



Discussion Document:

Post Covid Economic Recovery:

Short term help v longer-term solutions.

How can blended support strike the right balance?

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BACKGROUND

A range of welcome initiatives to support business during the Covid 19 crisis have been introduced. It's an important series of interventions but it's not clear if, while resolving problems in the short term, their combined impact may mask longer-term issues.

ISSUES

The interventions offer an important blend of support for both people and businesses including:

- *Loan support for businesses* offers short term help but it may store up possible debt repayment problems in future. Does it lead to a false sense of confidence today, or future strain on the business, or could it be a lifeline that leads to recovery? Time will tell but the key question is, will business be able to recover from C19 and service the loans, or is there a wave of business failures looming?
- *Tax deferral schemes* create debt by deferring liabilities over the short term. Like loans, does this lead to a false sense of confidence today, or future strain on the business, or could it be a lifeline that leads to recovery? Time will tell but the key question is, will business be able to recover from C19 and pay back tax, or is there a wave of business failures looming?
- *Income support for businesses and employees* via the Furlough/SEIS schemes helps in the short term and avoids creating debt. Does this lead to a false sense of confidence today, or future strain on the business when salaries need to be paid again, or could it be a lifeline that leads to recovery? Time will tell but the questions are, will business be able to recover from C19 and pay salaries in future, and will employees have viable jobs to go back to, or is an unemployment crisis looming?
- *Business grant support* avoids creating debt but impacts as a one off over the short term. That's all good news, albeit it at a cost, but businesses and jobs must thrive as a result.

HMG have acted because they want businesses and people to ride out the situation and then recover/be self-sufficient but many businesses may fail and employees may be out of work. A worrying scenario emerges, with the prospect of a huge increase in unemployment with lower skilled workers/those in face to face customer contact roles particularly vulnerable to job loss.

A traditional response to this could be to:

- Stimulate interest in self-employment to reduce reliance on HMG by the unemployed
- Increase start up support to help the newly self-employed or recovering entrepreneurs
- Focus support on high growth firms so they increase high value GVA employment

Problems with this approach exist because:

- Many new ventures will fail, though this can be reduced with appropriate support
- High growth knowledge driven sectors involve only the minority of firms/jobs
- Traditional businesses, which involve the majority of firms/jobs, don't get enough help

THE OPPORTUNITY

HMG may want LEP's and local authorities to offer support/stimulus via review and iteration of local economic development activities and local industrial strategies through a Covid-19 lens, and to deliver any required support via Growth Hubs/existing mechanisms.

However, there may generally be a lack of capacity to do this, so outside expert resource may be helpful/required to add capacity, knowledge, skill experience and expertise. This shares the workload and brings in fresh thinking...both of which may possibly be helpful.

KEY ACTIONS

There are many issues involved, and carefully designed support mechanisms will be required to address them. It is important that a blended set of solutions is developed involving support for:

- High growth knowledge driven sectors (low numbers of business but with high GVA jobs)
- Traditional businesses (higher numbers of businesses but with lower GVA jobs)
- Self-employment/start up to reduce reliance on HMG and generate incomes
- Recovering entrepreneurs to reposition/re-establish businesses
- Low skilled employees to upskill while earning via Community Programmes

Given the unprecedented situation we face all options should be considered. One thing is for certain, just pinning our hopes on channeling funds into start up and/or high growth scale up businesses is not the whole solution, as on its own it will leave gaps.

HMG, Local Authorities and LEPs will need to review LIS, Growth Hub and other economic development strategies/activities to meet the new economic landscape, address the needs of the people/businesses requiring most support, and plan delivery of appropriate services.

Action to design and plan for implementation of the required support is needed now.

DEYTON BELL

Deyton Bell specialise in economic development and business support issues and have provided associated services to over 40 different LEPs and Local Authorities in recent years. We are already supporting every LEP across the East Midlands, South East and East of England on various Covid-19 and economic development issues. We believe there is going to be a huge need, and great demand for, post-Covid economic development and business support, and we would urge all involved to prepare the way for this asap to avoid delays.

NEXT STEPS

To discuss any aspect, please contact Neil Darwin, Director and Chief Economist via: neildarwin@deytonbell.com or on 07860 - 663234.

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