

Senedd Cymru
Pwyllgor yr Economi, Seilwaith a
Sgiliau
Effeithiau COVID-19: Galwad
Agored am dystiolaeth a
phrofiadau
EIS(5) COV – 07
Ymateb gan: ICA Wales

Welsh Parliament
Economy, Infrastructure and Skills
Committee
Impacts of COVID-19: Open Call
for evidence and experiences

Response from: ICA Wales

Industrial Communities Alliance Wales

ECONOMY, SKILLS AND INFRASTRUCTURE COMMITTEE: INQUIRY INTO COVID-19

1. Introduction

- 1.1 This statement is being submitted on behalf of the Wales region of the Industrial Communities Alliance (ICA), which is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. Its local authority membership in Wales comprises: Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Merthyr Tydfil CBC, Neath Port Talbot CBC, Rhondda Cynon Taf CBC, Bridgend CBC, Carmarthenshire CC and Powys CC.
- 1.2 ICA Wales has a well-informed historical perspective of the impact of severe external shocks on former coal and steel communities. ranging from the collapse of their industrial base in the 1980s to the 2008 financial crisis. What sets the COVID-19 pandemic apart is the unprecedented scale of its economic impact. Although the Bank of England has warned of the sharpest recession since 1706, the scale of the eventual damage remains unknown and a period of great economic uncertainty and instability seems inevitable.
- 1.3 The main contention of this submission is that COVID-19 and its aftermath will have a disproportionately adverse impact on poorer communities, such as the Valleys, because of their inherently low levels of economic and social resilience when compared to other regions. The pandemic has further exposed the link between poverty and health inequalities.
- 1.4 ICA Wales is of the view that the policy response will have to be of sufficient magnitude to address not only the devastating economic fall-out of the pandemic but also the underlying and deep-seated structural weaknesses which were already much in evidence prior to the on-set of the virus. In essence the ‘levelling up’ commitment will need to be at the heart of a radical recovery

agenda if it is to address the pre-existing social and economic injustices in poorer communities whilst also laying the foundations for a more resilient and balanced economy in the aftermath of the COVID-19 crisis.

2. Economic Impact

- 2.1 The enormous economic damage resulting from the social distancing measures and associated lock-down is self-evident as more reports on the scale of the impact emerge each day. The consequences for the public finances, businesses and households will be severe and drawn out. Turning to the overall fiscal position, the headline figures issued by the OBR set the scene: GDP could fall by 35% in the second quarter; unemployment could rise to 2m (10%); public sector borrowing could increase by £218bn in 2020/21, exceeding the Budget forecast by a margin of some £150bn; public sector debt will rise sharply in 2020/21, exceeding 100% of GDP, compared to 77% in the Budget forecast. More recently the Bank of England has warned that GDP in 2020 could fall by around 14%.
- 2.2 The above outlook poses a severe threat to the funding and provision of public services in economically and socially deprived areas such as South Wales. With ageing populations, higher than average inactivity rates, lower incomes and skills and more ill health, the communities in these areas are particularly dependent on public services. Local authorities, having already incurred cuts in expenditure of up to 40% as a result of the government's austerity programme, have no capacity to respond to the inevitable and increased demands arising from the enormous economic and social stresses being experienced by their communities. It is the strongly held view of ICA Wales that reversing austerity and adopting a new and radical model for funding and sustaining public services are unavoidable consequences of the COVID-19 pandemic.
- 2.3 Regarding the immediate impact of the lock-down, the ONS¹ has estimated that 25% of businesses have closed temporarily and 38% are incurring significantly reduced turnover. All of the evidence suggests that the impact of the lock-down is impacting disproportionately on poorer communities. One in three workers in the private sector have been furloughed or made redundant whilst three quarters of households have reduced incomes. In Wales, over 211,000 employees are affected by the closures with

¹ Office for National Statistics, Coronavirus and the Economic Impacts on the UK, 2020

a further 183,000 self-employed affected in varying degrees; 10% of employees do not qualify for statutory sick pay².

- 2.4 Nationally, it has been estimated³ that 75% of households have incurred falling incomes, and whilst 27% of them are using savings, more than half of middle to low income families have no savings at all. Given that earnings and incomes are lower in Wales than elsewhere, particularly across the Valleys, it is to be expected that the ability of families to withstand a significant loss of income is even more acute. The ONS Annual Earnings Survey⁴ for 2019 shows that the percentage of the workforce paid under the real living wage is approaching 30% in the constituencies of Blaenau Gwent, Merthyr and Rhondda, which compares to a UK rate of 20.1%. Further evidence of the economic vulnerability of the Valleys is evident from their slow recovery following the 2008 financial crisis.
- 2.5 The nature of employment is also relevant to the discussion on how COVID-19 is impacting disproportionately on poorer communities, which have higher levels of job insecurity and lower paid jobs. According to the Resolution Foundation those in the bottom half of the earnings distribution are twice as likely to be key workers, and 2.4 times more likely to be working in shut down sectors than those working in jobs that can be done at home. Furthermore, 45% of those working in shut down industries are on zero hours contracts, as are 30% of those working part time. The lock-down is also hitting young workers the hardest with the under 25's two and a half times more likely to be working in a shut down sector as other employees. Unemployment amongst the under 25's is forecast⁵ to rise by 640,000 to over 1m in 2020, blighting the prospects of a whole generation unless immediate and effective action is taken.
- 2.6 Turning to the resilience of the wider Valleys economy there are major concerns over the ability of businesses to recover following the easing of the lock-down. Whilst the hospitality and retail sectors are especially vulnerable, many parts of the Valleys also have above average employment in the manufacturing sector which faces particularly severe challenges. With manufacturing output reduced by 55%, falling market confidence and weak global demand, the sector could face a bleak future. The aerospace sector, which employs 23,000 people in Wales in 160 companies, is suffering from the collapse of international air travel, whilst Tata Steel has announced that it needs £500m of government support to sustain it through the pandemic crisis.

² Bevan Foundation, State of Wales Briefing, Risks and Impact of Coronavirus, 2020

³ Resolution Foundation, Risky Business, 2020

⁴ Office for National Statistics, Annual Hours and Earnings Survey 2019

⁵ Resolution Foundation, Class of 2020, Kathleen Henehan, 2020

3. Policy Response to the COVID-19 Crisis

3.1 Whilst the eventual magnitude of the economic damage brought about by the pandemic remains unknown, it is absolutely clear that a radical recovery plan with a focus on demand side issues in both the short and longer term will be necessary to rescue the national economy and to equip the most vulnerable communities with more resilience.

3.2 ICA Wales believes that the recovery plan should encompass the following:

- The Employment Retention Scheme needs sufficient flexibility to respond to those sectors, such as hospitality, which will have a slower recovery and may require support beyond October; it will also require complementary measures to deal with the fact that many furloughed workers will not have a job to return to.
- The business loan guarantee scheme should be extended and made more attractive; options for government equity stakes in companies should also be considered in return for delivering on an agreed social and/or environmental compact.
- There needs to be a step change in investment in training, skills retention and up-skilling for those on reduced hours, facing redundancy or out of work, in preparation for the eventual economic recovery which could be some years off.
- The equivalent of the Future Jobs Fund needs to be introduced to provide guaranteed, paid employment for young people.
- The strong association between wealth and health, and how investment in the latter can help build a stronger and more resilient economy, should be a major feature in the recovery plan.
- The Government's levelling up agenda should become the driving force behind measures to address economic and social inequalities and to rebalance the economy.
- The public sector has proved to be indispensable in terms of keeping people safe and secure during the present crisis, and there needs to be a paradigm shift in the capacity and funding of public services, including local government.

- Employment policies need to be based on an explicit recognition of the 'real value' of the low paid, key occupations on which communities depend, such as health and social care, child care, transport and food distribution.
- The over dependence on global supply chains needs to be countered by measures to strengthen the resilience of local economies; these include a more proactive procurement policy, incentives to promote re-shoring of manufacturing and prioritizing actions which impact on the 40% of the workforce employed in delivering local goods and services in the foundation economy.
- Establishing a green industrial strategy at the heart of the economic process with the twin aims of creating sustainable, quality jobs and creating a low carbon future.
- Enhancement of low carbon and digital infrastructure investment in those areas with the weakest economies in order to improve productivity, competitiveness and access to the labour market.
- Actions to mitigate the impact of adhering to the government's Brexit timetable, which could increase the projected fall in GDP by a further 3-4% in 2021.⁶

⁶ Prospects for the UK Economy, Cyrille Lenoël and Garry Young, National Institute Economic Review, 2020