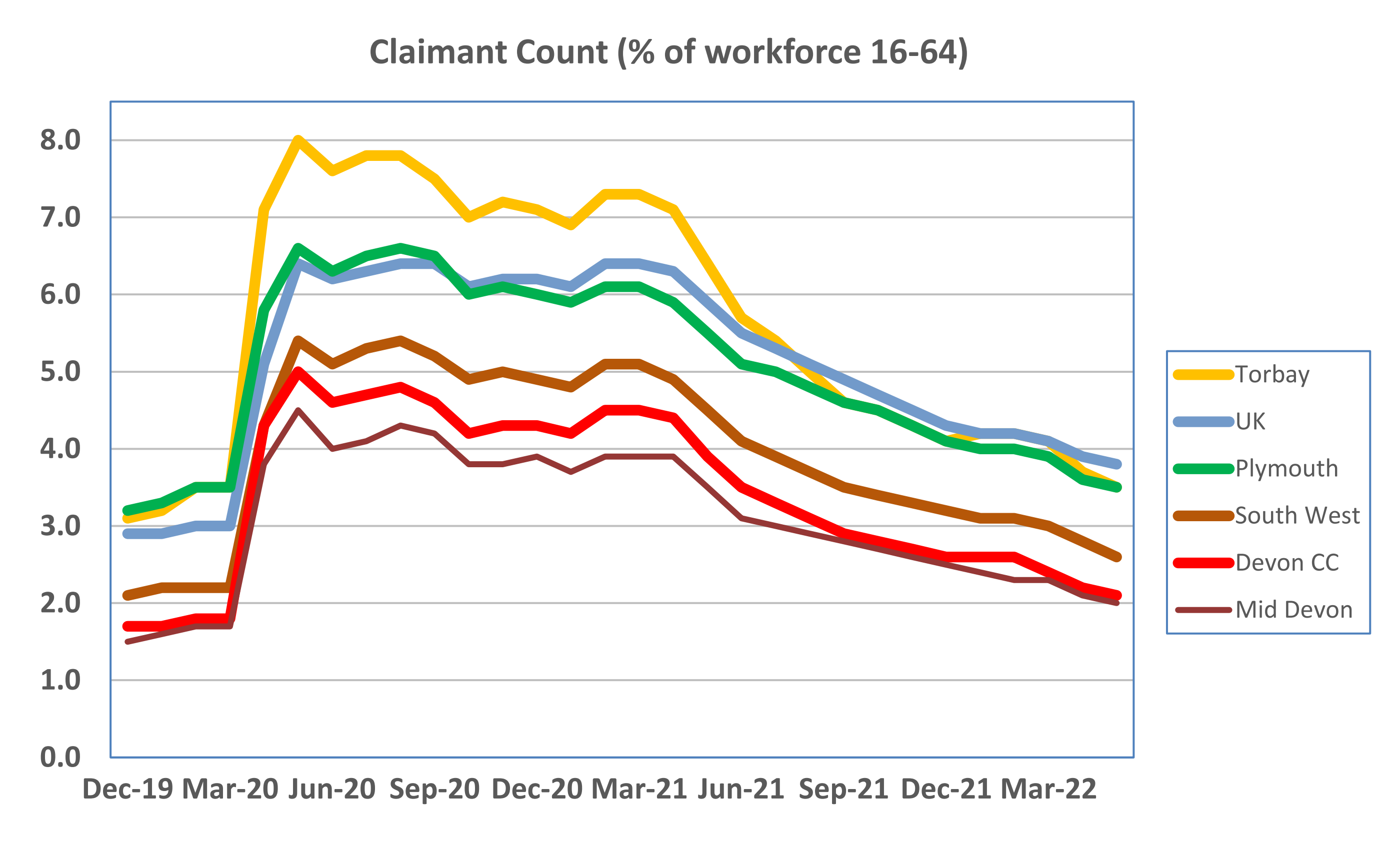
Devon County Council's (DCC) Economy, Enterprise and Skills team continues to keep track of the rapidly changing economic situation by using real-time information from a number of sources, including Government, commissioning targeted studies, evidence and forecasts and gathering information directly from the business community to keep a track of impacts on our economy.

This information fed directly into our Team Devon response and recovery work programme and that of partner organisations, including District Councils. It has also formed the basis of our engagement with Government to help drive forward a series of opportunity focused asks to help build our future economy.

The currently available data and evidence is summarised within this report. Only some datasets are available at a local, or District level. We have included within this report stakeholder and business derived evidence, which we have continued to expand as new data emerges.

Summary of key impacts – Mid Devon

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 re-opened 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.



The most recent data to August 2022 shows that the number of claimants in all age groups has been falling, but for over 50s there remain some greater difficulties in returning to work, despite very large numbers of people aged 50+ also having exited the labour market since 2020. The end of the furlough scheme on 30 September 2021 meant some older furloughed workers being made redundant or taking retirement, although most people returned to their previous employment. Recruitment activity in Devon has recovered strongly which has helped to reduce the level of claimant count locally.

Current Universal Credit claimant count			
	Mid Devon	**Devon County**	**England**
Rate August 2022	1.9%	2.0%	3.8%
Change since March 2020	10%	8%	25%
Change since August 2021	-35%	-36%	-28%

Source: Office for National Statistics Sept 2022

For young people unemployment rose rapidly at the start of the pandemic, but has fallen significantly over the last 12 months and is now below pre-pandemic levels.

Young person unemployment

Current Universal Credit claimant count – aged 16-24			
	Mid Devon	**Devon County**	**England**
Number of claimants - August 2022	125	1,370	218,500
Change since March 2020	-24%	-20%	9%
Change since August 2021	-49%	-45%	-32%

Source: Office for National Statistics Sept 2022

For older workers, unemployment and labour market inactivity remain higher than before the pandemic despite a reduction over the last 12 months.

Aged 50+ unemployment

	Current Universal Credit claimant count – aged 50-64		
	Mid Devon	**Devon County**	**England**
Number of claimants - August 2022	265	2,560	320,165
Change since March 2020	15%	11%	23%
Change since August 2021	-35%	-38%	-28%

Source: Office for National Statistics Sept 2022

Devon and Mid Devon experienced above the national average reliance on the national Job Retention Scheme (furlough) at the peak of the Pandemic, which has now ended. As the economy and hospitality re-opened this situation reversed itself with 3% of employees in Devon and 4% in England still reliant on the scheme on 30 September 2021. In the South West at the end date of the scheme 50% of employees using the scheme remained fully furloughed while 50% were on flexible furlough. The age profile of those who remained on the scheme in Devon showed 46% (4,300) were aged over 50, while some 8% (800) were aged 16-24. Subsequently an Autumn 2021 ONS business impacts survey suggested 3% of furloughed workers had been made redundant, 3% had left their role voluntarily and 8% had been classed as other which would include retirement.

Broader business support

SME take-up of Government backed loans

In summer 2020 the Government announced loan schemes to help businesses to cope with the business effects of COVID-19 (these schemes were subsequently extended to 31 March 2021). For Small and Medium sized (SME) businesses these included:

- The Bounce Back Loan Scheme (BBLS) designed to provide financial support to businesses across the UK that are losing revenue and seeing their cashflow disrupted and that can benefit from £50,000 or less in finance. A pay as you grow scheme now also allows businesses to extend the repayment period for these loans up to 10 years and provides for a 6-month payment deferral.
- The Coronavirus Business Interruption Loan Scheme (CBILS) provided financial support to smaller businesses helped small and medium-sized businesses to access loans and other kinds of finance up to £5 million. The government guaranteed 80% of the finance to the lender and pays interest and any fees for the first 12 months.

By the end of May 2021 the British Business Bank stated that for the Devon County Council area it had provided:

- **BBLS: 20,234 loans worth £570.6m – highest take-up in construction and retail businesses – highest take-up in southern and eastern Devon**
- **CBILS: 1358 loans worth £321.7m – highest take-up in retail, construction, and manufacturing businesses, with accommodation and food businesses also well represented – highest take-up in southern and eastern Devon**

SME Grant payments

The Government also extended support to SMEs with further grant payments in the second and third lockdowns to businesses in the Devon County Council area:

- **Local Restriction Support Grants: 48,061 grants were paid by 31 March 2021 with a total value of £109.6m.**
- **A total of 10,114 additional restriction grants have been paid to businesses in the DCC area with a total value of 21.7m up to 30 May 2021. A further 8,464 'restart' grants have also been paid to hospitality, accommodation, leisure, and non-essential retail businesses up to the end of May 2021 with a total value of £64.4m.**

Business Insight and Conditions Survey

Cash flow is still a key issue for businesses which were hit hard by Covid lockdowns. The BoE recently highlighted many SMEs in financial distress in Accommodation & Food; Transport & Storage and other sectors which were hit hard by the pandemic. These sectors then started to be hit first by staff and skills shortages and more recently in 2022 significant inflationary impacts on cost inputs and emerging impacts from inflation on household discretionary spend. Results from the latest Business Insights and Conditions Survey (BIC's) to August 2022 show:

- **A total of 44% of businesses reported that their prices of goods bought had increased in August, with 67% of 'Accommodation & Food' firms reporting this.**
- **A total of 20% reported the price of goods sold increased in the month, with 30% of businesses in the 'Wholesale & Retail' trade reporting this.**
- **29% of businesses reported lower turnover in August compared to July; the proportion was highest for manufacturing businesses 64%, Accommodation & Food 43% and Wholesale & Retail Businesses 34%.**
- **In July a total of 49% of 'Accommodation & Food' firms; 47% of 'Construction' firms; 52% of Transport & Storage firms; and 56% of 'Education' firms had less than 3 months cashflow.**

Tourism

The most recent tourism survey data is from the South West Research Company 'How's Business' survey published in August for the period June 2022:

- This shows visitor numbers in June 2022 were down 5% compared to pre-pandemic levels.
- Turnover was estimated to be unchanged in June 2022 compared to 2019 despite rising prices.
- Increasing energy and fuel costs; the reduced outlook for household finances in 2022; and increasing supplier costs are cited as the key issues concerning businesses currently. A total of 89% of business have concerns about energy prices, while 68% are also concerned about price rises for food and other costs such as wages.
- Looking forward 52% of businesses think the outlook for Autumn 2022 is not as good as 2019.

Anecdotal evidence suggests bookings are slower as competition from reopened overseas destinations has returned and impacts are beginning to be felt in terms of inflationary impacts on discretionary spend. The main summer season was fairly buoyant, but with shorter breaks, shorter distance travelled to breaks and more last-minute bookings overall than the previous year. Occupancy of Airbnb was fairly high, but not at 2021 levels. Airbnb stock levels rose in early 2022, having been fairly constant between 2019 and 2021. Towards the end of the summer season demand notably weakened.

Most economically vulnerable neighbourhoods in Mid Devon

The Economy, Enterprise and Skills team has compiled a fine-grained economic vulnerability index focused on neighbourhoods, wards, and towns within Devon to assess the overall state of play in terms of our economy and its constituent areas, looking in particular at the labour market, deprivation, and vulnerabilities to economic disruption. This uses a range of different economic datasets and indicators, including from the UK Government Office for National Statistics and is regularly updated with new data.

The 10 current most vulnerable neighbourhoods in Mid Devon are:

Mid Devon	Rank within Devon (where 1 is most vulnerable and 457 is least)
Crediton: High Street and Deer Lane area	19/457
Tiverton: Leat Street and Church Street area	27/457
Tiverton: Upcott Meadow Road and Roundhill area	46/457
Tiverton: Castle, Hospital and surrounding area	61/457
Tiverton: The Avenue and St Andrew Street area	65/457
Tiverton: Queensway and surrounding areas	78/457
Cullompton (West)	79/457
Cullompton (Central)	79/457
Tiverton: Cowleymoor and surrounding areas	80/457
Tiverton: Broomhill area, Withleigh	82/457

The level of unemployment has fallen significantly over the last year, but there remain some local areas where it remains higher than the rest of the county.

Mid Devon Wards with the highest Universal Credit Claimant Count

Claimant Count (%)	Mar 20	Aug 20	Aug 21	Aug 22	Aug 22
Taw Vale	3.1	6.1	5.6	4.2	40
Westexe	2.6	4.8	4.1	3.0	100
Boniface	2.2	4.9	3.6	2.6	65
Lawrence	1.8	4.8	3.1	2.5	55
Bradninch	1.9	4.4	3.4	2.4	30
Cranmore	2.5	5.4	3.0	2.4	65
Silverton	1.9	4.6	2.8	2.3	25
Castle	2.7	5.0	3.9	2.2	55
Halberton	0.9	3.5	2.8	2.2	30
Cullompton North	1.5	4.2	2.8	2.1	55

Pandemic and post-pandemic support measures

Additional support measures previously announced by the Government (many of which with some notable exceptions have now ended, or are near ending) included:

- A Pay as You Grow scheme will allow businesses to delay all Bounce Back Loan (BBL) payments for a further six months and will also allow up to 10 years to repay the loans.

- Businesses in the retail, hospitality and leisure sectors received a one-off grant worth up to £9,000 (a discretionary fund is available to support other impacted businesses). The third lockdown grant funding was in addition to existing discretionary grant funding to districts of up to £3000 per eligible business per month.
- The one-off funding was based on business property rateable values;
    - £4,000 for businesses with a rateable value <£15,000
    - £6,000 for businesses with a rateable value between £15,000 and £51,000
    - £9,000 for businesses with a rateable value >£51,000

- A Seafood disruption support scheme to support SME's exporting fish and shellfish to the EU providing up to £100,000 per applicant as a proportion of losses incurred.

- The final £300m third round of the £2bn Culture Recovery Fund (CRF) to support organisations in urgent need of funding in arts, heritage, cultural and creative industries.

- A £750m live events re-insurance scheme to allow insurers to offer products to live events such as music festivals and business events between September 2021 and September 2022.

- A £500m household support fund of which £5m funding is available in Devon to help vulnerable households with essentials over coming months.

The March 2021 Budget also extended support measures such as the furlough scheme and self-employed income support scheme (SEISS) to 30 September 2021. The detailed measures outlined in the budget included;

- £5bn of 'restart' grants funding to help businesses re-start trading safely, including up to £18,000 for hospitality, accommodation, leisure, personal care, and gyms and up to £6,000 for non-essential retail per premises depending on rateable value. The new grants replaced monthly local restrictions grants (LRG's).

- Coronavirus Business Interruption Loans (CBIL) morphed in to the 'Recovery Loan Scheme' available until 31 December 2021 with continued 80% Government guarantee. Bounce back loans BBL and large LCBIL loans closed to applications on 31 March 2021.

- Extended business rates relief for retail, hospitality, leisure, and nurseries - 100% relief up to the end of June 2021 and 66% relief between 30 June 2021 and 01 April 2022 (capped at £2m for businesses forced to close on 05 January 2021 and £105,000 for other eligible businesses)

- 5% reduced rate VAT for hospitality businesses extended to end of Sept 2021, with a 12.5% transitional rate until the end of March 2022, before change back to 20% in April 2022.

The October 2021 budget made a number of additional changes including:

- A further extension of the Covid Recovery loan scheme to 30 June 2022, finance of up to £2m per business will be available.

- Retail, hospitality, and leisure businesses to receive 50% business rates relief in 2022/23.

- Freezing of the business rates multiplier in April 2022.

- The sector specific Airport and Ground Operations Support Scheme (AGOSS) extended 6 months to 31 March 2022 with Domestic air passenger duty reduced from £13 to £6.50.

- £1.2bn of funding for bus services with successful bids recently announced of £23.5m for Cornwall to reduce fares and £14m for Devon to improve services.

- £1.6bn of regional funding to the British Business Bank to provide debt and equity finance to SME's and develop a network of angel investors to help people starting a business.

- A 6.6% rise in the living wage from £8.91 to £9.50 in 2022/23.

Minimum Wage	2021/22	2022/23	% Increase
Over 23	£8.91	£9.50	6.6%
Aged 21-22	£8.36	£9.18	9.8%
Aged 18-20	£6.56	£6.83	4.1%
Under 18	£4.62	£4.81	4.1%
Apprentices	£4.30	£4.81	11.9%

- Universal credit – Taper rate for claimants in work reduced from 63p to 55p by 01 December 2021 benefitting 1.7m families by £2bn of the 5.5m claiming Universal credit. The £20 uplift of Universal Credit came to an end on 30 September 2021.

- Extension of the employment and support allowance Covid-19 regulations to 24 March 2022 which allowed individuals to claim the ESA from day 1 rather than day 8 of absence from work.

In December 2021, the Government announced Omicron hospitality and leisure one off grants of up to £6,000 to be dispersed by 31 March 2022. It also provided some additional funding for Additional Restriction Grants also to be applied by 31 March 2022.

Further changes were announced in the Spring Statement 2022 as a result of the rise in energy prices and pressures on household finances:

- A 5 pence per litre cut to fuel duty for 12 months until March 2023.

- Employee National Insurance threshold to increase from £9,880 to £12,570 from July 2022.

- The household support fund (discretionary help for households suffering domestic fuel cost increases) doubled from £500m to £1bn (now £1.5bn) with DCC funding of £5m (already spent) to increase by a further £5m (now £10m) to be spent in 2022/23.

- Retail, hospitality and leisure business rates reduced by 50% from April 2022.

- Increase in the employment allowance from £4,000 to £5,000 benefiting about 495,000 small businesses across the UK from April 2022.

- A new zero rate of VAT for energy efficient materials for 5 years (such as solar panels and heat pumps)

- The basic rate of income tax will be reduced from 20p to 19p by 2024 (subsequently brought forward).

- A planned cut to the tax rate on business investment to be detailed in the Autumn budget.

Government Growth Plan (Mini-Budget)

The Government's Growth Plan delivered by Kwasi Kwarteng outlined changes to tax plans over the short to medium term, regulation, planning and investment. Measures outlined included:

- Removing the 1.5p rise in National Insurance contributions from 06 November.

- Cutting the basic rate of income tax to 19p from April 2023 and abolishing the 45p top rate of income tax (before subsequently reversing this decision)

- Holding corporation tax at 19p from April 2023 rather than increasing it to 25p from April 2023.

- Abolishing IR35 tax changes for off payroll workers from April 2023.

- Keeping the Annual Investment Limit for businesses at £1m rather than reducing it to £200k.

- Stamp duty will be cut for existing and first buyers

- Planning reform will take place to speed up the delivery of infrastructure projects.

- Acceleration of investment projects including the A382 at Drumbridges; the A35; A361 and A38 Devon safer Roads schemes; the A303 at Stonehenge; the A358 at Taunton; A374/A386 in Plymouth; local EV infrastructure; the rapid charging fund; Hinkley Point C; the Celtic Sea cluster; project Gigabit and Freeports.

- Investment Zones will be set up in 38 areas with more to follow including Plymouth City Centre and Waterfront, businesses in newly occupied premises will have 100% rates relief. Planning processes will streamlined within Investment Zones.

- Increasing DWP Job Coach support for the claimants over 50 including long term unemployed. The Universal credit conditionality regime will also increase for those working between the equivalent of 9.6 and 12 hours a week.

Devon impacts

Devon's economy was rated 'red' by Government in Spring 2020 due to its deteriorating situation and the Economy, Enterprise and Skills team has been working closely with Government to monitor this situation working jointly with partner organisations locally, including District Councils, to drive forward an economic recovery plan, with deliverable and tangible actions.

Prior to the COVID-19 first national lockdown in March 2020 the global, national and local economies were already slowing rapidly, with notable impacts being felt in the County from the closure of Appledore shipyard; Flybe going into administration and significant jobs losses at Axminster carpets.

Certain parts of the tourism, hospitality and retail sectors on which Devon is overdependent were especially hard hit, with many high street shop and restaurant chains announcing closures. Overseas owned branch plant manufacturing operations have also been vulnerable to global factors, with the announcement of closures of KDC Swallowfield in Bideford and Gould pumps in Axminster. During the first lockdown the construction sector was heavily impacted but has since recovered strongly and continued activity during the second and third lockdowns. The fishing sector has also been hit due in part to restricted supermarket supply chains, closure of the hospitality sector both in the UK and overseas, the impact of trade friction following the end of the Brexit transition period on 31st December 2020.

Now the economy has reopened many sectors in Devon have bounced back, but with significant labour supply issues, cost of living pressures and energy price rises. A notable recent business expansion in summer 2022 has been announced by Newton Abbot based adhesive manufacturer Forgeway, which has now opened at a second site close to Exeter Airport.

Key parts of the workforce being impacted across Devon include:
• During the pandemic, lower paid workers were more likely to have been furloughed and three times more likely to have been on reduced hours than their well-off counterparts (Source: London School of Economics)
• Freelancers - national average earnings fell from £22,742 per quarter at the start of 2020 to £18,652 in Q2 of 2021, but has recovered strongly to £27,486 in Q2 of 2022 due to an increase in both day rates and capacity utilisation. Separate data shows over a third of contractors have left self-employment due to IR35 tax changes, moving into permanent employment, retirement or simply not working. (Source: Association of Independent Professionals and Self Employed IPSE)
• Just About Managing (families in work, but on lower incomes and Tax Credits) – pre-Covid figures showed that 39% of children in Devon were in working families claiming tax credits, compared with 36% in Great Britain. There was a particularly high concentration in Torridge (44%) and North Devon (43%) (source: Oxford Economics). Rises in the cost of food, fuel, energy, rent, mortgage payments and interest rates have a disproportionate impact on these groups.
• Younger people – large rise in UC claimants under 25 in Devon affected by lockdowns – from 1,710 in March 2020 to 4,140 in March 2021 before falling back sharply to 1,370 in August 2022 with high levels of recruitment. Rise of 9% in England; fall of 20% in Devon and fall of 24% in Mid Devon. Rates have now been falling for the last year across Devon for this age group. (source: Office for National Statistics)
• Over 50s UC claimants – a large rise through the year from 2,300 in March 2020 to 5,805 in March 2021 before falling back to 2,560 in August 2022. Rise of 23% in England; 11% in Devon, with a 15% rise in Mid Devon. (source: Office for National Statistics)
• Job vacancy numbers in Q2 2022 within the Devon CC area were up by 63% compared to Q1 2020 before the pandemic. For Mid Devon they have risen by 81% over the same period as the economy and tourism sector has recovered. Care Workers, Nurses and Customer Service Representatives were in high demand.
• Economic inactivity rates are shown in the table below and point to a significant increase in economic inactivity within Devon during and after the pandemic lockdowns, particularly for those aged 50-64. – A significant proportion of this is likely down to early retirements, with there also being an increase in long term sickness and student applications. This has further tightened our labour market and the availability of potential workers. As a result, some sectors which have been able to compete on pay have put up wages, but not all are able to do this.

Economic Inactivity - Percentage of population aged 16 to 64 and levels

	Devon CC	Torbay	Plymouth	England
Jan-Dec 2019 (%)	16.2	21.9	22.4	20.8
Jan-Dec 2020 (%)	18.2	23.4	20.9	20.5
Jan-Dec 2021 (%)	22.1	23.3	21.5	21.3
Change 2019 to 2021	5.9	1.4	-0.9	0.5
Jan-Dec 2019	73,000	17,000	37,000	7,245,000
Jan-Dec 2020	83,000	18,000	37,000	7,160,000
Jan-Dec 2021	101,000	17,000	36,000	7,403,000
Change 2019 to 2021	+28,000	0	-1,000	+158,000

Note: Based on Annual Population Survey and mid-year population estimates.

Key impacts to date for the Devon Economy are:

Economic output

- Pre pandemic Devon's economy significantly underperformed the national economy, with GVA at just 77.8% of the UK in 2019.
- Devon had an expected loss of output / productivity similar to the UK wide impact of almost 11% of GDP for 2020 as a whole on its pre pandemic levels. The UK economy recovered to its pre-Covid level by November 2021 before Omicron and recent cost of living increases have since slowed growth. The Bank of England forecast GDP growth of 2.3% in 2022; -2.1% in 2023 (reflecting rising prices and falling disposable incomes); and 0% in 2024. Latest ONS estimates point to the UK having so far narrowly escaped a recession of two quarters of negative growth in 2022.
- A delayed economic recovery compared with nationally being forecast for much of Devon outside of Exeter and particularly in Mid and West Devon.

Unemployment

- A rise in Universal Credit (UC) Claimant count in Devon from 1.8% in March 2020 to 5.0% by May 2020 before falling back to 2.0% in August 2022, although with significant additional levels of inactivity (some hidden unemployment).
- UC levels in Devon rose from being significantly below the national average, to close to the national average, the UK also having seen significant rises in during earlier lockdowns. This has now reversed itself with falls in both Devon and UK levels of UC claimants.
- Very heavy impacts in terms of UC claimant rises during lockdowns for under 25s and over 50s, with numbers of claimants recently falling for all age groups.

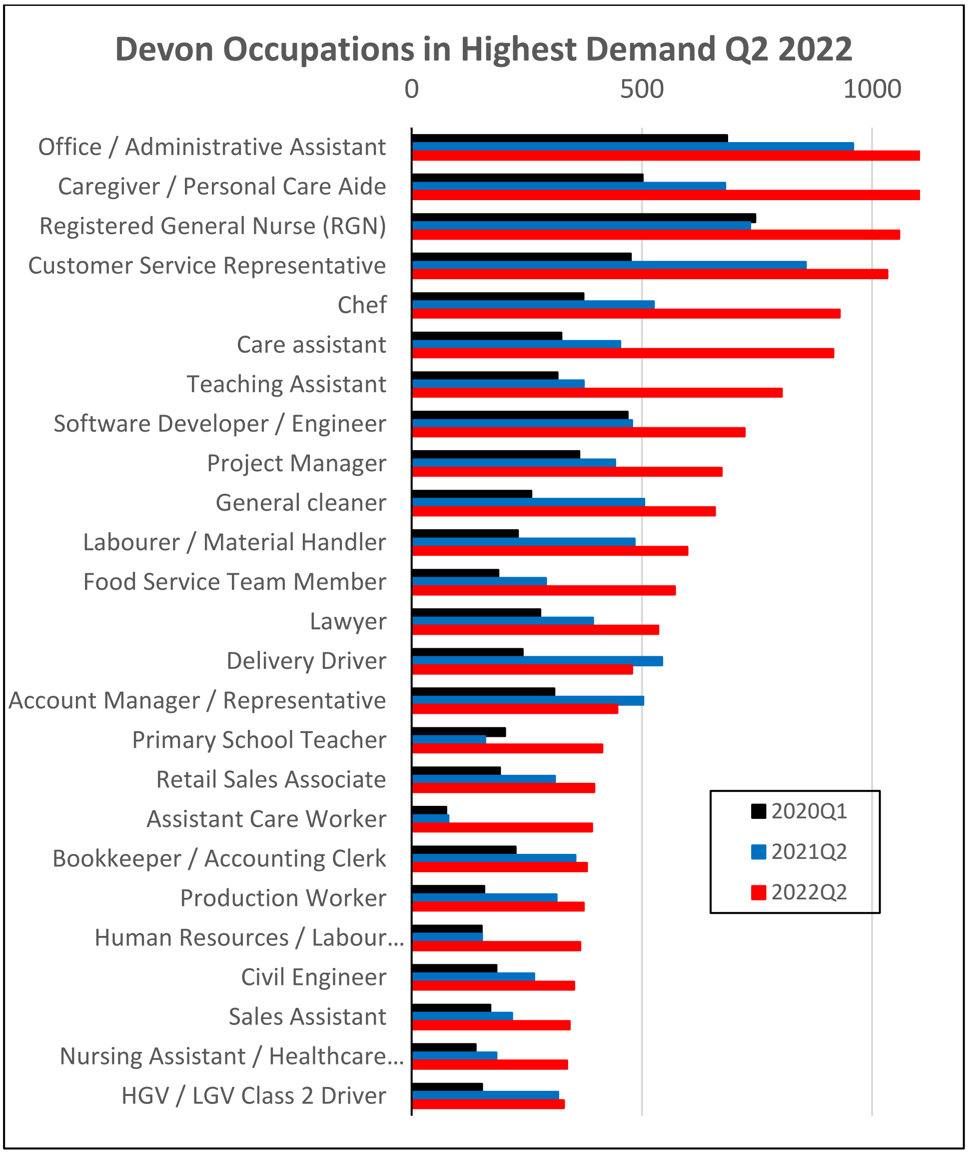
Furlough

- As the economy re-opened, the proportion of employees furloughed in Devon fell from a peak of 17% in January 2021 down to 3% at the schemes closing date of 30 September 2021.
- At the scheme's closing date 46% of employees (4,300) in Devon still furloughed were aged over 50, these workers may have had greater difficulty returning to work with some being made redundant and others taking retirement.

Labour Market

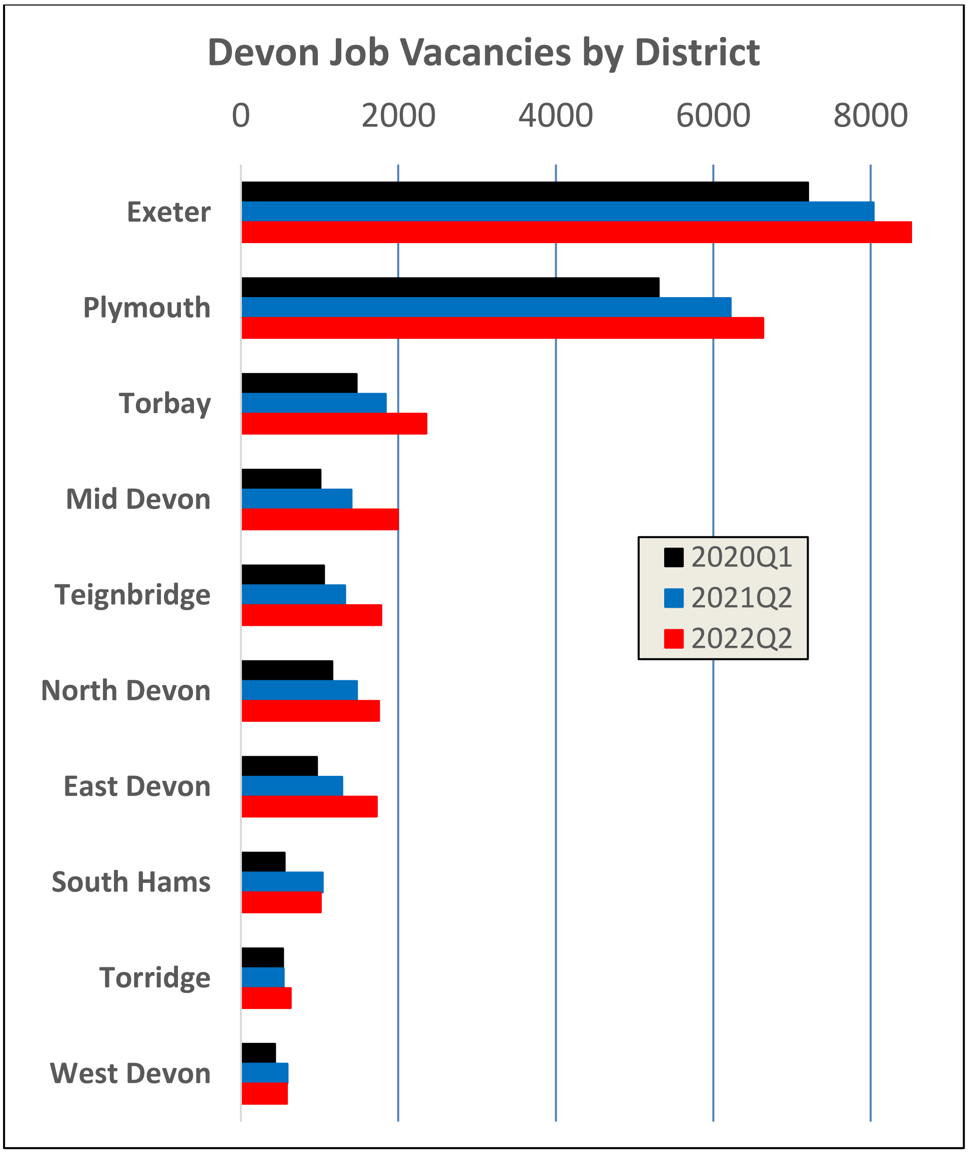
- As some locked-down businesses reopened in 2021 and restrictions lifted in spring 2022 significant labour shortages have occurred in Devon across many sectors
- Some sectors continue to experience acute demand include tourism; hospitality; health and care (which had some shortages pre-covid); transport (especially HGV drivers) and skilled construction staff. The voluntary sector has in some instances also reported a shortage of volunteers. Demand for goods and services appears to have bounced back, but now with fewer people able to service those demands.
- A variety of reasons have been given which included higher levels of applications to study, or retrain; EU exit causing an interim lack of migrant workers; an increase in long term sickness; early retirements; high housing costs meaning people can't afford to live near some jobs and people reprioritising their lives during the covid pandemic. Latest data points to some older workers returning or considering a return to work for money reasons.

- In the tourism sector recent evidence now points to over half of all businesses paying more for staff, but reducing their opening hours, with disgruntled customers sometimes being the outcome. A significant number of businesses in summer and autumn 2021 reported brisk business, but the impact of previous lockdowns has impacted their net positions with cash flow risk still looming and potential cost of living impacts on business survivability. The outlook in 2022/23 remains uncertain, primarily related to inflationary impacts, availability of suitable labour and now potential impacts from lower discretionary spend.



Source: Lightcast Labour Market Analytics

- Exeter and Plymouth represent the largest employment centres locally. Recruitment levels in Q2 of 2022 have now recovered to well above pre-pandemic levels in Q1 of 2020.
- Recruitment levels have picked up the most in South Hams, East Devon and Mid Devon, due to these district areas having high levels of tourism and care sector employment and recruitment.



Source: Lightcast Labour Market Analytics

Just About Managing and pay

- Average workplace full-time pay rates in Devon are around 89.4% of the UK in 2021, but lower still in some parts of the County (Torridge 79.3% and West Devon just 75.8% of UK). There is a difference between full-time workers which on average are paid £13.94 per hour and part-time workers who on average are paid £10.99 per hour in 2021.
- Data on average pay rates between 2019 and 2021 reflect changes in the composition of the labour force - in particular the effects of the job retention scheme (which reduced some workers pay to 80%) while also reducing the number of low paid workers in employment (particularly in the 16-24 age group) during 2020 and early 2021.
- On average, pay for freelancers during 2020 took a significant hit, but has now bounced back.
- Devon house prices up 16.5% in a year – competition for housing, especially at higher priced end and in rural/coastal areas such as South Hams where prices were up 21% in July 2022. As at September 2022 estate agents are beginning to note a change in these trends.
- Staycation boom and trend towards rural and coastal living alongside residential rental property coming come off the market – renters who have to move have been hit, especially in traditional holiday areas. According to property site Rightmove rent increases for new lets have hit a 16 year high with an annual increase of 13.7% seen in the South West. The ONS also reports a 4.3% increase in existing private rental prices to August 2022 across the South West (the highest for 16 years).
- Evidence of highly significant increases (doubling in some instances) in Food Bank usage in Devon over the pandemic and more widely worry about food insecurity, especially among those with

children. A recent national survey in March 2022 of 1,200 charities providing surplus food found 75% indicated they had seen an increase in demand due to increases in the cost of living resulting from rising energy bills and food prices. Data from Citizens Advice currently shows in August 2022 referrals to food banks and charitable support are 3 times higher than they were in 2019 before the pandemic.

High Streets

- All high streets in Devon were impacted by significant temporary business closures during the first 2020 lockdown.
- Since then there has been a significant shift in spend patterns with many of the smaller market and coastal towns that are focused on independent stores holding up best, buoyed in part by the resumption of the holiday trade; higher numbers of people working from home and shopping more locally and retirees, many of whose incomes have held up feeling more confident in venturing out and spending again.
- The retail businesses most impacted by the pandemic have tended to be national and international chain stores that operate on business models with tight margins and often occupy more expensive town and city centre retail units.
- Retail vacancy rates remain an issue in some areas, but in most Devon towns and cities are below the national average – some significantly so (those remaining above at the most recent survey were Barnstaple 18%, Axminster 18%, Ilfracombe 16% and Cullompton 17%). There are also higher rates in neighbouring Paignton 20%, Torquay 19%, and Plymouth City Centre 18%, while in Exeter City Centre the rate has fallen slightly to 13%, just below the national average.
- Some nervousness as at September 2022 among retailers as discretionary spending begins to fall due to the cost-of-living

Most economically vulnerable communities in Devon

Using our economic vulnerability index the 10 current most vulnerable communities/neighbourhoods in Devon are:

Devon
Barnstaple - Town Centre
Ilfracombe - High Street and Quay
Newton Abbot – Station Road
Honiton – Dowell St / Northcott Lane
Ilfracombe – West
Newton Abbot Central
Exmouth – The Point, Docks
Exeter – Cathedral and City Centre East
Teignmouth – Town Centre
Honiton – Streamers Meadow

Mortgaged households

Across the UK approximately 20% of mortgages are on a floating, or tracker rate that links to changes in the Bank of England base rate. Other mortgages are on fixed rates, a good proportion of which will expire and need remortgaging within 2023/23. There is significant variance in current forecasts for future mortgage rates, but all are currently showing a forecast rise in rates, some fairly substantial. Around **32%** of all UK households had a mortgage on their home/first property in 2022, above the overall rates in Devon, where more properties overall are owned outright (East Devon has the second highest number of properties owned outright in the Country). Across the UK an extra 5% of households held a mortgage on an additional property. Significant concentrations of mortgaged properties tend to be located in places with large amounts of new-build housing, such as Cranbrook.

Currently financial markets in both the UK and Globally are highly unpredictable, but it is expected in coming months that there will be further pressure on the Bank of England to raise interest rates. Further rises in mortgage rates will be likely to act as a significant drag factor on the economy locally, particularly impacting upon any activities related to available discretionary spend. Devon County Council will be closely monitoring any impacts related to potential issues that households may have in affording bills.

Local authority name	2012 Owned Outright (%)	2012 Owned with Mortgage or Loan (%)	2012 Private Rent (%)	2012 Social Rent (%)	2020 Owned Outright (%)	2020 Owned with Mortgage or Loan (%)	2020 Private Rent (%)	2020 Social Rent (%)
Teignbridge	40.94	32.17	18.04	8.85	**45.31**	**27.11**	18.44	9.14
Mid Devon	37.62	31.33	18.67	12.38	**42.03**	**26.60**	19.20	12.17
Plymouth	27.47	30.06	21.86	20.61	**31.43**	**25.96**	22.73	19.88
Torbay	36.83	30.05	25.27	7.85	**40.92**	**25.39**	25.61	8.08
Exeter	30.28	28.92	22.93	17.87	**34.48**	**24.93**	23.76	16.83
South Hams	43.59	29.52	17.46	9.43	**47.60**	**24.63**	17.64	10.13
North Devon	39.32	28.96	21.33	10.39	**43.47**	**24.41**	21.64	10.48
West Devon	43.76	28.70	17.95	9.59	**47.95**	**24.05**	18.19	9.81
Torridge	42.96	28.42	20.19	8.43	**47.21**	**23.87**	20.44	8.48
East Devon	46.81	27.57	16.53	9.09	**50.73**	**22.91**	16.63	9.73

Wards with the highest level of unemployment in Devon
There are a number of wards in the county which despite overall unemployment falling, continue to have a Universal Credit claimant count which is above the national average.

<u>Claimant Count Unemployment (% of Working Age Population 16-64)</u>

Ward	Mar 20	Aug 20	Aug 21	Aug 22	Aug 22
Barnstaple Central Town	5.4	9.5	6.9	5.0	155
Ilfracombe Central	5.4	10.4	7.1	4.9	135
Taw Vale	3.1	6.1	5.6	4.2	40
Totnes Town	2.4	8.0	4.8	4.1	120
Yeo Valley, Barnstaple	3.9	8.1	5.4	3.9	100
Exmouth Town	3.1	7.2	4.7	3.8	180
Totnes Bridgetown	3.6	7.5	5.2	3.7	85
Dartington	2.2	6.7	4.6	3.5	35
Ilfracombe West	1.9	7.0	4.5	3.4	85

Note: Figures in columns 2-4 are expressed as a percentage of working age population (16-64)

Business cash flows
The ONS is continuing a fortnightly national Business Insights and Conditions Survey (BICS). In this survey it asks by sector which companies are expecting significant cash-flow problems over the next 3 months. Following the end of some support measures and rises in energy, fuel, wages, and supplier prices a number of businesses across all sectors appear to be expecting difficulties. Significantly for Devon this includes 47% of construction firms, 42% of wholesale & retail and 49% of accommodation & food businesses, given our above average employment in these sectors.

The Latest 'How's Business' tourism survey from the South West Research Company shows visitor numbers in 2022 down 5% from pre-pandemic levels, although turnover levels are the same. Looking forward 52% of tourism businesses think the outlook for Autumn 2022 is not as good as 2019 with 89% citing concerns about energy prices, while 68% are also concerned about price rises for food and other costs such as wages.

Data from Begbies Traynor Group shows there has been a 37% increase in the number of businesses in critical financial distress between Q2 2021 and Q2 2022. Bars and restaurants, general retailers and construction sectors are the major drivers behind the increase with year on year rises of 70%, 48% and 36% respectively.

Recovery

https://www.devon.gov.uk/coronavirus-advice-in-devon/document/team-devon-covid-19-economy-and-business-recovery-prospectus/

Team Devon is a partnership between the County Council, Devon District authorities, the LEP, key public sector agencies and business and community stakeholders to provide a shared vision and single economic programme over the next two years for the County to continue to respond to impacts resulting from the pandemic and build our economy back stronger and more resilient. It aligns activities to address our hardest-hit places, communities and business sectors and takes forward emerging new opportunities capitalising on our significant assets. Key amongst these are:

- Taking forward a set of measures to achieve a stronger, more inclusive, and greener economy
- A focus on the hardest hit sectors and businesses; workforce, communities – taking forward opportunities looking at both immediate support and medium-term action
- Devon County Council separately put forward a complementary Devon Economic Recovery Programme to its Cabinet which is now in the process of delivery. This provides a targeted programme of £6m for Devon-wide economic recovery interventions including projects on Green Innovation; Digital support and business adaption; the Made in Devon initiative; Young people entrepreneurship; Start-up support; Listening ear; and Farm resilience.

Further information

All data sets, sources and projections used in this briefing are current at the time of writing. The COVID-19 economic picture, Russia's invasion of Ukraine and rises in energy and food prices and the cost of living are evolving situations with new datasets, reports, forecasts and Government interventions and amendments to programmes happening on an ongoing basis. We update our broader DCC COVID-19 economic evidence base regularly and evolve our forecasts and projections to reflect new data, providing greater certainty over time.

Devon County Council Elected Member Briefing,
Devon's Economy – Covid-19 recovery
October 2022