Brexit and Covid-19: An Economic Impact Assessment for Trafford

April 2021

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Executive Summary

Trafford, along with the rest of the UK, is facing two key challenges – the Covid-19 pandemic and the UK's departure from the European Union. The dual effects of Covid-19 and Brexit are likely to continue to have a significant impact upon Trafford's economy in the short and medium run and is likely to result in an immediate increase in unemployment and more challenging conditions for many businesses in both the service and industrial economy.

Prior to Covid-19 pandemic Trafford had low unemployment and strong growth forecasts, it had one of the strongest economies in Greater Manchester. Trafford is now likely to see a significant increase in the number of unemployed residents as Government support measures unwind, the majority of which will be younger people.

Young people are likely to be affected by their high representation in sectors such as hospitality and leisure, and companies postponing recruitment in 2020 and 2021 to determine the extent to which the recovery supports new recruitment.

Covid-19 will have serious consequences for low income households and vulnerable groups, including families and children falling further behind as a result of long periods of online home learning. Research has highlighted the impact of Covid-19 restrictions on lower income households.

Trafford also has a number of sectors/companies at risk from the negative effects of Brexit. With nearly a half of UK exports and imports of manufactured goods going to, and coming from, the EU and a number of manufacturing sub-sectors are at risk including automotive, transport equipment, chemicals and chemical products and textiles (accounting for 28% of Trafford's manufacturing sector). In addition the need for the NHS and care sector to recruit a large number of international workers each year to meet demand, provides an additional risk as relocation to the UK becomes less attractive to EU citizens.

There is a consensus that Brexit will lead to:

- A reduction in exports while leaving the Single Market will not impact upon the ability of companies in Trafford to export, the non-tariff barriers are likely to reduce levels of trade relative to the current position;
- A reduction in re-investment by international companies which have used a UK base to export to EU markets;
- Reduction in the attractiveness of Trafford and Greater Manchester as a place to invest and re-invest for exporting to EU markets, relative to other cities and regions in the EU.
- More positively, a potential increase in European companies establishing a UK base and production facility to serve the UK market.

Summary of Economic Impacts

- **Trafford's economy** is estimated to have **shrank by 10% in 2020**, with GVA in Trafford unlikely to recover to pre-Covid levels until 2023.
- There is likely to be **over 9,000 claimants** of unemployment related benefits by the end of 2021, an uplift of 5,500 since the start of the pandemic.
- 40% of jobs losses in the **hospitality industry** with a number of bars, restaurants and cafes not reopening in 2021, as well as a fall in employment within the accommodation sector.
- 20% of job losses will come from the **retail sector** with a number of shops not reopening as restrictions are lifted in 2021.
- The remaining 40% will be across a range of other services including transport, media and tech companies and other business services, with many companies resizing in light of a changing economic environment.

Key Recommendations

While the immediacy of the challenges outweigh the opportunities, Trafford benefits from a strong economy and an investment attractive location for many of the sectors which will drive the economic recovery. Trafford Council and partners' will need to act quickly with mitigating measures to ensure longer term prosperity. Linking immediate responses to medium term opportunities will be central to a speedy economic recovery and increasing new job opportunities in 2022 and 2023. The key areas of focus and recommendations are:

- **Skills and Employment:** Encourage people to remain in education and training and increase their skills related to in-demand occupations would help those impacted to adapt to a subdued labour market. The scale of the challenge will fully emerge later in 2021 as Government job support measures end. Ensure training related funding prioritises the Health and Social Care sector, and increased information, advice and guidance is provided to attract more people to take up health and care employment opportunities.
- **Businesses and Employment:** Monitor the new arrangements for banking and financial services as well as the arrangements for mutual recognition of professional qualifications.
- **Inward Investment:** Promote Trafford as a UK distribution and production base for companies targeting UK market.
- **Funding:** Develop successful propositions for various funds for locally based actions, business support measures and training and employment support actions to support the economic recovery, support local businesses and address skill shortages in order to address the combined impacts of Brexit and Covid-19, including Shared Prosperity, Levelling Up and the Community Renewal Fund.

Key Priorities

As the economy recovers there is an opportunity for Trafford to rebuild the economy in a fairer and more environmentally conscious way, aligning with Greater Manchester's strategic plans *to "build back a better, fairer and greener economy"*. This includes:

- **Supporting a Green Recovery:** There is the potential to support a greener recovery and Greater Manchester's mission to achieve carbon neutrality by 2038. The low carbon economy provides a significant opportunity to create jobs including by supporting projects that involve retrofitting buildings, green transport and the related training programmes. NESTA highlights the opportunity to reskill those who have become unemployed following the pandemic for the green economy, including residential retrofitting. Estimates suggest around 60,000 homes would need to be retrofitted each year in Greater Manchester to meet its targets, creating significant demand for accredited Green Homes Grants (GHG) installers.
- **Tackling Inequalities:** There is a need to tackle social and health inequalities, which act as a constraint to growth and influence quality of life and deprivation among communities. Key interventions include: action to ensure young people are able to gain the qualifications, skills and capabilities to take up training and employment opportunities; ensuring targeted support is in place for those with health issues, including mental health, to bring people back into training and employment; support for those who need multiple interventions before they are ready to take up training and employment opportunities. In addition, the physical regeneration of deprived areas can play an important part in raising aspirations and increasing community confidence. The council have an important role to play in reducing social and health inequalities.
- **Maximizing Social Value:** There is potential to increase social value activities and leverage more benefits for residents and businesses, provide supported employment places for residents in areas of high deprivation and provide a new range of actions to support young people. Greater Manchester has committed to undertaking a refresh of the existing Greater Manchester Social Value Framework and new social value policy for GMCA and its partners operating at a GM footprint, including guidance for commissioning and procurement in the light of the Covid-19 pandemic. There is an opportunity for Trafford Council and partners to strengthen their social value activities and expectations when procuring goods and services. In addition, there is a growing commitment in the private sector to increase their Corporate Social Responsibility actions, presenting another opportunity for Trafford to increase social value activities.

1 Introduction and Context

Purpose of the Report

This paper has been prepared to assess the potential economic implications of Brexit for the borough of Trafford now that the UK has secured a free trade agreement with the European Union (EU) and has left the common market. This will provide an update to the Brexit Impact Assessment report completed January 2019 for Trafford Council, although given the ongoing Covid-19 pandemic, this report will also assess the dual effects of Covid-19 and Brexit on the economy.

Brexit

On June 23rd, 2016, Britain voted in a referendum to leave the European Union. In 2017 Article 50 was triggered marking the two-year countdown until the UK was meant to leave the EU although the date was later extended. In 2020 the European Union (Withdrawal Agreement) Act 2020 became law and on 31st January 2020 the UK officially left the European Union and entered the transition period. On 24th December 2020 The Brexit deal – the EU-UK Trade and Cooperation Agreement, (TCA) – was secured and on the 31st December 2020 the transition period ended and the UK left the EU single market and customs union.

The Brexit Trade Deal

The key elements of the TCA (Brexit deal) which came into effect on 31st December 2020 are detailed below.

Trade in Goods	• 100% tariff liberalisation, whereby no tariffs or quotas on the movement of goods between the UK and the EU. The agreement also includes provisions to support trade in services. • In terms of rules of origin UK firms have to certify the origin of their exports to qualify for tariff-free access to the EU. There are limits on what proportion of goods can be assembled from parts made overseas to qualify for tariff-free access.
Financial Services	• There is little clarity for financial services, although the TCA includes joint declaration to support enhanced cooperation on financial oversight and an agreement to try and reach a memorandum of understanding by March 2021.
Dispute Settlement	• No role for the European Court of Justice in settling trade disputes which must be negotiated between the EU and the UK.
Standards	• The EU and UK have committed to upholding their environmental, social, labor and tax transparency standards with a re-balancing mechanism which allows both the EU and UK to be able to retaliate with tariffs if standards diverge too much.
Professional Qualifications	• There will no longer be automatic mutual recognition of professional qualifications (MRPQs) although the TCA sets out aims to establish a process in which regulators and industry bodies can work with each other to establish MRPQs in the future.
New Immigration System	• From the 1st of January 2021, the UK implemented a points-based immigration system that prioritises employment, skills and experience rather than a geographic area, this ends the free movement of people between the UK and the EU. This is explored in further detail in Chapter 4.
State Aid	• The TCA ends the EU State Aid regime, although the UK needs to create a body to oversee its own subsidy control regime
Data	• Data flows between the European Union and United Kingdom can continue as before for a maximum of six months, or until the European Union agrees to a data adequacy decision (expected to be finalised in early 2021). Personal data shipped to the UK during this interim period "shall not be considered as transfer to a third country" by the EU.
Law Enforcement	• There will be cooperation between UK and EU law-enforcement agencies, particularly as part of investigations into terrorism and serious crime, including with the exchange of DNA, fingerprint and airline passenger information, but the UK loses membership in Europol and Eurojust

Overview of the impact of Brexit

While the UK left the EU single market and customs union on 31st December 2020 in the midst of a global pandemic, it is likely that it will be some time before the full impacts of Brexit are visible and the full consequences of Brexit are likely to take a number of years to be fully felt.

Brexit has been over-shadowed by Covid-19, with the lockdown affecting various parts of the economy, and significant uncertainty over the ending of restrictions and the speed of the economic recovery. As a result, it is difficult to determine the early economic impact of Brexit.

The UK has avoided the no deal scenario which would have had an immediate and serious effect across the economy, although forecasts suggest that Brexit will reduce the economy by 1%-2% in the short term. The Institute of Fiscal Studies (IFS) estimate in 2021 the UK economy will be 2.1% smaller than if the UK remained in the single market and customs union, while the consensus is that the UK economy will be 5% lower in 2030, compared to remaining as an EU member. Brexit is likely to lead to a reduction in traded goods and services, with implications for some parts of manufacturing and the effect on finance/business services will be determined by the final arrangements, which have yet to be agreed.

Covid-19

Given the profound impact the Covid-19 pandemic is having on the economy, it is essential to consider the dual effects Covid-19 and Brexit in the short and medium term. This is likely to result in an immediate increase in unemployment and more challenging conditions for many businesses in both the service and industrial economy.

The Covid-19 pandemic has caused a traumatic shock to the whole economy, with output declining by around 10% in 2020, more than twice the decline in 2009. The impacts are likely to deepen many of the socio-economic challenges already being faced by some communities, although various protection measures and home working have reduced the immediate impact on many sectors. Covid-19 is having differential effects across the country, largely due to differences in health, social and economic conditions, including the sectoral mix of local economies, in addition to varying levels of restrictions places have been under. Hospitality, tourism, transport and arts and entertainment are the most exposed sectors in relation to economic impact of Covid-19.

Oxford Economic produced the expected regional impacts of Covid-19, published by ICAEW in May 2020. The research suggests in the North West, the largest job losses will have been in accommodation and food services (circa. -35,000) followed by wholesale and retail trade (c. -27,000) and manufacturing (c. -21,000), while GVA is expected to have declined by almost 8%.

One consequence of Covid-19 has been to increase unemployment and significantly increase the numbers of people looking for employment, which may mitigate the loss of the pool of EU citizens taking up lower paid jobs in some sectors. Covid-19 is expected to have some longer-term impacts, with more people choosing to work at home in the long-term, impacting upon city centres.[1]

As a result of the Covid-19 pandemic alongside Brexit a period of sizeable economic adjustment is likely to follow.

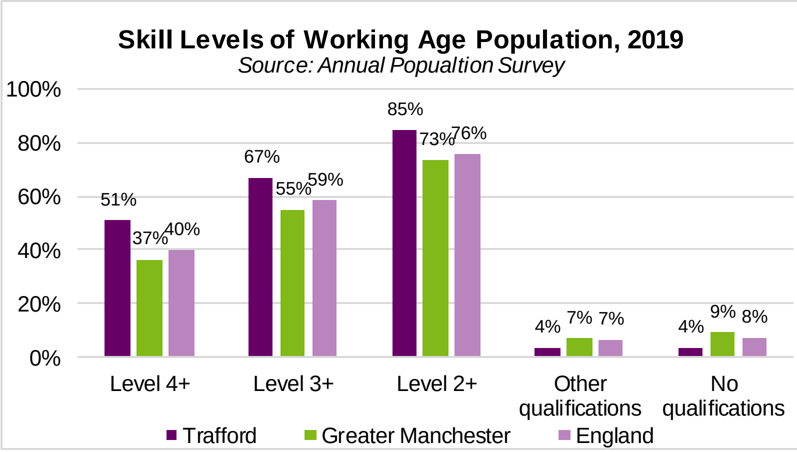
[1] IFS Green Budget: October 2020

2 Overview of Trafford's Economy

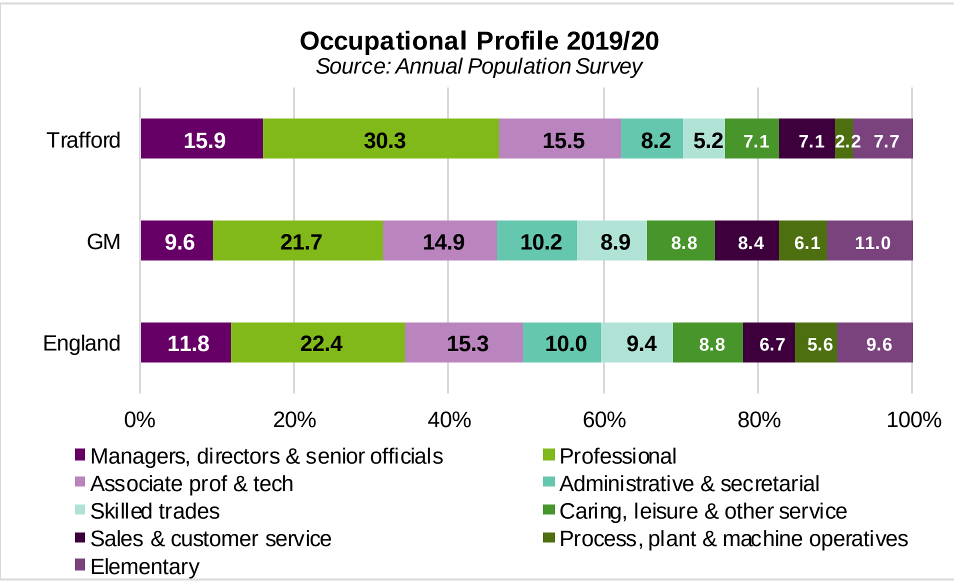
Trafford has a strong and diverse economy, with a population of 237,354, accounting for 8.4% of Greater Manchester's population, and a workforce of 156,000 people, accounting for 11.2% of total employment in Greater Manchester.

A Highly Skilled Population

The population is highly skilled. As of 2019 50.9% of the working age population were skilled to Level 4 and above, significantly above the Greater Manchester (36.6%) and national (40.0%) averages. In addition, a much lower share holds no formal qualifications, with just 3.8% of working age residents compared to 9.4% across the wider sub-region and 7.5% nationally.



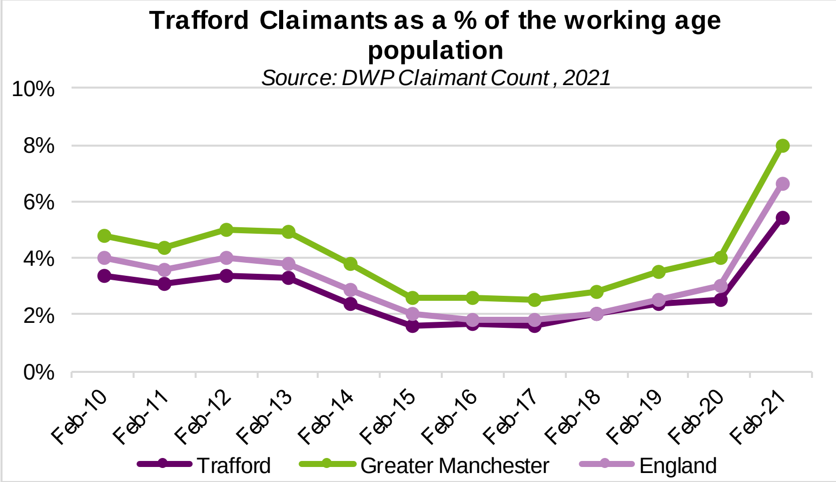
Trafford's occupational profile reveals there is a relatively large share of its residents working in skilled occupations. In the year ending September 2020, professional occupations (30.3%) accounted for the largest share of the working population in Trafford, a notably larger share than across Greater Manchester (21.7%) and nationally (22.4%), indicative of the large professional, scientific and technical employment and business base. Managers, directors and senior officials were the second largest occupational group, accounting for 15.9% of working residents compared to 9.6% across the sub-region and 11.8% nationally.



Low Unemployment

In the five years prior to the Covid-19 pandemic Trafford has been characterised by low unemployment, typically falling below the Greater Manchester and England average. In the year ending September 2020, unemployment remained below the sub-regional and national level at 3.7% compared to 5.3% across Greater Manchester and 4.4% nationally, although this does not capture the full impacts of Covid-19 on unemployment.

The Claimant Count, which captures people claiming Job Seekers Allowance (JSA) and those who are claiming the unemployment related elements of Universal Credit (UC), provides a more up to date picture of unemployment. Over the past ten years the proportion of claimants in the working age population has been consistently never been above the Greater Manchester and England levels.[2]

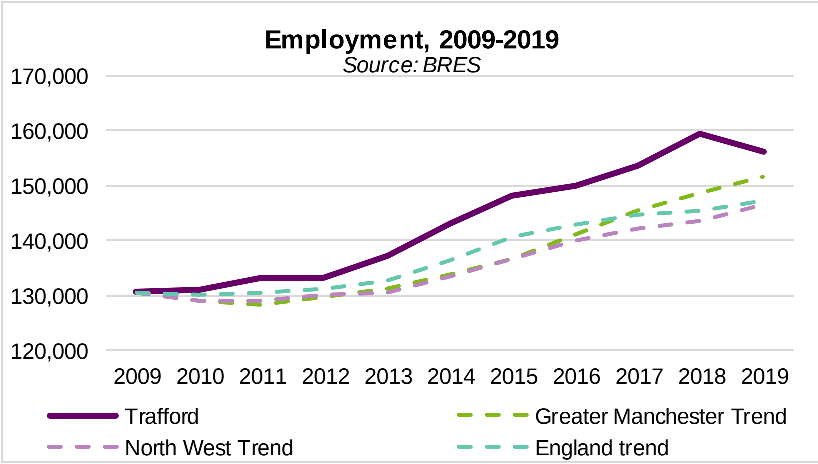


In February 2021 there were 7,485 claimants in Trafford accounting for 5.4% of the working age population, a ten year high for Trafford, although it still falls below the Greater Manchester (8.0%) England (6.6%) levels.

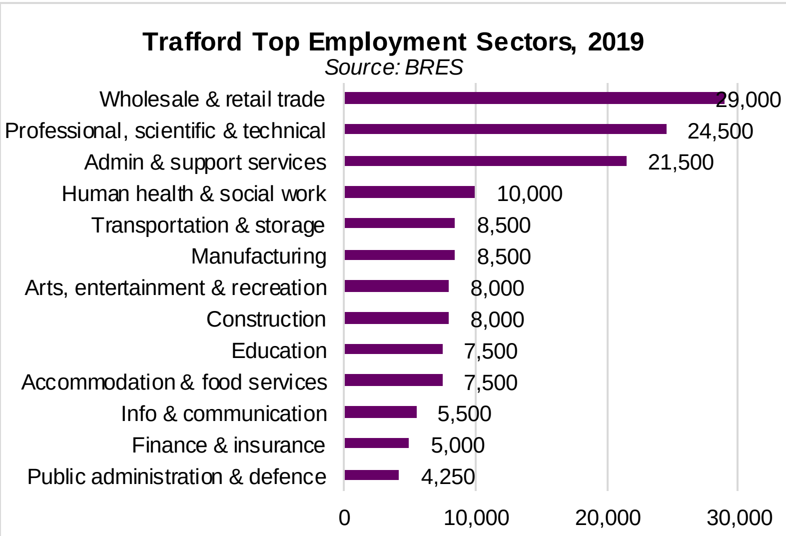
A Strong Service-led Employment Base

In 2019, 156,000 people worked in Trafford, accounting for 11.2% of total employment in Greater Manchester.

Since 2009 an additional 25,500 jobs have been created in Trafford, an uplift of 19.5% a faster rate of growth then seen across Greater Manchester as a whole (16.0%) and nationally (12.8%).

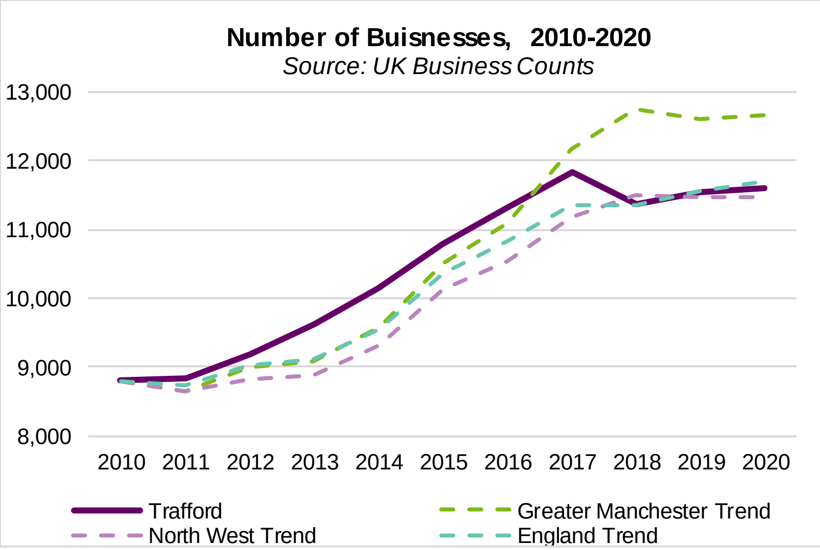


Employment in Trafford is concentrated in wholesale and retail trade; professional, scientific, and technical services; and administrative and support service activities which together account for 48.1% of employment in Trafford, compared to 36.2% in Greater Manchester. Trafford has a relatively large professional, scientific, and technical activities base, which has more than doubled in the past decade, and now accounts for 18% of Greater Manchester's total employment in the sector. The arts, entertainment and recreation sector is also overrepresented in the area, accounting for 5.1% of employment compared to 2.4% across the sub-region and 2.5% nationally.



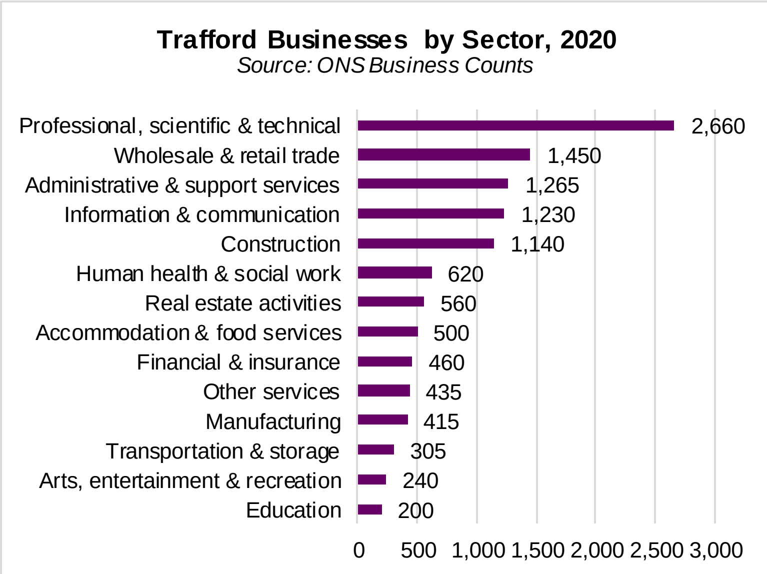
[2] With the exception of 2018 where the Claimant Count as a proportion of the working age population was 2.0% in Trafford and England.

A Diverse Business Base



As of 2020, there were 11,595 businesses operating in Trafford, accounting for 11.1% of the Greater Manchester business base.

Between 2010 and 2020, there has been an uplift of 2,790 businesses, 31.7%, a slower rate of growth than across Greater Manchester, 43.9%, largely driven by rapid growth in Manchester, and marginally below the national uplift (33.0%).



Looking at the business base in Trafford by sector reveals businesses are concentrated in service industries in addition to construction. Trafford has a strong professional, scientific, and technical business base with 2,660; accounting for more than 1 in 5 businesses in the Trafford area (22.9%), compared to 16% across Greater Manchester and 17.5% nationally. Over the past decade the number of professional, scientific and technical businesses has grown by 1,000, and uplift of over 60%. Trafford also has a concentration of information and communication businesses, with 1,230 businesses accounting for 10.6% of the business base compared to 6.1% in Greater Manchester and 8.7% across the country (minus London). Trafford accounts for 18% of ICT businesses in Greater Manchester.

Key employment locations in Trafford include Trafford Park and Trafford City. Trafford Park is one of the largest and most successful industrial estates in Europe, with over 9 million m^2 of business space, supporting an estimated 1,330 businesses and 35,000 jobs, 11.5% of Trafford's business base and 22.4% of the workforce, with global brands including Manchester United, Kellogg's, L'Oréal, Adidas, Amazon, Unilever, Cargill, ITV and Procter & Gamble. Trafford City hosts a range of leisure, retail and food and drink offers, including The Trafford Centre, employing around 17,600 people (11.3% of the Trafford workforce).

A Changed Economic Landscape

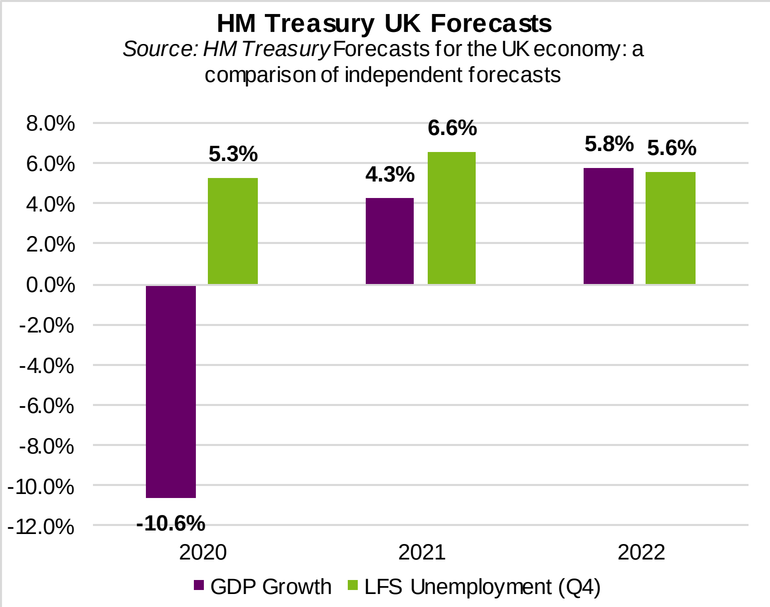
Prior to Covid-19 pandemic Trafford had low unemployment and strong growth forecasts, it had one of the strongest economies in Greater Manchester. However significant numbers of businesses and jobs are in sectors which have been impacted by Covid-19 restrictions, where the full effects will become clear as Government support measures unwind and it also has a number of sectors/companies at risk from the negative effects of Brexit.

3 Economic Outlook

Short Term Economic Outlook

Covid-19 has caused a significant shock to the economy. Recent HM Treasury reports which compare a range of independent forecasts suggest that in 2020 output declined sharply by 10.6% as a result of the Covid-19 pandemic but is expected to grow in 2021 and 2022. However the economic recovery in 2021 is highly dependent on the pandemic.

While the uncertainty around Brexit between 2016 and 2019 is likely to have dampened growth, the biggest impact from leaving the EU is expected to materialise in 2021 and 2022 impacting upon the scale of economic recovery post-Covid.



Unemployment is expected to rise in 2021 as the furlough support ends and many businesses re-open with fewer staff. These forecasts suggest the unemployment rate will be 6.6% in quarter four of 2021.

This implies policy support will continue to be needed over the next couple of years the support people and businesses to recover.

Longer Term Impacts

Due to the profound economic fallout from Covid-19, output is not likely to return to 2019 levels before 2023. Covid-19 in the long term may lead to some economic activity moving out of major urban centers, and the shift to permanent and flexible home-working may lead to a reduced demand for commercial office space, while some of the retail impacts and the acceleration of online shopping and home delivery may further impact on town and city centres.

The IFS anticipate output to remain 4.5–5.0% below its 2016–19 trajectory in 2024, with 1-1.5% of this impact due to the UK's exit from the single market and customs union.

The consensus is that the UK economy will be between 4-6% smaller in 2030 as a result of leaving the Single Market and Customs Union. The key reasons cited for this are:

- A reduction in trade – mainly as a result of significant non-tariff barriers to trade covered in Chapter 6;
- A reduction in migration – due to changes in immigration policy and the attractiveness of the UK as a place to work, covered in more detail in Chapter 5;
- A fall in foreign direct investment – covered in Chapter 6; and
- A reduction in collaboration in research.

Trafford Economic Outlook

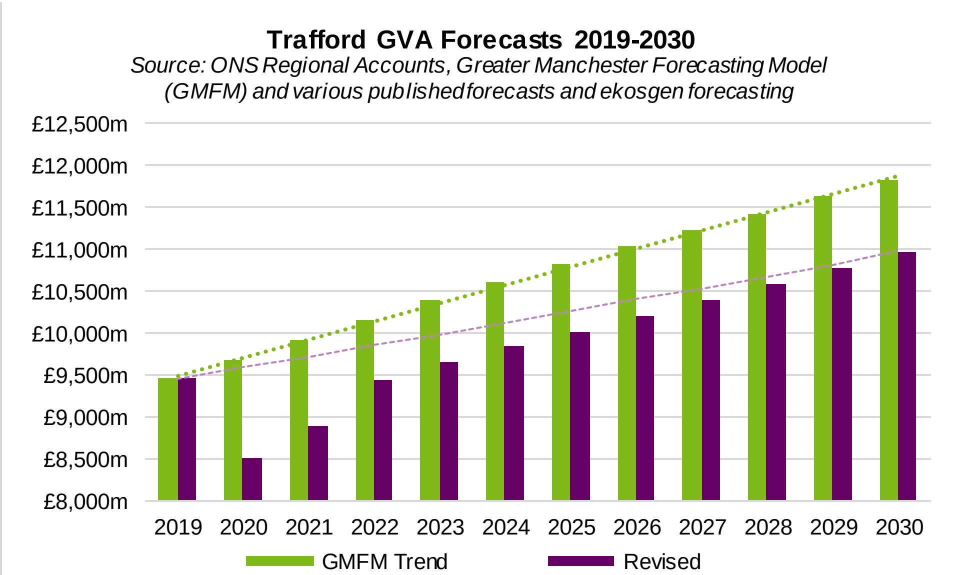
Prior to Covid-19 pandemic Trafford had low unemployment and strong growth forecasts. Trafford is now likely to see a significant increase in the number of unemployed residents as Government support measures unwind, the majority of which will be younger people.

Young people are likely to be affected by their high representation in sectors such as hospitality and leisure, and companies postponing recruitment in 2020 and 2021 to determine the extent to which the recovery supports new recruitment.

Covid-19 will have serious consequences for low income households and vulnerable groups, including families and children falling further behind as a result of long periods of online home learning. Research has highlighted the impact of Covid-19 restrictions on lower income households.

Forecasts have been informed by Oxford Economics research in a House of Commons Briefing Paper in December 2020, HM Treasury comparisons of 20 new forecasts in January 2021, Bank of England, Greater Manchester Forecasting Model, and ONS data.

The chart below shows the pre-Covid forecasts from the Greater Manchester Forecasting Model (GMFM) and the revised forecasts drawing on various published forecasts. The forecasts suggest GVA in Trafford will not recover to pre-Covid levels until 2023.



The 2022 and 2023 forecasts indicate an economy with lower levels of employment and the loss of output, compared to the pre-Covid trend, highlighting the long-term loss of economic momentum.

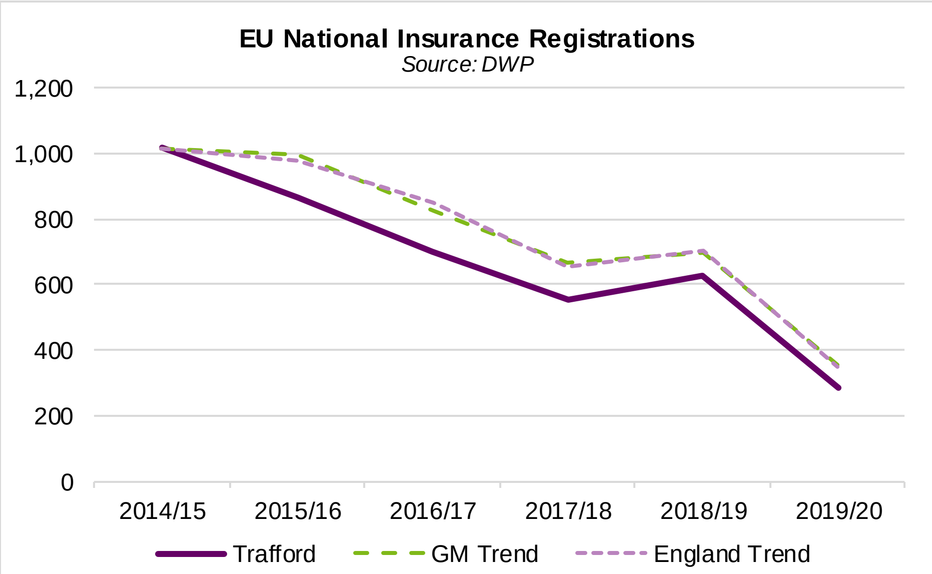
4 Labour Market, Unemployment and Skills

EU Migration prior to Brexit

In 2019/20, approximately 9,000 (3.8%) of Trafford's population are EU nationals, below the proportion across Greater Manchester (4.4%) and nationally (5.6%).[3] In the year ending September 2020, 285 national insurance numbers were issued to EU applicants in Trafford, down from 624 the year before, highlighting the impact of Covid-19.[4]

The number of EU nationals entering the country and registering for National Insurance numbers has been falling for a number of years following the EU referendum in 2016. Between 2016 and 2019 the number of National Insurance registrations to EU nationals entering the country fell by 28%, similar to the decline in Greater Manchester and Trafford.

This drop in EU nationals has immediate and long-term implications for certain sectors of the economy.



Sectoral impacts, as a result of restricting the freedom of movement following Brexit, are likely to depend on the share of EU-born migrants in each sector as well as local skills shortages in UK-born citizens and the level of unemployment. An estimated 6,000 jobs in Trafford belong to EU nationals. A reduced flow of EU nationals who work in Trafford is important for the sectors which employ a large proportion and number of EU citizens including: hospitality, transport, manufacturing, business admin, retail, professional, scientific and technical and construction.

Prior to Brexit the arrangements to extend existing EU residents long term status appears to have avoided any exodus – although the new immigration policy is likely to have a significant impact upon future migration. In total, 4.6m people have been granted the right to remain in the UK under the EU settlement scheme, considerably higher than the pre-Brexit estimate of 3.1m EU citizens. This estimate appears to have seriously undercounted EU citizens' role in the UK economy. Applications under the new arrangements are allowed up until June 2021 and the final number is expected to pass 5m.

New immigration system

Prior to the introduction of the new immigration system, the UK launched an EU Settlement Scheme that allows EU and EEA citizens who live in the UK to remain without needing to apply for additional visas or become subject to the new points based system. All workers from EEA nations who are already resident in the UK have until 30th June 2021 to apply for the EU Settlement Scheme which will guarantee their right to work in the UK indefinitely.

[3] https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/populationoftheunitedkingdombycountryofbirthandnationality
[4] Department of Work and Pensions (DWP)

On 1st of January a points-based immigration system was adopted based on the skills or job shortage within the UK and the appropriate qualifications and skills of the application. This system includes a 'Skilled Workers route' which requires that people obtain 70 points, of which 50 come from the mandatory criteria of having:

- a job offer from a licenced sponsor.
- a job offer which is at, or above, the minimum skill level of an RQF Level 3 (A-level) or equivalent.
- spoken English of an acceptable standard.

A further 20 'tradeable' points might also be drawn from a combination of a worker's salary, a job in shortage occupation (as designated by the Migration Advisory Committee), or their possession of a relevant PhD.

There is no automatic mutual recognition of professional qualifications, however, and while a framework is laid out to allow professional bodies to move in this direction. It may take some time before all relevant occupations are covered.

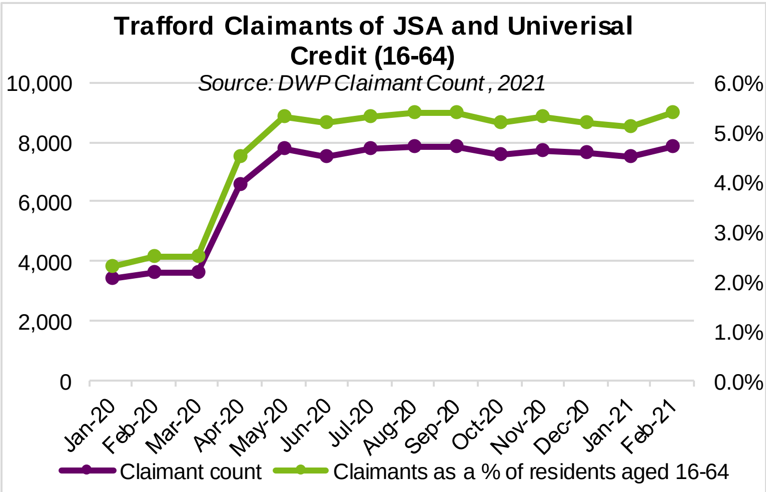
The changes in migration rules could reduce the number of EU nationals living and working in Trafford, and are particularly important for the sectors including: banking and finance; retail, restaurants and hotels; manufacturing; and health and social care, and some of these sectors need lower paid/lower skilled staff, in addition to higher skilled recruits. A reduction of EU migrants working in the health and social care sector could impact the ability for Trafford to deliver vital children and adult health and social care services in the future. A priority should be focussing on attracting and retaining staff in this sector as well as identifying any current or future skills shortages and policies to target them.

In order to address long term recruitment of the health and care workforce, Greater Manchester and the Local Authority should make the case for the Shared Prosperity Fund to replace current EU funding invested in training and skills development. Consideration should be given to ensuring training related funding prioritises the Health and Social Care sector, as well as manufacturing and industry. This is likely to deepen some of the skills shortages.

Covid-19 impacts on unemployment

The Claimant Count captures people claiming Job Seekers Allowance (JSA) and those who are claiming the unemployment related elements of Universal Credit (UC) and provides a comprehensive and up to date view of unemployment levels.

In February 2021 there were 7,810 claimants of JSA and unemployment related UC in Trafford accounting for 5.4% of the working age population up from 3,615 claimants and just 2.5% of working age residents in March – a 116% growth.



Covid-19 has disproportionately affected employment amongst young people, of which there will have been a cohort leaving education and entering the labour market in the past year who have been unable to secure employment. Young people also typically have a high representation in sectors such as hospitality and leisure which have been severely impacted by Covid-19 lockdowns and travel restrictions. Between March 2020 and February 2021 the claimant count amongst those aged 16-24 has grown by 121% in Trafford (compared to 116% across all ages) with this cohort now accounting for almost 20% of all claimants. This is likely to increase as large numbers complete their education in 2021 and look for employment.

The latest Coronavirus Job Retention Scheme Statistics (January 2021, reporting figures as of 31st December) show there were 13,100 people furloughed and a take up rate of 12% in Trafford, equal to

8.4% of employment compared to 11.1% in Greater Manchester and 11.5% nationally, down from 26,100 furloughed as of 31st May 2020 (16.7% of the employment base). The Coronavirus Job Retention Scheme (CJRS) has been extended until the end of September 2021, however concerns remain that as support comes to an end, redundancy and unemployment levels will rise.

The impact of Covid-19 has hit the self-employed particularly hard. The latest figures for the Self-Employment Income Support Scheme (SEISS) to the 31st December show there were a total of 5,300 claims made in Trafford, equating to £14.4 million being claimed, with a take up rate of 58%.

In total some 18,400 jobs in Trafford and 230,000 across Greater Manchester are being assisted by Government support. It is unclear how many will be lost when Government support ends, which suggests that the full job losses from Covid-19 will only be clear at the end of 2021.

Unemployment is likely to increase further in the summer/autumn of 2021 as the furlough support ends and many businesses re-open with fewer staff.

HM Treasury published comparison of independent forecasts suggest the unemployment rate could reach 6.6% by Q4 of 2021, with estimates ranging from 4.6% to 8.0%.[5]

As with the UK as a whole, unemployment in Trafford is likely to continue to rise in 2021, with the potential for there to be over 9,000 claimants of unemployment related benefits and over 6.2% of the working age population, by the end of 2021, an uplift of 5,500 claimants since the start of the pandemic.

Looking at the 2008/9 recession shows that unemployment can take a number of years to reach its peak as highlighted in recent analysis from the National Institute of Economic and Social Research, which suggests there could be a delayed recovery in the labour market due to the reallocation of labour as the economy adjusts to sectoral shifts as a result of Covid-19 and Brexit.[6]

Extended periods of unemployment can have significant impacts on longer-term earnings. Typical estimates suggest that workers who are made unemployed are 6–9% less likely to be in work in the longer term, and have wages 8–10% lower than they would otherwise have had even if they find another job (Tumino, 2015).

Given the significant labour market impacts of Covid-19 of young people and expected impact on less skilled workers, interventions such as the new Kickstart Scheme for those aged under 25, will have an important role to play in preventing more-lasting damage.

There is an immediate need to provide training and job search support to respond to the considerable job losses arising from the pandemic as well as the reduced opportunities from companies and organisations changing or postponing recruitment plans. The scale of the challenge will fully emerge throughout 2021 as Government job support measures end.

Covid-19 has accelerated use of digital technology across all areas of work and activities. It is evident that adopting universally applicable skills can increase the likelihood of success entering and progressing through employment, as well as the ability to transfer into other key and emerging sectors. The demand for digital skills and transferrable skills such as creativity, critical thinking, interpersonal communication skills and leadership skills will also become more important as technology advances and virtual working becomes a lot more common.

The Local Government Association research suggests the low carbon workforce will treble by 2030 with an additional 700,000 new jobs in low-carbon sectors. There is an opportunity to create jobs by investing in the green economy and supporting projects that involve retrofitting buildings, green transport and the related training programmes. For example, on Greater Manchester estimates suggest around 60,000 homes would need to be retrofitted each year to meet its targets, creating significant demand for accredited Green Homes Grants (GHG) installers.

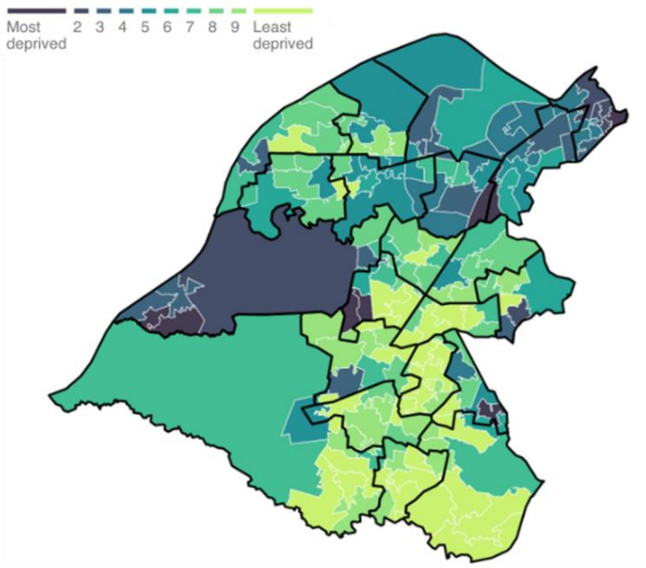
[5] HM Treasury Forecasts for the UK economy: a comparison of independent forecasts
[6] National Institute UK Economic Outlook: February 2021

5 Impacts on Communities

The impacts of Covid-19 have been experienced differently within different areas and communities. There is a growing body of evidence that the worst effects of the Covid-19 pandemic have disproportionately impacted people from BAME backgrounds, people in lower-paid or more public-facing work, disabled people, and people with pre-existing health and economic difficulties.

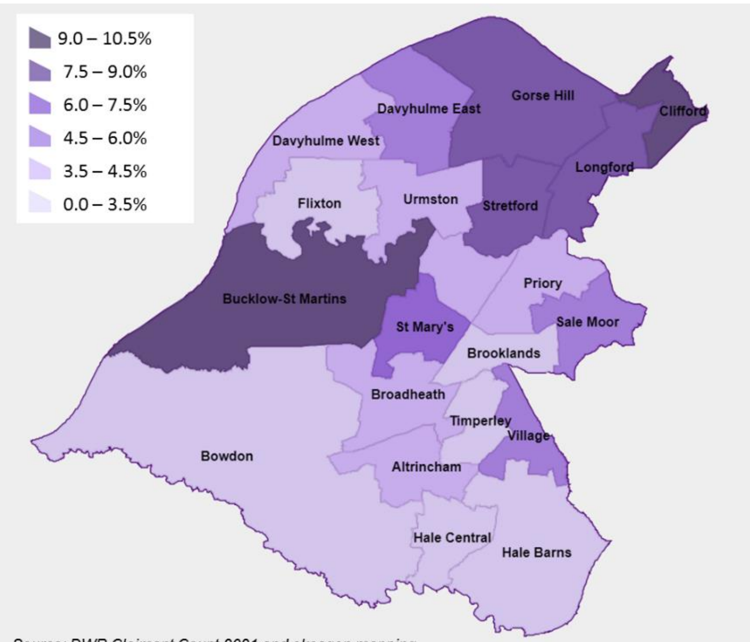
A recent report by NHSA[7], reported higher infection, hospitalisation and death rates of Covid-19 in more deprived areas of the country. This is linked to increased vulnerability including higher prevalence of diabetes and respiratory conditions, heart disease, obesity as well as increased transmission from higher population densities and inequalities in housing conditions (such as houses of multiple occupation and limited access to outdoor and communal greenspace) in more deprived areas.

While Trafford is the least deprived of all Greater Manchester local authorities as of 2019, pockets of deprivation exist within certain area and communities in the borough for example in Clifford and Bucklow-St Martins as well as parts of Stretford, Longford and St Marys, which are likely to have faced worse health and economic impacts from Covid-19.



Source: image published on https://www.trafforddatalab.io/analysis/IoD2019/report/ using English Indices of Deprivation (2019), MHCLG data.

Looking at the Claimant County by ward for February 2021, shows that levels of employment reflect the typically pattern of deprivation in Trafford with unemployment concentrated in the north of the borough, towards the centre of Manchester, while the south of the borough towards Cheshire tends to have lower prevalence of unemployment. The wards with the highest proportion of claimants in the working age population are Clifford (10.5%) and Bucklow-St Martins (10.1%), which together have 1,535 claimants accounting for 20% of total claimants in Trafford. The areas of Gorse Hill (8.6%), Longford (8.4%) and Streford (8.0%) also have high relatively high proportion of claimants, above the Greater Manchester and England averages. The areas with the lowest proportion of claimants are Timperley (2.6%), Hale Central (2.7%), Hale Barns (3.0%), Brooklands (3.1%) and Bowdon (3.3%).



Source: DWP Claimant Count 2021 and ekosgen mapping

Covid-19 has emphasised and exacerbated economic, social and health inequalities which exist. There is a need to ensure the economic recovery plans seek to address these inequalities, which act as a constraint to growth and influence quality of life and deprivation among communities.

[7] NHSA, Covid-19 and the Northern Powerhouse Tackling inequalities for UK health and productivity, 2020

6 Sectoral Impacts

The sectors most at risk from Brexit are manufacturing companies involved in exporting and importing, and those which require a high skilled workforce including the health and care sector, which require the regular recruitment of international workers to meet demand.

Sectors most exposed to the impacts of Covid-19 are not the sectors most at risk to Brexit. The at-risk Covid-19 sectors are dependent on a robust rebound when lockdown restrictions end and are pre-dominantly enterprises that have been unable to trade over a 12-month period.

Health and Social Care

In Trafford there are 10,000 people employed in Health and Social Care activities representing 6.4% of total employment, the fourth largest employer in Trafford. Around 6% of the health and social care workforce are EU nationals according to Migration Observatory statistics, this suggests there are around 600 EU workers in the sector in Trafford.

Workforce and skill shortages in the sector, with rising demand for health and social care and an ageing population, have further been exacerbated by the Covid-19 pandemic. Following the referendum there has been a sharp fall in the number of nurses coming from the EEA, with large numbers leaving the UK workforce, this has been partially offset by greater numbers of nurses from outside the EEA arriving although the Covid-19 pandemic and travel restrictions has muted efforts to recruit NHS workers from abroad in the past year and compounded the shortages.

Within the new points-based system there are exceptions for many health care workers with an NHS job offer and qualified social workers through a new fast-track Health and Care Worker Visa, although this does not extend to other social care roles, including care workers. There is likely to be a reduction in workers who qualify for entry to the UK, impacted by lower skills and wages, below the threshold. This could have potential impact on the cost of providing care in a context of challenging Local Authority and NHS budgets. In addition, the UK may now be less attractive to EU citizens.

There is also the risk of increased delays at ports & limited warehousing facilities for medicines and health supplies which may disrupt service and lead to higher costs.

There is now a greater focus on the UKs health supply chains and the need to reduce dependence on overseas supply, providing economic opportunities from onshoring.

Manufacturing

Manufacturing is at risk due to non-tariff barriers and integrated supply chains with the EU, with some manufactures relying on 'just-in-time' delivery of parts or inputs, who may be experiencing disruptions in their supply chains caused by increased or uncertain processing times for goods at the border. Trafford Park, a nationally significant industrial estate, is home to a large number of manufacturers, a number of which will be involved in importing and exporting to the EU.

Nearly a half of UK exports and imports of manufactured goods go to, and come from, the EU, and EU labour helps fill key skills gaps in the UK. There are 8,500 manufacturing jobs, accounting for 5.4% of total employment, and 415 businesses in Trafford.

The following manufacturing sub-sectors are expected to be impacted the most: manufacture of automotive, transport equipment, chemicals and chemical products and textiles. These together account for 28% of Trafford's manufacturing sector.

The early intelligence is that there has been considerable disruption to the movement of goods into and out of the UK, exacerbated by the various lockdown restrictions imposed by Governments across Europe.

Chemicals

There are 1,125 people employed and 25 businesses who manufacture chemicals and chemical products in Trafford. While this accounts for less than 1% of the workforce, the sector is relatively concentrated within the Trafford local area with a location quotient score (a measure of specialisation compared to the national average) of 2.4 indicating employment in this sector is 2.4 times more concentrated in Trafford compared to the national average.

The chemical sector produces around £50bn of exports annually with integrated EU supply chains. In 2019, 57% of chemical exports went to the EU while 73% of chemical imports come from the EU.[8] 63% of companies in the sector export their goods, the highest proportion of any goods manufacturing sector in the UK economy.

REACH is the main EU legislation for the regulation of chemicals in the EU and requires substances that are manufactured in or imported to be registered with the European Chemicals Agency (ECHA). The EU REACH ceased to have effect in Great Britain from 1st January 2021 when UK REACH came into effect which aims to closely replicate the EU regime, maintaining high standards of health and environmental protection. There are concerns however that the UK system lacks transparency and may impose costs for businesses.[9]

The Chemical Industries Association has suggested costs to chemical businesses of recreating the significant documentation required under both EU and UK Reach in order to sell in both markets could total £1bn, putting significant strain on SMEs in particular.[10] These costs have already led some chemical manufactures in the UK to relocate part of their operations.

Financial Services

The finance and insurance sector in Trafford employ 5,000, 3.2% of the workforce, while there are 460 finance and insurance firms operating in the borough. Financial Services are one of the UKs biggest exports. The IFS estimate that EU business is particularly important in banking and investment, with the EU accounting for over 40% of UK exports in financial services. Previously, many overseas banks have made the UK their European headquarters because of its access to the EU market.

The UK and EU have agreed a Joint Declaration on Financial Services Regulatory Cooperation, which specifies that both parties agree on a memorandum of understanding (MoU) establishing the framework for cooperation by March 2021. The majority of financial services trade will be governed by uniliteral assessments undertaken by the EU and UK under the Financial Equivalence framework.

From 1st January UK and EU financial service providers can no longer benefit from being able to set up establishments or provide cross border financial services into the other Party's territory while being regulated by authorities in the home country, which is key for UK exports of financial services – as well as American or Swiss banks with subsidiaries set up in the UK.

Most EU laws on financial regulation adopted in recent years allow third country firms to provide financial services into the EEA on the basis of an EU Commission assessment that the relevant third country's domestic regulatory framework achieves outcomes "equivalent" to those of the EU's framework. A lack of equivalence decisions would increase the cost of doing business for financial services firms and the clients they serve. This would impact market efficiencies and the global competitiveness of financial services businesses operating both in the EU and the UK. The European Commission can also revoke the equivalency it has granted with 30 days' notice, which may add additional uncertainty for UK businesses.

However, equivalence does not cover all core banking and financial activities, including accepting deposits, providing investment services to retail (non-professional) investors or payment services. Moreover, equivalence decisions can be withdrawn at short notice and may be affected by political considerations. In particular, one of the EU's priorities in the face of Brexit is to on-shore at least some of the financial services previously provided in the UK.

For a period up to 1st June 2021, personal data can temporarily continue to be freely transferred from the EEA to UK-based data importers, without any requirement to implement additional safeguards that would otherwise be mandated by the GDPR. This will have a considerable effect on the financial services sector due to the high level of regulation which will provide a barrier to trade.

[8] House of Commons Briefing Paper: End of Brexit Transition: chemicals regulation, March 2021
[9] Ibid
[10] https://www.nytimes.com/2021/01/18/business/brexit-chemical-industry-uk.html

The lack of a trade agreement for financial services means the extent of the potential job losses from activities and businesses relocating to EU is not yet known. Many businesses are awaiting the outcome of details of the upcoming memorandum of understanding on financial services.

Hospitality and Tourism

The tourism, hospitality and culture sectors have been severely impacted by the Covid-19 pandemic with national lockdowns, social distancing measures and travel restrictions.

Prior to the Covid-19 pandemic tourism contributed £9bn to the Greater Manchester's economy per year, supporting over 100,000 full time equivalent (FTE) and attracting 1.6m international visitors. Trafford has 740 businesses and over 15,000 jobs in the accommodation and food sector and the arts, entertainment and recreation sector, all of which are likely to have been impacted.

Trafford City is a significant visitor destination, with a range of leisure, retail and food and drink offers including: The Trafford Centre; Chill Factore; iFLY indoor skydiving; SEA LIFE; and LEGOLAND. Prior to the Covid-19 pandemic, Trafford City previously attracted 44 million visitors a year, employing 17,600 people (11.3% of the Trafford workforce). As lockdown and travel restrictions ease, Trafford City will play a role in the local economic recovery although the majority of the businesses and jobs are likely to have been severely impacted over the past year.

The British Hospitality Association (BHA) estimates that a minimum 15% of the hospitality and tourism industry are workers from the European Union, which equates to almost 700,000 jobs. Many of these workers will have taken steps to register to stay in the UK long term, while the impact of Covid-19 is likely to lead to a large groups of trained staff seeking new employment opportunities, given the impact on leisure and hospitality industries

While these sectors are forecast to rebound strongly in 2022, and possibly the second half of 2021, with tourism expected to support economic recovery, there will be significant job losses and company closures in the short term.

In the 2021 Spring Budget, the government announced an extension of the 5% VAT rate for goods and services supplied by the tourism and hospitality sector until 30th September 2021 with a 12.5% rate to apply for the subsequent six months until 31st March 2022. 100% business rates relief for retail, hospitality and leisure properties in England will continue until 30th June 2021. These measures, alongside the extension to the Coronavirus Job Retention Scheme, are aimed to help businesses in this sector to recover and reopen as lockdown measures ease this year.

Despite these measures, the sector has faced significant challenges and the scale of job losses and business closures is yet to be fully understood. A UK Hospitality survey reported that 41% of businesses surveyed suggested that their business would fail by mid-2021.

Retail

There are more than 16,000 jobs in Trafford in the retail sector. Covid-19 lockdown measures have meant brick-and-mortar retail has had to remain closed for much of the past year, with a sharp increase in online shopping although overall retail sales have fallen.

Covid-19 has resulted in an accelerated shift to on-line shopping with effects on town centre retail business rates and employment. McKinsey estimate that online sales will continue growing at a faster rate than before Covid-19, with many people permanently shifting to more online shopping. This trend, in addition to a shift to more permanent homeworking, will continue to have an effect on town centre retail business rates and employment. There is expected, however, to be a compensating increase in warehouse and delivery jobs.

These trends could have a significant impact upon the vitality and viability of key town centres such as Altrincham, Sale, Stretford and Urmston and the district centres of Hale, Sale Moor and Timperley in Trafford, in addition to the The Trafford Centre which is home to around 200 shops, restaurants and attractions, employing an estimated 12,000 people, 7.7% of total employment in the borough.

Digital, Media and Tech

The digital, media and tech sector employees 6,000, 3.8% of total employment in Trafford. Greater Manchester has established strong digital clusters such as 'MediaCityUK'. This sector may witness a decline in the availability of a skilled workforce throughout Trafford and Greater Manchester.

The UK has left the Single Digital Market, which aims to remove regulatory walls creating one digital market and covers digital marketing, ecommerce, and telecommunications, enabling online trading between EU member states.

As part of the withdrawal agreement and regulations which have followed the UK has established its own GDPR, which is very closely aligned to EU GDPR. Data flows between the EEA and UK can continue as before for a maximum of six months, or until the European Union agrees to a data adequacy decision (expected to be finalised in early 2021). Personal data shipped to the UK during this interim period "shall not be considered as transfer to a third country" by the EU.

The adequacy assessment will determine whether the UK provides "essentially equivalent" protection for personal data as the EU if so then personal data can continue to be transferred without taking additional requirements beyond complying with the data protection laws of where the company is based – the UK GDPR or the EU GDPR.

The TCA suggests that the UK and EU will co-operate on regulatory issues regarding digital trade such as: the recognition and facilitation of interoperable electronic trust and authentication services; the treatment of direct marketing communications; the protection of consumers; and any other matter relevant for the development of digital trade, including emerging technologies.[11]

The TCA provides that no customs duties will be imposed on electronic transmissions, and there is a positive obligation on the UK and EU to co-operate on the development of emerging technologies. If the EU and UK diverge on regulatory and other issues in the future, there may be additional costs for businesses due to a double regulatory burden. This could put the UK digital sector at a disadvantage not having the same access and benefits as comparator firms in the EU.

Science and Innovation

The Brexit Deal allows the UK to participate in the 9th EU Framework Programme, Horizon Europe, as an associated country which runs from 2021 to 2027, giving UK based researchers access to the European Research Council (ERC), Marie Skłodowska-Curie Actions (MSCA), grant funding from the European Innovation Council (EIC), and the ability to participate in and lead consortia with EU and international partners. Given the scale and benefits of the programme this is significant for UK Science and innovation. [12]

The TCA also allows the UK access to Euratom Research and Training, the fusion test facility ITER, the Copernicus Earth observation programme and the EU's Satellite Surveillance & Tracking (SST) services.[13]

Prior to leaving the EU there was significant concern from scientists over the mobility of scientists, with a large proportion of scientists moving between countries for work. Around a third of academic staff in British universities are from outside the UK, with 16% from other EU countries. One British Nobel prize winner, stated that present visa arrangements for non-EU countries were inhibiting co-operation.

As a result of Brexit, EU researchers and innovators who want to come and work in the UK will now need to navigate the visas and immigration system. Currently the upfront costs of work and study visas for researchers and innovators considering coming to the UK are up to six times higher than the average across leading science nations.[14]

[11] https://www.nortonrosefulbright.com/en/knowledge/publications/9cf5fd99/impact-of-brexit-on-technology-and-innovation
[12] https://royalsociety.org/topics-policy/projects/brexit-uk-science/access-to-research-funding/
[13] Ibid
[14] https://royalsociety.org/blog/2021/02/what-does-the-uk-eu-deal-mean-for-science/

Summary

With nearly a half of UK exports and imports of manufactured goods going to, and coming from, the EU and a number of manufacturing sub-sectors are at risk including automotive, transport equipment, chemicals and chemical products and textiles (accounting for 28% of Trafford's manufacturing sector), while the need for the NHS and care sector to recruit a large number of international workers each year to meet demand, provides an additional risk as relocation to the UK becomes less attractive to EU citizens.

While many sectors across the economy are expected to face challenges, job losses primarily as a result of Covid-19 are expected to be concentrated in:

- Hospitality, accounting for 40% of jobs losses, with a number of bars, restaurants and cafes not reopening in 2021, as well as a fall in employment within the accommodation sector.
- Retail**,** making up 20% of job losses, with a number of shops not reopening in 2021 as restrictions begin to ease.
- Other services including transport, media and tech companies and other business services, accounting for the remaining 40%, with many companies resizing in light of a changing economic environment.

7 Business Impacts

To date the IFS suggest that the weakness of sterling since 2016 has helped companies in some parts of the tradable sector, providing a cost advantage over countries in the EU and other competitors, providing some economic benefits. The weakness of sterling may have meant many firms (who provide tradeable goods and services) have chosen to keep activity open since 2016, even if it will become unviable after the UK leaves the EU Single Market and Customs Union.

Covid-19 has had a significant impact on businesses across the economy – with hospitality, leisure and tourism most severely impacted.

The business impacts of Brexit depend on the extent to which businesses have prepared and improved their resilience – Covid-19 is likely to have diverted businesses attention from Brexit preparations, which may result in greater disruption and more firm failures in 2021. CBI and Citi survey from June 2020 of businesses suggested Covid-19 was the key focus rather than Brexit preparations. The survey suggested the financial sector businesses most likely to be ready while manufacturers in particular had more to do.[15]

Early intelligence suggest that the emerging issues with regard to Brexit are concentrated within those companies involved in exports and imports and adapting to new arrangements:

- A recent Growth Hub Survey shows 17% of businesses reporting a ‘negative’ impact from EU exit, 52% of firms reported a 'neutral' impact, 29% are 'unsure' and 2% reported a 'positive' impact.
- GM Chamber of Commerce are reporting a dramatic increase in the number of Brexit and trade deal related enquiries. Whilst issues being raised are often very specific to individual firms, the two most common topics are VAT and documentation.
- Firms are reporting that the changes to the forms they use for transporting goods are resulting in some shipments being rejected or being unable to be certified. Firms are also reporting that information available on gov.uk is too generic to be useful.

The early evidence shows that the majority of businesses are engaged with dealing with Covid-19 related restrictions, with businesses directly affected by reduced opening hours and others managing staff working from home.

Implications for Trade and Access to Markets

IFS research suggests initially there will be a larger reduction in exports than imports, with the decline in exports negatively impacting employment, and consumption. According to the ONS UK goods exports to the European Union fell 40.7% in January 2021, while imports of EU goods into the UK dropped by 28.8%. A reduction in machinery and transport equipment, and chemicals from the EU, car imports, and medicinal and pharmaceutical products accounted for a large share of the reduction in imports from the EU. Even if the UK continues to secure additional trade agreements with other countries, Brexit is likely to lead to lower trade volumes.

‘Non-tariff barriers’ impose significant costs to businesses and include customs checks at borders, regulatory barriers, registrations and product standards. Significant costs associated with customs checks have been experienced from 1st January 2021 and will have an immediate impact this year. The cost of filling out customs declarations is estimated at an additional £7 billion a year.[16] Other immediate costs have included the requirement to re-register as an authorised economic operator and to re-apply for the appropriate licences in order to export. In the longer run there is potential for additional costs, associated with regulatory divergences, to materialise. In 2018, the Bank of England estimated around 80% of the total reduction in trade associated with Brexit would result from non-tariff barriers.

The Government has recently postponed post-Brexit checks on some EU goods to support businesses given the ongoing impact of Covid-19. The revised timetable means the need for health certificates on imports such as meat and milk will now come into effect in October 2021; safety and security declarations on imports will be pushed back from July to January 2022; customs declarations will be

15 https://www.iod.com/news/news/articles/IoD-figures-on-firms-Brexit-readiness
16 https://www.ft.com/content/fbc6f191-6d69-4dcb-b374-0fa6e48a9a1e

required at the point of import on all goods from the same time; and checks on live animals and low-risk plant products will take place from March 2022.[17]

Greater Manchester has a greater reliance on the EU as an export market than nationally, with the EU accounting for 58% of exports from Greater Manchester businesses in 2019, compared to 52% across the country. The GM Business Survey 2020 suggests that around one in seven businesses (14%) in Greater Manchester are exporters, while the survey suggests Trafford has the second highest share of exporting firms (16%) after Manchester. The Creative and Digital sector has the highest proportion of exporters (26%), followed by manufacturing (20%) with machinery and transport equipment and chemicals accounting for a large share of exported goods.[18]

There are estimated to be at least 500 businesses in Trafford involved in exporting to the EU, accounting for 4% of the business base. There is a risk that companies exporting smaller amounts will find the new arrangements too burdensome to continue.

Estimates suggest at least 700 companies in Trafford import from the EU, accounting for 6% of the business base, and these are now being affected by increased paperwork and processing time at borders. Early intelligence suggests this could result in serious disruption for some businesses, although this could reduce as companies adapt to a new normal.

Implications for Business Investment

Uncertainty around Brexit since 2016 has supressed business investment, in particular in industries which are likely to be the most adversely impacted by Brexit.[19] Businesses which have chosen to delay or cancel physical investments following the referendum (particularly those businesses exporting and importing to/from the EU) who will not have significant sunk costs, may respond quicker now that the transition period has ended.

As a result of Covid-19 IFS research suggests business investment fell by 16.5% in 2020, and will grow by 4.1% in 2021 before recovering strongly in 2022 and 2023. The research found that as a result of economy uncertainty businesses in the most-exposed sectors have typically focused on hiring rather than investment.[20]

Implications for FDI

Foreign direct investment (FDI) fell sharply in the UK in the wake of the 2016 referendum, following a wave of foreign acquisitions in later 2016. While estimates vary, most expect this fall to prove persistent; for example, Dhingra et al. (2016) estimate Brexit could result in a 22% fall over the coming decade.

The number of EU-originated FDI projects in the UK has continued to decline since 2016 and is now 17% below its peak in 2016. The decline in EU FDI been offset by a increase in FDI projects from countries such as US and rapid growth from countries including Turkey and Israel. This contributed to strong performance in FDI in 2019, driven in part by digital tech and R&D projects.

The Covid-19 pandemic has had a significant impact on FDI with 30-45% fewer FDI projects expected in the UK in 2020 than in 2019.

New research by UCL and LSE economists suggests FDI could fall by 37% after leaving the EU. There is however some evidence that some European companies are looking to open up offices and production facilities to serve the UK market and avoid the time and costs involved of exporting to the UK.

Estimates suggest around 90 companies in Trafford are foreign owned, and leaving the EU may lead to relocations over the medium term or companies prioritising European facilities for re-investment.

[17] https://questions-statements.parliament.uk/written-statements/detail/2021-03-11/hcws841
[18] GMCA, February 2021
[19] IFS Green Budget: October 2019
[20] IFS Green Budget 2020: Chapter 3

8 EU Replacement Funding

The UK received structural funding worth about £2.1 billion per year as a member of the EU. Greater Manchester received a total of €413.8m of ERDF and ESF funding across final funding period (2014-2020). EU funding has played an important role in supporting universities as well as businesses, skills and helping people into work. While from 1st January 2021 new EU funding has ceased, investment from the current round of EU structural funds will continue to be spent until the end of 2023.

The UK is able to participate in the 9th EU Framework Programme, Horizon Europe, running from 2021 to 2027, which is key for supporting collaborative, transnational research and development, with a primary focus on science and technology.

The Government is committed to introducing a **Shared Prosperity Fund** (SPF) as a replacement for losing ERDF and ESF resources as a consequence of leaving the EU. The Shared Prosperity Fund seeks to "reduce inequalities between communities".

The November 2020 Spending Review confirmed that the SPF will be split into two parts which will largely cover the main areas of the ERDF and ESF:

- The first part will be 'place-based' which will target places most in need across the UK, such as ex-industrial areas, deprived towns and rural and coastal communities by investing in 'people and skills' (e.g. work-based training), 'communities and place' (e.g. cultural and sporting facilities or town and neighbourhood infrastructure), and local businesses.
- The second part will focus on employment and skills programmes for those facing barriers to participation in the labour market tailored to local need.

The Spending review confirmed the commitment for the funding to at least match EU funding. The Government committed to publish further details of the scheme in Spring 2021.

While the Shared Prosperity Fund has not been formally launched, the £4.8bn **Levelling Up Fund** which will support small scale regeneration and transport type projects at a constituency level has been launched. Trafford has been identified as a category 1 area – meaning is prioritised as an area of highest need of support. These projects will not include business support and innovation support, and it will be important that the Shared Prosperity Fund fills this gap.

The **Community Renewal Fund** has also been launched which will provide £220m funding to help places across the UK prepare for the introduction of the SPF. It will help to support places to run pilot programmes and new approaches ahead of the forthcoming SPF, focused on investment in skills, local business, communities and place and supporting people into employment.

Brexit will have a drag on the economy at a time when unemployment is high and many businesses will be in recovery mode. It is likely that the post Covid-19 recovery phase in late 2021 and 2022 will see an increase in new starts, and the Council should seek to focus fund resources in this area.

There is a major task for Council officers over the next 18 months to develop successful propositions for various funds which help to support the economic recovery, with the potential for locally based actions, business support measures and training and employment support actions.

9 Threats and Opportunities

Short term threats

In the short term the key threats facing Trafford are:

- Rising unemployment as a result of Covid-19 and postponed recruitment – which will have a particularly significant impact on the employment prospects of younger people.
- Disruptions and delays at the border impacting on supply chains and importers and exporters, worsened by the various lockdown restrictions imposed by Governments across Europe, including for medicines and health supplies which may disrupt service and lead to higher costs.

Medium to long term threats

Looking beyond 2021 potential threats are:

- A reduction in inward investment as a source of new and additional business rates and employment, including established foreign owned business losing out in future re-investment plans.
- Skills shortages, particularly in the Health and Care Sector – with the ongoing challenge of the NHS and care sector need to continually recruit internationally in order to provide the workforce demand exacerbated by Brexit. This includes a number of community related services such as health and social care impacting upon the ability for Trafford to deliver vital children and adult health and social care services
- Worsened long term educational and employment inequalities due to school disruption and as work placement opportunities fall.
- A reduction in business rates and retail employment as a result of a fall in the demand for commercial space following a shift to permanent and flexible home-working and the acceleration of online shopping.
- If the EU and UK diverge on regulatory and other issues in the future, there may be additional costs for businesses, potentially putting UK businesses at a disadvantage for not having the same access and benefits as comparator firms in the EU.

Opportunities

- Shared Prosperity, Levelling Up and the Community Renewal Fund provide Trafford with the potential for locally based actions, business support measures and training and employment support actions, which can help to aid the economic recovery, support local businesses and address skill shortages including through supporting those who have lost their jobs as a result of the Covid-19 pandemic to reskill and find employment.
- Economic opportunities of 'onshoring' with a greater focus now on the UKs supply chains and the need to reduce dependence on overseas supply.
- A potential increase in European and foreign companies establishing a UK base and production facility to serve the UK market. There is an opportunity to promote Trafford as a UK distribution and production base for foreign companies targeting UK markets.
- New trade deals (in the medium term) opening new markets.
- Green Recovery – there is expected to be an additional 700,000 jobs created in low-carbon sectors by 2030. NESTA highlights the opportunity to reskill those who have become unemployed following the pandemic for the green economy, including residential retrofitting.
- The Liverpool City Region Freeport, which encompasses Port Salford in Greater Manchester, could provide an opportunity for businesses to grow, boost international trade and support the development of manufacturing capabilities.

10 Conclusions and Recommendations

Summary of Economic Impacts

- **Trafford's economy** is estimated to have **shrank by 10% in 2020**, with GVA in Trafford unlikely to recover to pre-Covid levels until 2023.
- There is likely to be **over 9,000 claimants** of unemployment related benefits by the end of 2021, an uplift of 5,500 since the start of the pandemic.
- 40% of jobs losses in the **hospitality industry** with a number of bars, restaurants and cafes not reopening in 2021, as well as a fall in employment within the accommodation sector.
- 20% of job losses will come from the **retail sector** with a number of shops not reopening as restrictions are lifted in 2021.
- The remaining 40% will be across a range of **other services** including transport, media and tech companies and other business services, with many companies resizing in light of a changing economic environment.

Trafford, along with the rest of the UK, is facing two key challenges – the Covid-19 pandemic and the UK's departure from the European Union. The dual effects of Covid-19 and Brexit are likely to continue to have a significant impact upon Trafford's economy in the short and medium run and is likely to result in an immediate increase in unemployment and more challenging conditions for many businesses in both the service and industrial economy.

Covid-19 has had a profound and immediate impact upon the whole of the economy, with output declining by twice as much as it did following the 2008 financial crisis, and Brexit is likely to limit the scale of recovery in the next two years, with IFS estimates suggesting the UK economy will be 2.1% smaller than if the UK remained in the Single Market and Customs Union, considering impacts of Covid-19. The full impacts of Brexit are likely to materialise over the next few years and will depend on the extent to which businesses have been able to adapt to new trade arrangements and skilled recruitment challenges.

There is a consensus that Brexit will lead to:

- A reduction in exports while leaving the Single Market will not impact upon the ability of companies in Trafford to export, the non-tariff barriers are likely to reduce levels of trade relative to the current position. Our estimates suggest there are around 500 businesses in Trafford involved in exporting to the EU;
- A reduction in re-investment by international companies which have used a UK base to export to EU markets;
- Reduction in the attractiveness of Trafford and Greater Manchester as a place to invest and re-invest for exporting to EU markets, relative to other cities and regions in the EU.
- More positively, a potential increase in European companies establishing a UK base and production facility to serve the UK market.

These trends will accelerate in the current situation of added time needed for goods to reach destinations continue in the medium term i.e. if initial teething problems turn out to be permanent features of exporting and importing. There is likely to be some additional challenges for exporters and importers as full customs processes are phased in over the course of the next year.

The lack of a trade agreement on services suggest that the economic recovery cannot rely on sectors like financial services which have been less exposed to the effects of Covid-19. Therefore, it will be important for Trafford to monitor the new arrangements for banking and financial services as well as the arrangements for mutual recognition of professional qualifications. These two issues have the potential to impact on Trafford businesses and employment.

The implications for the health sector have changed now that the no deal scenario has been removed. However, while stockpiling has reduced the effect on the supply chain, the added time and costs of importing remains a concern. This is also the case with regards to the need to apply the new migration entry requirements for the sector. As a context, Greater Manchester hospitals needs to attract between

400-500 qualified nurses each from abroad, and a large component of this labour force would have come, unrestricted, from EU countries.

The on-going issues with regard to Brexit are (a) company arrangements for importing and exporting and (b) company understanding of the new procedures for recruiting higher skilled staff from abroad. There is likely to be an on-going demand for support and advice from Trafford companies.

Brexit will exacerbate the challenge of the NHS and care sector need to continually recruit internationally in order to provide the workforce demand. Skills and recruitment challenges with a potential shortage of staff in a number of community related services such as health and social care could impact the ability for Trafford to deliver vital children and adult health and social care services in the future, however the increase in unemployment from Covid-19 could provide a larger pool of people looking for employment.

Increasing unemployment as a result of Covid-19 and postponed recruitment will have a major impact on the employment prospects of younger people. Actions to encourage people to remain in education and training and increase their skills related to in-demand occupations, including health and social care, digital industries, distribution and logistics and emerging occupations in the green economy, would help those impacted to adapt to a subdued labour market.

There is a significant challenge facing the school population as a result of the pandemic and the educational loss from the unprecedented disruption to school education. Department for Education research has shown that poor educational performance impacts directly on lifetime earnings and the pandemic risks damaging a generation of young people. Without intervention, long term educational and employment inequalities are likely to be exacerbated by school disruption and as work placement opportunities fall. Resources are likely to be made available to allow pupils to catch up and a significant proportion of these need to be targeted on the most disadvantaged pupils from low income households, who are likely to have fallen further behind. The disruption to schools and the educational consequences are likely to take several years to address.

Trafford Council is likely to see a slowdown in future business rates income primarily, a result of Covid-19, with reductions in retail space and a likely trend of companies downsizing their employment space in the light of home and hybrid working.

There is a significant medium term risk of a reduction in inward investment as a source of new and additional business rates and employment, including established foreign owned business losing out in future re-investment plans, with a compensating interest from European companies seeking to establish a base to serve the UK market.

Key Recommendations

While the immediacy of the challenges outweighs the opportunities, Trafford benefits from a strong economy and an investment attractive location for many of the sectors which will drive the economic recovery. Trafford Council and partners will need to act quickly with mitigating measures to ensure longer term prosperity. Linking immediate responses to medium term opportunities will be central to a speedy economic recovery and increasing new job opportunities in 2022 and 2023. The key areas of focus and recommendations are:

Skills and Employment

- Encourage people to remain in education and training and increase their skills related to in-demand occupations would help those impacted to adapt to a subdued labour market. The scale of the challenge will fully emerge later in 2021 as Government job support measures end.
- Ensure training related funding prioritises the Health and Social Care sector, and increased information, advice and guidance is provided to attract more people to take up health and care employment opportunities.

Businesses and Employment

- Monitor the new arrangements for banking and financial services as well as the arrangements for mutual recognition of professional qualifications.

Inward Investment

- Promote Trafford as a UK distribution and production base for companies targeting UK market.

Funding

- Develop successful propositions for various funds for locally based actions, business support measures and training and employment support actions to support the economic recovery, support local businesses and address skill shortages in order to address the combined impacts of Brexit and Covid-19, including Shared Prosperity, Levelling Up and the Community Renewal Fund.

Key Priorities

As the economy recovers there is an opportunity for Trafford to rebuild the economy in a fairer and more environmentally conscious way, aligning with Greater Manchester's strategic plans *to "build back a better, fairer and greener economy".* This includes:

- **Supporting a Green Recovery:** There is the potential to support a greener recovery and Greater Manchester's mission to achieve carbon neutrality by 2038. The low carbon economy provides a significant opportunity to create jobs including by supporting projects that involve retrofitting buildings, green transport and the related training programmes. NESTA highlights the opportunity to reskill those who have become unemployed following the pandemic for the green economy, including residential retrofitting. Estimates suggest around 60,000 homes would need to be retrofitted each year in Greater Manchester to meet its targets, creating significant demand for accredited Green Homes Grants (GHG) installers.
- **Tackling Inequalities:** There is a need to tackle social and health inequalities, which act as a constraint to growth and influence quality of life and deprivation among communities. Key interventions include: action to ensure young people are able to gain the qualifications, skills and capabilities to take up training and employment opportunities; ensuring targeted support is in place for those with health issues, including mental health, to bring people back into training and employment; support for those who need multiple interventions before they are ready to take up training and employment opportunities. In addition, the physical regeneration of deprived areas can play an important part in raising aspirations and increasing community confidence. The council have an important role to play in reducing social and health inequalities.
- **Maximizing Social Value:** There is potential to increase social value activities and leverage more benefits for residents and businesses, provide supported employment places for residents in areas of high deprivation and provide a new range of actions to support young people. Greater Manchester has committed to undertaking a refresh of the existing Greater Manchester Social Value Framework and new social value policy for GMCA and its partners operating at a GM footprint, including guidance for commissioning and procurement in the light of the Covid-19 pandemic. There is an opportunity for Trafford Council and partners to strengthen their social value activities and expectations when procuring goods and services. In addition, there is a growing commitment in the private sector to increase their Corporate Social Responsibility actions, presenting another opportunity for Trafford to increase social value activities.