

Convention of the South of Scotland 28 September 2020

(Paper 2)

COVID 19 – REGIONAL ECONOMIC IMPACTS AND SUPPORTING RECOVERY

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PURPOSE

1. To examine the economic impact of COVID-19 on the economy of the South of Scotland and outline measures being taken to support recovery. This paper sets the overall context and is complemented by papers 3-5 on: Workforce and Skills; Tourism Recovery in the South of Scotland; and Community Wealth Building.

ECONOMIC CONTEXT

2. The South of Scotland (the South) is an important economic region, comprising 14% of Scotland's landmass, containing 4.8% of the population and contributing 3.6% to the economy (GVA) in 2018 (the latest data available). It is a region with significant strengths alongside specific challenges, including its steadily declining working age population and the rural nature of its geography which can make transport and other connectivity difficult.
3. In structural terms, the majority of its business base is made up of small or micro enterprises – 91% of its businesses currently employ fewer than 10 people. It is predominantly a rural geography with a self-contained travel to work area, although some 5% of workers commute to Edinburgh or to Glasgow for city-centre jobs. Important economic sectors for the south include tourism, food and drink, agriculture and forestry giving a greater than average reliance on seasonal incomes. These factors combined make the region vulnerable to economic shocks.
4. Set against this, the region also has real economic strengths and opportunities. Its size and outlook enables strong public sector partnerships and strategic links with its nearest neighbours in the north of England in areas like tourism, energy, digital connectivity and natural capital. Its location also positions the region as a gateway to Ireland and England on major transport routes by road and sea. It has a strong reputation as a leading tourism destination and a dynamic entrepreneurial spirit.
5. Its natural assets include significant land and energy resources of national as well as regional significance which present opportunities in areas like renewables. It has large areas of attractive natural landscape with space and a low population density. It has an active further and higher education sector looking for greater collaboration and vibrant communities with a rich history and cultural heritage. These factors combined make the region attractive as a destination for tourists.
6. The unique opportunities and challenges facing the south were key drivers for the creation of South of Scotland Enterprise (SOSE) which assumed its legal responsibilities on 1 April 2020. SOSE and the two councils (Dumfries and Galloway (DGC) and Scottish Borders (SBC)) established **Team South of Scotland** immediately after SOSE was launched. This partnership is a key strength of the

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region. It builds on the firm foundations established by SOSEP¹ and has been critical to managing and mitigating the economic impacts of COVID. The partnership approach has also brought in other public sector agencies, including Skills Development Scotland (SDS) and VisitScotland (VS) to strengthen the response to significant emerging issues in key sectors and align the skills base with current and future industry needs within growth areas of the region's economy.

7. Partnership is a hallmark of the region, which has just established the **South of Scotland Regional Economic Partnership (REP)**, led by Dumfries and Galloway and Scottish Borders Councils. The REP will bring together stakeholders, including SOSE, the wider public sector and representatives from business, higher and further education and the third sector. As the structure matures, the REP will be key in shaping the agenda for the South of Scotland and future economic strategy.

COVID-19 IMPACTS

8. Although COVID-19 is primarily a health crisis, it has also precipitated an unprecedented economic crisis. **Scotland's GDP contracted by 18.9% in April compared to 20.4% for the UK overall.** While the economy has begun to recover as lockdown restrictions have been eased, GDP was still 22% lower in July than prior to the pandemic. Looking to the medium term OCEA, Oxford Economics and the Fraser of Allander Institute predict pre-crisis levels of growth are unlikely to return until 2022.
9. **The South of Scotland economy was significantly exposed to the immediate economic impacts of the COVID-19 pandemic.** The COVID risk rating developed by the Scottish Government (SG) in April 2020 identified that some 44% of jobs in the Scottish Borders and 40% in Dumfries and Galloway are in sectors most exposed to the economic risks of COVID (manufacturing; construction; retail & wholesale; accommodation & food services; arts, entertainment and recreation). This is slightly above the 37% of jobs in exposed sectors across Scotland as a whole.
10. Many of these sectors are expected to take a long time to return to pre-COVID levels and support for employment through the Coronavirus Job Retention Scheme (CRJS or Furlough) has been vital in keeping people employed (with 30% regional take-up at end July). There have been a few significant job losses in recent weeks within the region, including announcements by OVO Energy, LS Starrett and Mainetti. However, balanced against this, pockets of the economy have been able to respond to opportunities, experiencing growth and enabling them to take on displaced workers:
 - Alpha Solway, a business with production space in Annan and Dumfries, has successfully secured a major contract with the NHS to provide protective masks and face shields bringing c200 new jobs to the area;
 - People's Energy are creating an initial 100 new jobs over the next few months in Selkirk with plans for future recruitment;

¹ South of Scotland Economic Partnership, which preceded SOSE

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- Scotmas in Kelso has seen increased demand for its hand sanitiser and has extended its workforce, creating 10 additional jobs, filled by local people recently made redundant.

11. Whilst it is clear that turbulent economic times lie ahead, there are also some encouraging signs of economic recovery and renewal.

CRISIS SUPPORT

12. The Scottish Government's first priority in this economic crisis has been to protect jobs and businesses. It has provided over £2.3 billion support in recent months, with £87 million of that going to businesses in the South of Scotland (see Annex). The two councils and SOSE have been instrumental in delivering much of that funding support quickly and effectively to businesses as part of a partnership response with SG. Alongside this, across the South of Scotland, the UK Government has provided a further £130 million in loans for businesses and £33 million for the self-employed.

13. At a local and regional level, Team South of Scotland recognised at an early stage that it was vital to understand the impact of COVID on the South to help shape and target their response activity. The Team developed a shared evidence pack capturing national, regional and local data to understand differential impacts. It also took forward work to deepen the understanding of impacts on place, identifying key employers that are vitally important to the resilience of local communities.

14. The close working relationship developed through this strong partnership has helped align responses and resources behind one clear objective – to deliver the best outcome possible for the region in testing times.

15. SOSE has also supported businesses directly with funding to build resilience and help prepare them for restart and recovery. Personal engagement and developing key relationships have been an important aspect of the supporting role. This has included accountancy support to restructure businesses effectively to improve future resilience.

16. Both councils have also provided a wide range of support for local businesses:

- providing rent holidays for businesses and community organisations through lockdown, for Council-owned properties;
- providing safe trading advice to business permitted to operate during lockdown and to business preparing for restart;
- developing a Town Centres Restart Plan to co-ordinate temporary safety and business restart support measures which has been delivered successfully;
- working with local food suppliers to fulfil the needs of local children and vulnerable people during lockdown; and
- working to progress the economic partnership and trade opportunities with Northern Ireland through the North Channel Partnership (via DGC).

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ECONOMIC RECOVERY

17. As the economy recovers, there is an opportunity not simply to go back to how things were, but to address with a renewed impetus many of Scotland's deep-seated economic, environmental and social challenges. The challenge of COVID has for example underlined the vital importance of economic enablers like digital connectivity, whilst at the same time highlighting the importance of local supply chains. The Scottish Government is very clear that it wants to take the opportunity and to use this moment to make significant advances to deliver a fairer, greener, more prosperous Scotland.
18. The SG's Programme for Government (PfG) launched on 1 September, built on SG's responses to the reports by the Advisory Group on Economic Recovery (AGER²) and the Enterprise and Skills Strategic Board (ESSB³) as well as its engagement with the Social Renewal Advisory Board⁴. It sets out a broad range of actions at a national level that will also support and enable economic recovery in the South.
19. Through the PfG, SG commits to work with Team South of Scotland and the newly formed REP to connect the region fully into these programmes, ensuring that their benefits and investment reach well into the South. Central to the PfG is a National Mission to Create Jobs – good jobs and green jobs - with a range of integrated actions on themes including: attracting investment, skills and employability, digital capability, community enterprise, and greater localism.
20. A few headline PfG commitments with relevance to the South of Scotland are:

Delivering Green Growth – The first tranche of the SG's £2 billion Low Carbon Fund, includes: helping to secure investment of £1.6 billion over the next Parliament in heat and energy efficiency in homes and buildings, delivering a £100 million Green Jobs Fund, and providing £60 million for industrial decarbonisation. With its abundance of natural capital there are clear opportunities for the South to benefit from this investment, whilst creating industry clusters that deliver high value jobs. The region is also a good rural test bed for piloting some of the more intractable issues including off-gas grid domestic heating and energy efficiency measures. The South of Scotland Energy Transition Group is already examining future energy supply, demand and transmission and proactively identifying solutions to overcome challenges and capitalise on the region's natural assets to boost economic growth.

Digital Connectivity - The pandemic has further underlined just how critical digital connectivity and capability are to economic success. SG is already investing £600 million in the R100 programme to accelerate broadband connectivity in rural areas. R100 is going well in the South and work has started on the 'South Lot', to connect people across the region to broadband services. Building on R100 success, PfG confirmed an additional £23m SG investment to help more digitally excluded people get online and a commitment to

² <https://www.gov.scot/groups/advisory-group-on-economic-recovery/>

³ <https://www.gov.scot/publications/addressing-labour-market-emergency-scottish-governments-response-report-enterprise-skills-strategic-board-sub-group-measures-mitigate-labour-market-impacts-covid-19/>

⁴ <https://www.gov.scot/groups/social-renewal-advisory-board/>

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establishing a national network of 'Tech Scalers' - world-class start-up incubators delivering the best available mentoring and training for our company founders. It will be important for the South to capitalise on this activity.

Education and Skills - Recognising the need to support young people in challenging times and protect them from the effects of long term unemployment, PfG commits £60m to support a Youth Guarantee that will help young people access jobs, apprenticeships or training. Alongside this, a £25 million National Transition Training Fund will be established to bridge the skills gap between those facing unemployment and sectors with greatest potential for future growth. Work will also be undertaken to boost youth employment in nature-based jobs by expanding apprenticeship and undergraduate schemes in public agencies. Of necessity more courses are moving on-line. This offers scope to broaden the range of local provision, helping retain young people and enabling older people to re-train remotely building on the Skills and Learning Network funded by SOSEP. The challenge and opportunity will be to bring these things together to meet the needs of the economy of the South. This can be facilitated through the REP and Paper 2 sets out the ways in which this can be achieved.

Housing - Good quality, affordable housing is essential to attract and retain people in Scotland's remote and rural communities. Some £40 million has been allocated from the SG's main Affordable Housing Supply Programme in 2020/21 to support the delivery of affordable housing across the South. There is an ongoing need to work together to deliver the housing rural areas need. This can be facilitated through the REP and the Scottish Government's Rural and Island Housing Fund and Affordable Housing Supply Programme.

21. The creation of a new enterprise agency for the region – SOSE – underlines our firm commitment to developing the region's economy to its full potential and SG will work in partnership with Team South of Scotland and the newly formed REP to secure local and regional benefits and impacts from these national projects and programmes. A partnership approach will be critical to success, in combining national insights with local knowledge to target activity and support where it is most needed and where it will deliver greatest impact for the South and its people.
22. Alongside this, the significant funding that the Scottish and UK Governments and local authority partners have committed to the region through the Borderlands Inclusive Growth Deal provides long-term strategic investment of £150 million in the region over the next 10-15 years. Priority themes in the deal are relevant to supporting recovery, with projects planned in tourism, quality of place, business infrastructure, energy, digital & physical connectivity and skills development.
23. The SOSE operating plan sets out its investment priorities for the year ahead, which respond to immediate challenges while looking at the need to invest strategically in longer term opportunities that will create high value jobs and attract investment. For the remainder of 2020/21 SOSE will focus on:
 - Using its resources to best effect to support business recovery;
 - Developing its ambitions for the future of the region;

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- Developing its capacity to provide the advice and support required across the South;
 - Setting investment priorities that support recovery and creating and investing in opportunities which will sustain and strengthen the regional economy, businesses and communities in the longer term.
24. SOSE has already committed up to £2.7m over the next 5 years in the South of Scotland Destination Alliance, a new tourism, marketing and destination development programme to be delivered by a new industry-led leadership body to lead a clear tourism strategy from coast to coast supporting a recovery plan for the sector and the wider regional economy. This marks a long term commitment to the sector helping to build its long term future.
25. DGC has adopted an economic recovery workplan with a number of work streams including: local recovery; place and town centre restart; safe trading and restart; skills, employment and inclusion; support to business; community wealth building; capital investment projects; and strategic partnerships.
26. SBC's focus on recovery has been broadly based. It has prioritised the distribution of assistance to business through the government Covid-19 grant schemes. Together with partners, SBC is continuing to develop its support for employability, and its approach to revitalising places and communities. Apart from its input into work on the proposed the Borderlands Inclusive Deal SBC is also contributing to the Edinburgh and South East Scotland City Region Deal through the development of a business infrastructure project at Tweedbank and the leadership of a Workforce Mobility project.

WELLBEING ECONOMY

27. SG's approach to delivering a wellbeing economy balances economic progress and prosperity with inclusion and sustainability. It is not about zero or de-growth for Scotland, it is a commitment to deliver an approach that improves the economy through good quality jobs, and in a way that enhances the quality of life and is compatible with a net zero, sustainable future. It seeks to build resilience, making the economy 'future proof' and agile enough to withstand external risks and shocks.
28. Delivering a wellbeing economy requires an understanding of the opportunities and challenges facing a particular place. Key things to consider in the South include:
- Identifying opportunities to sustain and grow the economy and create quality employment through business investment and innovation. Currently there are high levels of employment in low-wage, low-productivity sectors, such as retail and accommodation and food services, and higher rates of self-employment which in some instances can result in less job security;
 - Ensuring how best to support the 91% of micro-businesses to thrive and for the public sector to work with firms to embed them strongly into their communities, exploring community wealth-building approaches and local job and training opportunities;
 - Maximising the impact of the enhanced broadband infrastructure which will be delivered by the R100 programme;

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- Ensuring the local population have the skills to participate in quality employment and meet business needs and can access the training and support they need locally, with national offerings appropriately tailored to the circumstances of the rural South. Currently there are lower levels of degree level qualifications than elsewhere in Scotland;
- Maximising the opportunities for rural living and tourism resulting from the significant natural assets and quality of place;
- Improving access to services and employment given the challenges of delivering public transport and transport infrastructure over the geography;
- Ensuring an attractive offer for young people to stay in, and move to, the region, to boost the working-age population, as well as servicing the older demographic and creating a strong care economy.

FORWARD LOOK

29. Looking to the longer term recovery, the Regional Economic Strategy (being developed by the new REP) will set out agreed goals for all partners to work towards, providing the direction needed to enable national, regional and local organisations to align their efforts, in direct response to the specific needs of the area, to create jobs and a Just Transition through investment-led sustainable, green growth.
30. This Team South approach will draw together the different and complementary capacities and resources of its members. It will also provide a forum to monitor and track the economy of the South and the efficacy of the interventions, particularly looking to ensure that actions reduce existing inequalities.
31. There is no doubt that the immediate economic outlook is tough. Scotland's economy may not recover to pre-pandemic levels until 2023, and nationally unemployment may rise to 10% by the end of the year as the furlough scheme ends. Unlike other European countries, the UK Government is not offering continued support to even the hardest hit sectors although the SG is pressing the UKG to provide ongoing transitional support for those sectors unable fully to restart when the furlough scheme ends, including tourism, hospitality and aerospace, and also to do more to support businesses deal with the debts taken on during COVID.
32. At the same time, there is increased uncertainty around future trading relationships, with the EU transition period due to end on 31 December. Businesses need to be preparing now for this but have – understandably – been focussed on survival through COVID.

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SOME CONCLUSIONS

33. This paper sets out the economic impact of COVID on the economy of the South of Scotland, insofar as its effects can be predicted at this time, and outlines measures being taken to support regional recovery. It identifies some of the key challenges, and suggests the following areas of focus for future regional partnership working to help ensure sustainable economic recovery and build for future success:

- Using the Regional Economic Partnership to align efforts and resources behind common strategic goals; developing strong and effective engagement between regional and national organisations, including the Scottish Government;
- Delivering tailored, focused and flexible support and advice to sustain business recovery and protect jobs and maintain investment in the region;
- Ensuring that the work of national agencies contributes effectively to driving inclusive sustainable growth and the well-being of the South of Scotland;
- Ensuring partners across the South work together to support the national mission on jobs, to sustain and create the jobs required, including through the Green Jobs Fund;
- Maximising the region's digital capabilities and capacity to enable effective and sustainable recovery, and to support future growth ambitions;
- Strengthening and sustaining the region's tourism sector through the crisis and building for the region's future success in this vital economic area;
- Capitalising on the region's natural assets to realise its potential to develop high value jobs and successful green industry clusters of the future;
- Getting the education and training offer right for the region – delivering the skills needed by industries and improving access across the region;
- Maximising opportunities for community wealth building to ensure the benefits of investment and growth support the development of rural communities.

34. **The Convention of the South of Scotland is invited to consider this paper and discuss:**

- a. **the priorities outlined above; and**
- b. **whether additional priorities need added – and if so what these might be.**
- c. **agree that the Regional Economic Partnership should seek to unpack these issues and drive co-ordinated partnership actions to address them.**

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ANNEX

SOUTH OF SCOTLAND ECONOMIC DATA

Population of the South of Scotland:

- The population of the South of Scotland is approximately 263,900, representing slightly less than 5% of Scotland's population.
- The population in Scottish Borders is projected to rise by 2% between 2016 and 2026 and decrease by -1.5% in Dumfries and Galloway.
- The South of Scotland has a dependency ratio of 73%, compared to 56% nationally. The dependency ratio measures the size of the non-working population compared to the working-age population.

Labour market:

- Between April 2019 and March 2020, the unemployment level in the South of Scotland was 3%. This was equal to the national level.
- In 2019, there were over 12,000 registered private sector businesses in the South of Scotland, employing nearly 86,000 people and with an annual turnover of over £9.8m. The majority of these businesses were small or micro enterprises, employing fewer than 50 people.
- In 2019, the majority of private sector businesses in the South of Scotland were in the following sectors: agriculture, forestry and fishing; wholesale and retail trade/ repair of motor vehicles and motorcycles; construction; professional, scientific and technical activities; and accommodation and food services.
- In 2018 the sectors employing the highest number of people in the South of Scotland were: human health and social work activities; wholesale and retail trade/ repair of motor vehicles and motorcycles; manufacturing; education; and accommodation and food service activities.

Sectoral exposure:

- In April 2020, a risk rating was developed by the Scottish Government to understand how different sectors are affected by the key risks arising from COVID-19.
- Dumfries and Galloway has a 40% share of employment in the sectors most exposed to the risks of Covid-19 and Scottish Borders has a 44% share.
- Manufacturing; construction; retail & wholesale; accommodation & food services; and arts, entertainment and recreation are among the most at risk sectors.
- The risk exposure is expected to be reviewed at the end of September 2020.

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Covid-19 support:

- At close 4th August 2020, the South of Scotland had received over £87m in Covid-19 business financial support grants. This includes:
 - 7,172 grants, valuing over £75m, via the the Small Business Grant Scheme and the Retail, Hospitality and Leisure Business Grant Scheme.
 - 30 grants, valuing £90,000, awarded via the Bed and Breakfast Hardship Fund.
 - 54 grants, valuing over £1m, via the Creative, Tourism and Hospitality Company Hardship Fund.
 - 168 grants, valuing over £10.8m, via the Pivotal Enterprise Resilience Fund.
 - 78 grants, valuing over £146,000, via the Creative Scotland and Screen Scotland Bridging Bursary for the Arts and Creative Sector.
- Key industries in the South of Scotland, in particular accommodation and food services, and arts, entertainment and recreation, are the most reliant on the Coronavirus Job Retention Scheme.
- There have been 11,200 claims for Self Employment Income Support (SEISS) in the South of Scotland. The take up rate is 73%, compared to a national take up rate of 76%. The total value of SEISS claims to end June 2020 is over £33m.

Employment:

- Scotland's unemployment rate increased by 0.4 percentage points to 4.5% from April to June this year, as the initial impacts of COVID-19 began to appear in headline labour market indicators. This was higher than the UK unemployment rate of 3.9%, which saw a larger increase in inactivity.
- Since March, the number of people on Universal Credit in the South of Scotland has increased by: 81% for people in employment; 62% for people not in employment; and 67% for all people on Universal Credit. This is compared to an increase of 74% in Scotland as a whole.
- The number of people claiming unemployment-related benefits has risen for all age groups since March. This will in part reflect changes to eligibility criteria that increased the number of people who could claim universal credit whilst still being in work. The biggest increase in Dumfries & Galloway has been for the 18-24 age group, which has seen an increase of 87%. The biggest increase in Scottish Borders has been for the 16-17 age group, where claims have more than doubled.
- The number of job vacancies advertised in Dumfries and Galloway and the Scottish borders has decreased by 4.5% and 8.6% respectively, since the 15th March 2020. Encouragingly, job vacancies in Dumfries and Galloway have risen by 11% since July, however, the Scottish Borders has seen a decrease of 0.3%.