

Assessing the impact of COVID-19 on the Thames Valley

October 2020



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Introduction



Two years ago, we released our paper *The Thames Valley: A Framework for Growth*.

Our report highlighted the opportunities for the Thames Valley region in the years ahead and acknowledged the challenges of coordinating for growth in a region not recognised as such governmentally. The report called for joined-up strategy across the business community, public sector and other institutions to help support the region's continued high performance and impressive contribution to the wider-UK economy.

The report, and the framework it tabled, prompted many conversations with a wide range of stakeholders across the Thames Valley community, revealing an ever-increasing desire from the business community to coordinate their strategic efforts.

As 2020 began we received confirmation that Brexit would indeed go ahead, led by a Government with a significant majority. Then, just as the implications were evolving and becoming clearer, we were hit by COVID-19.

This report provides an initial analysis and commentary on how COVID-19 has impacted the Thames Valley and its economy as of August 2020. We think it is important that we analyse how the region's strengths and challenges have contributed to its resilience at this time of significant disruption, as well as consider the new threats and potential opportunities that the region now faces.

The polycentric nature of the region, with its complex regional governance framework, contributes to the challenge of business engagement and effective collaboration.

Now, more than ever, it seems apparent that a 'master plan' for the region's sustained economic growth, which also prepares us to capitalise on opportunities and mitigate risks, would be of great strategic benefit.

Richard Baker
Managing Partner
Thames Valley and South

Key insights

COVID-19 is, first and foremost, a global humanitarian challenge. In an attempt to control the pandemic, the United Kingdom declared a nationwide lockdown on 23 March 2020. This appears to have controlled the public health crisis, but has significantly impacted the economy, public services and, notably, the education system.

This report explores the Thames Valley's economic and social position in the context of COVID-19.

Before COVID-19 – the regional outlook prior to the pandemic ...

The Thames Valley has traditionally played a vital role in transforming the country's economy and strengthening its position on the global stage.

- ▶ The region has a highly-skilled workforce, with almost half (48%) of working-age residents holding a degree or equivalent qualification.
- ▶ The Thames Valley boasts an impressive mix of domestic and multinational corporates.
- ▶ The region is well served by road, rail and digital infrastructure, but faces significant congestion challenges.
- ▶ The Thames Valley is a popular place to live and therefore faces the challenge of having some of the most unaffordable housing in the country.
- ▶ Public decision-making and spending in the region is spread across a complex framework of central, regional and local bodies, and the area would benefit from a unified voice.

The economic and health-impact analysis undertaken as part of this report utilises data specific to eight local authorities within the Thames Valley. However, the commentary and conclusions are intended to apply to the wider definition of the Thames Valley, including North East Hampshire and North West Surrey.

COVID-19 has had a significant impact on the Thames Valley, both in terms of public health and the economy

Immediate impact

- ▶ The Thames Valley has experienced a similar pattern of cases to the rest of the country.
- ▶ Overall, the death rate has been lower than all other regions in England, though Reading has not fared as well comparatively with other areas in the Thames Valley.
- ▶ Oxfordshire accounts for over 37% of all confirmed cases across the Thames Valley, however the disease has spread the most in urban areas such as Reading and Slough.
- ▶ Due to the region's strong sector mix, COVID-19 has had a less severe impact on economic output than in the rest of the UK. Although the area's largest industries appear to have weathered the storm, many sectors have suffered.
- ▶ Unemployment claims have reached an unprecedented level and joblessness is likely to continue to grow.

Medium-term impact

- ▶ Over the next five years, the Thames Valley's strong sector mix will continue to drive the region's recovery.
- ▶ The region's most prominent sectors are likely to become increasingly productive through to 2025.
- ▶ All areas within the Thames Valley are forecast to outperform the UK average in terms of GVA growth between 2019 and 2025.

The longer-term outlook for the region remains particularly strong compared with other UK regions ...

Looking to the future, the region must draw on its strengths to ensure long-term success.

Economic

- ▶ The Thames Valley must continue to identify, harness and support key growth opportunities, while contributing to the levelling up agenda.
- ▶ Damage to the region's global links threatens flows of investment and jobs from international businesses.
- ▶ Accelerating digital transformation will help local businesses retain a competitive edge.

Societal

- ▶ COVID-19 presents the Thames Valley with a plethora of social challenges and opportunities.
- ▶ Re-imagining town centres may open up new possibilities for hospitality and retail.
- ▶ A focus on skills transfer and diversification is needed to help the workforce adapt.
- ▶ The region must address high housing costs to attract new talent.
- ▶ It is important for the region, and for the wider UK, to give due consideration to thoughtful and consistent actions that enable access to opportunity and mitigate threats.

Before COVID-19: the regional outlook prior to the pandemic

For the past 30 years, the Thames Valley has been one of the UK's most successful regional economies. The region has been growing faster than any other region outside London and, prior to COVID-19, was forecasted to continue outperforming all UK regions throughout 2020, with strength in key sectors including technology, business services and scientific research. Thus, the Thames Valley has been playing an important role in transforming the country's economy.

Previously, we viewed that a step towards sustaining the Thames Valley's thriving economy is for the region as a whole to adopt more coherent and integrated thinking to promote cooperation and growth. This approach would enable the region to deliver a clear proposition and tackle issues that are affecting its attractiveness.

Opposite, we have revisited some of the area's key strengths and fundamental issues through six dimensions affecting the Thames Valley economy: *Economic growth and sustainability, People and skills, Enterprise and investment, Infrastructure, Quality of living and Governance.*



Economic growth and sustainability

The Thames Valley has traditionally played a vital role in transforming the country's economy and strengthening its position on the global stage.

In 2018, our Regional Economic Forecast found, for example, that the Thames Valley continues to outpace London and the wider South East and is forecast to continue to do so over the next three years. Drilling down, Reading was expected to be the UK's fastest-growing town or city, alongside Manchester, with growth of 2.4% Gross Value Added (GVA) per year until 2020.

Businesses across the region must now apply due consideration to sustainable working practices over the medium-term, with sustainability underpinning strong economic growth across the region.

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A thriving region, clearly in a strong position ... playing an important role in transforming the country's economy.



People and skills

The region has a highly-skilled workforce, with almost half (48%) of working-age residents holding a degree or equivalent qualification. The Thames Valley boasts a standard of educational achievement far above the UK average (38%). Similarly, the proportion of residents with no qualifications (5%) is below the UK average (8%). The region's thriving universities are no doubt a key reason for this, with world-leading Oxford University playing a key role in the development of one of the leading candidates for a COVID-19 vaccine.

On the other hand, the Thames Valley faces challenges in retaining talent, as the region is exposed to a loss of skills as a result of reduced long-term international migration due to Brexit. In addition maintaining the international draw of the region's universities, many of which are facing significant financial and operational challenges as a result of COVID-19, will be important in ensuring a skilled workforce. These factors combined with a tight labour market, may present a significant challenge to sustaining growth in the region.

48%

of working-age residents hold a degree or equivalent qualification (UK average 38%).



Enterprise and investment

The Thames Valley boasts an unrivalled mix of domestic and multinational corporates. It is also a hotbed of innovation, entrepreneurs and fast-growth businesses, especially those centred around the core sectors of technology, life sciences and engineering. As the potent mix of technology and science continues to see a host of new start-ups, the region is set to benefit further from a critical mass of innovation and entrepreneurialism.

However, amid the ongoing uncertainty surrounding Brexit, and the increasing prominence of rival destinations for investment such as the Northern Powerhouse and Midlands Engine, action must be taken in the Thames Valley to both reassure investors and retain existing employers.

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An IP-rich, high value-add region.

Before COVID-19: the regional outlook prior to the pandemic

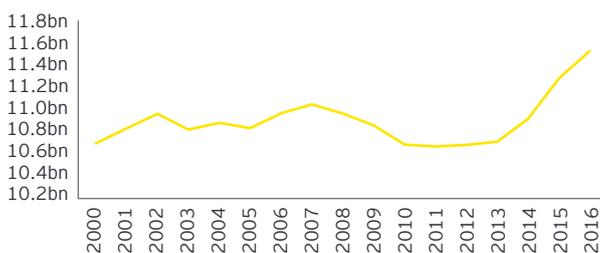


Infrastructure

The Thames Valley globally connected, with London's Heathrow Airport at its eastern apex. The region is also well served by road, rail and digital infrastructure. When it comes to digital infrastructure, next-generation access (NGA) broadband availability stands at 93% (above the UK average of 90%).

However, the Thames Valley faces serious capacity constraints, with its roads significantly congested and particular challenges in the 'last five miles' from the trunk network. This is a longstanding issue: since 2000, road traffic has generally been rising, with a particularly steep increase from 2013, driven by increased car and light goods vehicle use. Further, the COVID-19 period has highlighted the critical importance of digital infrastructure.

Total vehicle miles on major roads across Thames Valley, 2000-15



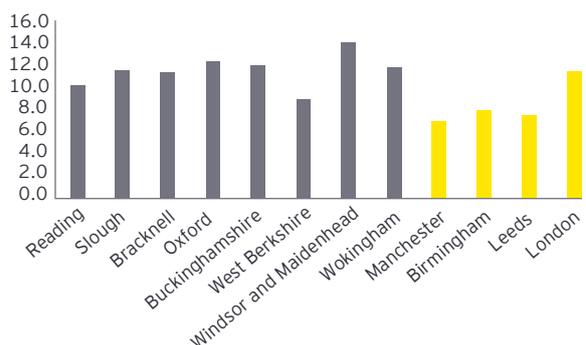
Source: DfT – dft.gov.uk/traffic-counts/area.php?region=South+East



Quality of living

The Thames Valley offers its residents a higher quality of living than much of the rest of the UK. There is an extensive choice of places to live and mean average earnings for residents and people who commute into the area to work have traditionally been higher than for the UK as a whole. Nevertheless, the attractiveness of the Thames Valley – and especially its proximity to London – means it is burdened with some of the most unaffordable housing in the country. In the UK as a whole, the average earnings-to-house-price multiple is 7.6. With an average multiple of 11.8, the Thames Valley far exceeds this figure. The region must now begin to compromise to address other needs, as the housing market across the region has become increasingly unattainable to the younger generation seeking to enter the housing market.

Housing affordability (ratio of prices to income)





Governance

The Thames Valley has no formal or definitive boundary. Like much of the rest of the UK, public decision-making and spending in the region is spread across a complex framework of central, regional and local bodies. Despite some collaboration between the region's Local Enterprise Partnerships (LEPs) and local authorities, the Thames Valley would still benefit from a unified voice, both in promoting economic growth and in setting the well-being agenda.

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Aligning the Thames Valley's local authorities, LEPs, business communities and other stakeholders behind a single coordinated plan for economic growth would be a positive first step in providing a unified voice for the region.

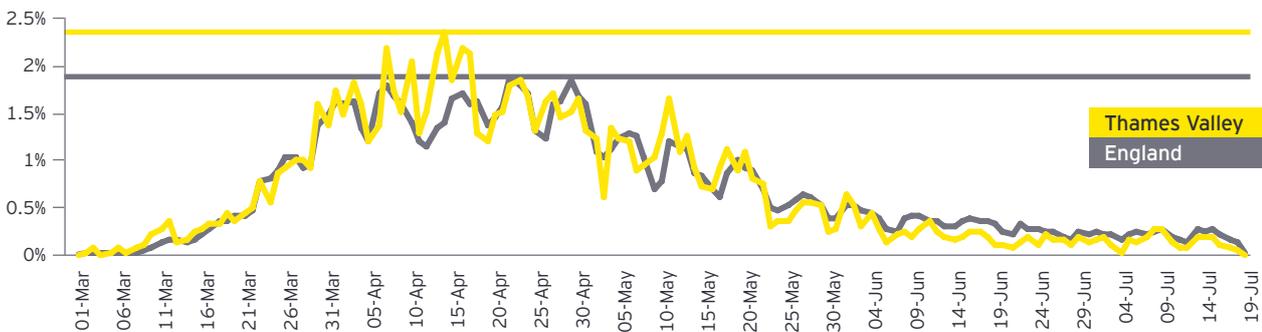


The immediate impact: Health – cases

The Thames Valley has experienced a similar pattern of cases to the rest of the country

The virus has spread among the Thames Valley population at a similar rate to the country as a whole. In total, there have been at least 10,096 lab-confirmed cases of COVID-19 recorded, which accounts for 3% of the national total. The peak in daily cases in the Thames Valley occurred on 14 April, one week earlier than the rest of England.

Figure 1: Daily lab-confirmed cases in Thames Valley and England as a proportion of total daily lab-confirmed cases

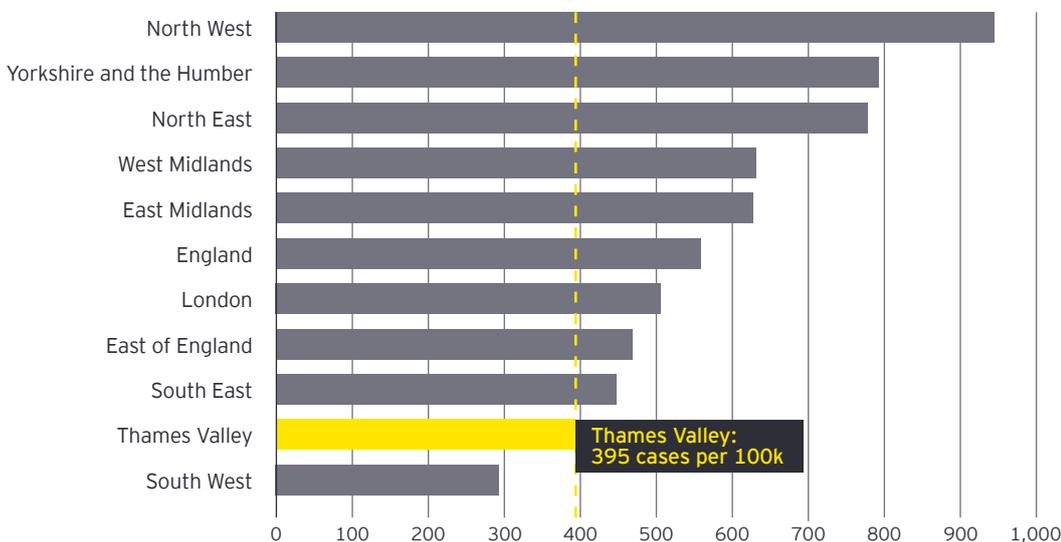


Source: Government UK 19 July 2020, ONS.

Note: The UK Government dataset that previously contained a time series by specimen date for COVID-19 cases has now been retired from the webpage.

There have been approximately 395 cases of COVID-19 per 100,000 people in the Thames Valley. This compares favourably with Yorkshire and the North of England, which has had the highest rate of cases. However, a lower rate of cases may indicate lower levels of immunity, potentially leaving the region exposed to a second wave.

Figure 2: Cumulative lab-confirmed cases per 100k population across regions in England

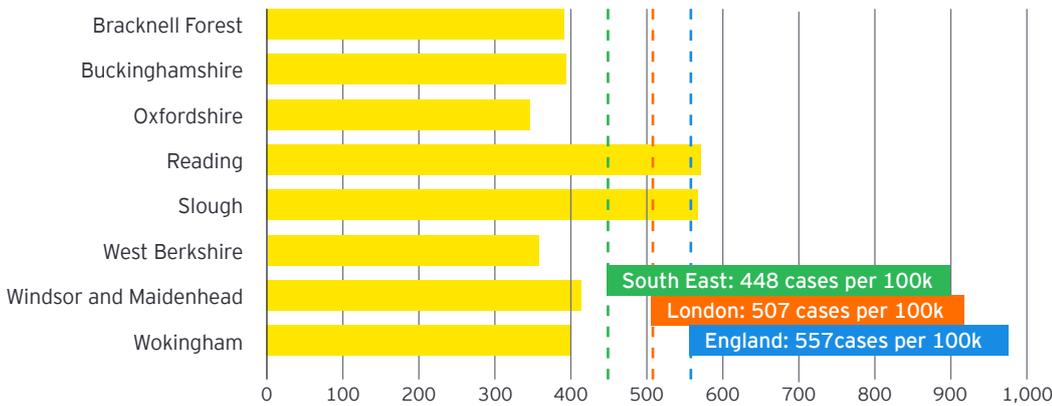


Source: Government UK 21 September 2020, ONS.

Oxfordshire accounts for over 37% of all confirmed cases across the Thames Valley ...

Oxfordshire accounts for over 37% of all confirmed cases across the Thames Valley (c.3.8k cases or 0.35% of Oxfordshire's total population). Reading, the region's largest town, has reported the highest number of cases per 100k population (572) – a level of infection which exceeds all regions in England except the Midlands, the North and Yorkshire.

Figure 3: Cumulative lab-confirmed cases per 100k population across Thames Valley

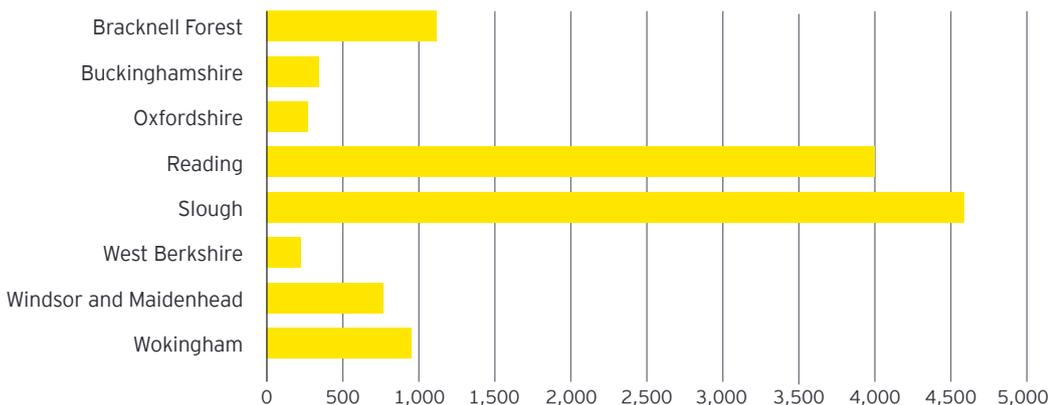


Source: Government UK 21 September 2020, ONS.

... however the disease has spread the most in urban areas such as Reading and Slough

COVID-19 tends to spread fastest in areas with high population density. The reason for the high number of cases in Oxfordshire, which has a low level of density overall, is less clear.

Figure 4: People per sq. km



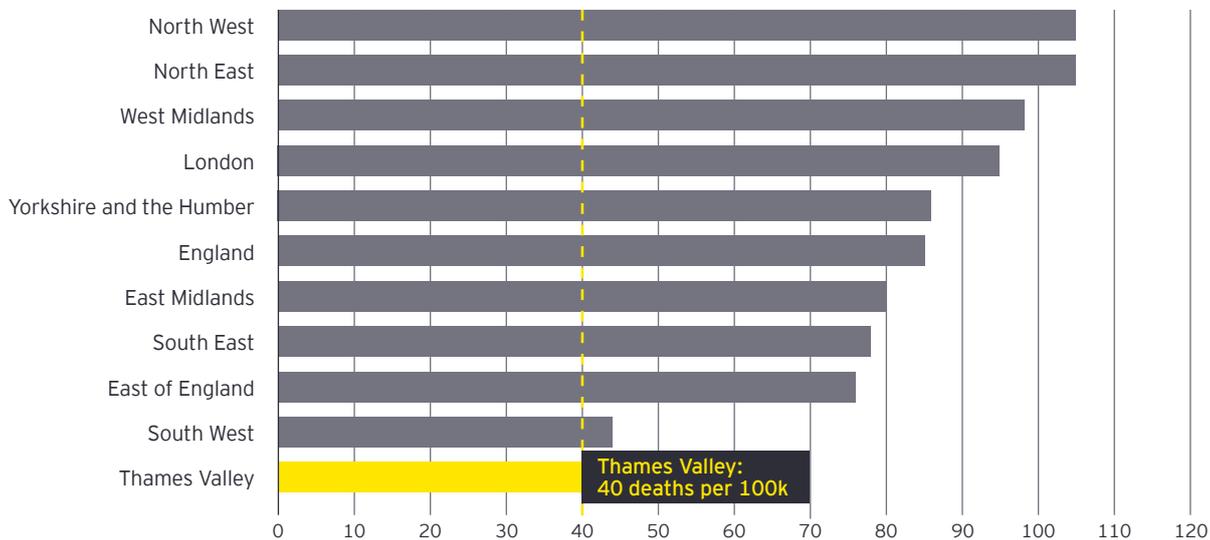
Source: ONS.

The immediate impact: Health – deaths

Overall, the death rate has been lower than all other regions in England ...

Of the 10.1k lab-confirmed cases, there have been at least 1k COVID-19 related deaths across the region (equal to 10.2% of total lab-confirmed cases). This equates to approximately 40 deaths per 100k population, which is considerably lower than all other regions in England.

Figure 5: Total number of COVID-19 related deaths per 100k population across regions in England



Source: Government UK 21 September 2020, ONS.

... yet Berkshire has not fared as well as the rest of the valley

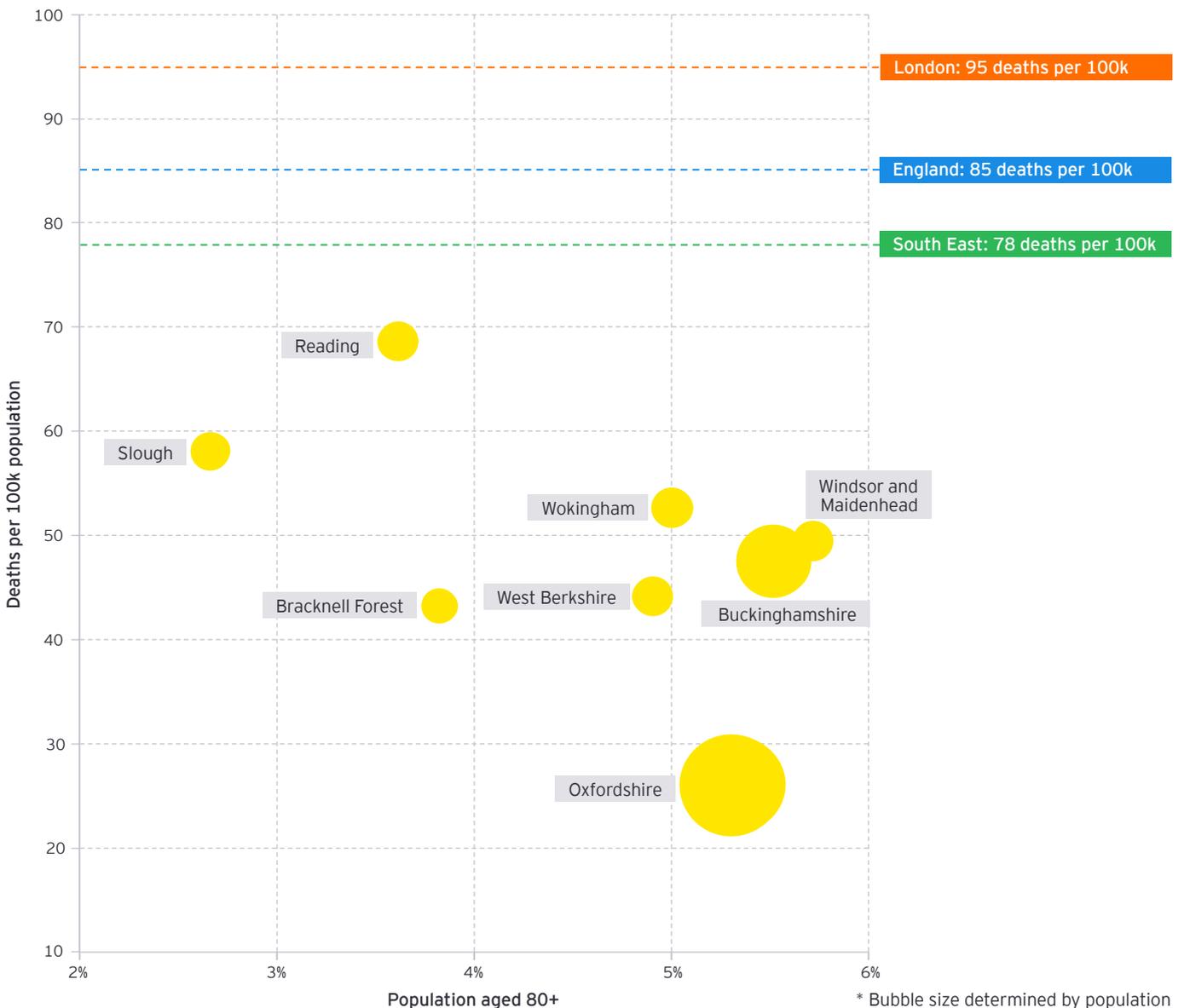
The low mortality rate across Thames Valley has been driven by unusually low rates in Oxfordshire. Berkshire has sadly experienced higher mortality rates, although the rate is still below the England average.

A key risk factor for COVID-19 is age. Those over 80 are seventy times more likely to die than those under 40. However, Oxfordshire has a significantly lower death rate than Berkshire, despite having a larger 80+ population. The highest death rate is in Reading, one of the region's youngest areas.

This may be due to other risk factors in the population, such as ethnicity and underlying health conditions. It is also possible that the virus has spread faster in Reading, and a lower rate of cases in Oxfordshire reflects increased testing.

In any case, the main factor driving cases and deaths in the Thames Valley appears to be location rather than age. The lack of a large urban centre in the area, which was previously seen as a weakness, may have contributed to its resilience during COVID-19.

Figure 6: Total number of COVID-19 related deaths per 100k population across Thames Valley, compared to the proportion of population aged 80+



Source: Government UK 21 September 2020, ONS.

The immediate impact: Business – output

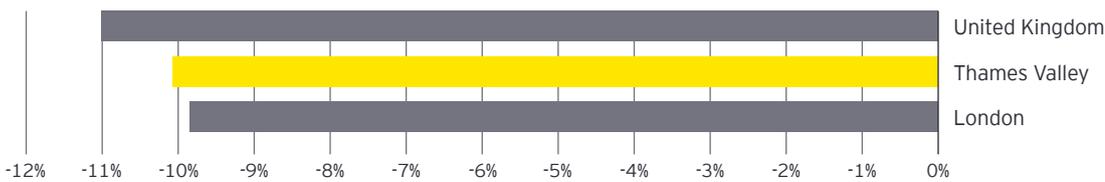
Due to the region's strong sector mix, COVID-19 has had a less severe impact on economic output than in the rest of the UK ...

The immediate economic impact of COVID-19 is significant, with the demand shock of a sustained lockdown period leading to a reduction in forecast GVA growth in 2020 across most sectors.

The forecast impact for the Thames Valley as a whole is for a reduction in GVA of 10.07%. As demonstrated in figure 7, the United Kingdom as a whole is forecast to suffer a more pronounced impact than the Thames Valley (GVA reduction of 11.01%).

The forecast impact for the Thames Valley as a whole is for a reduction in GVA of 10.07%.

Figure 7: GVA Change 2019 > 2020



Source: Oxford Economics – 29.07.20.



... although the area's largest industries have weathered the storm, many medium sized sectors have suffered

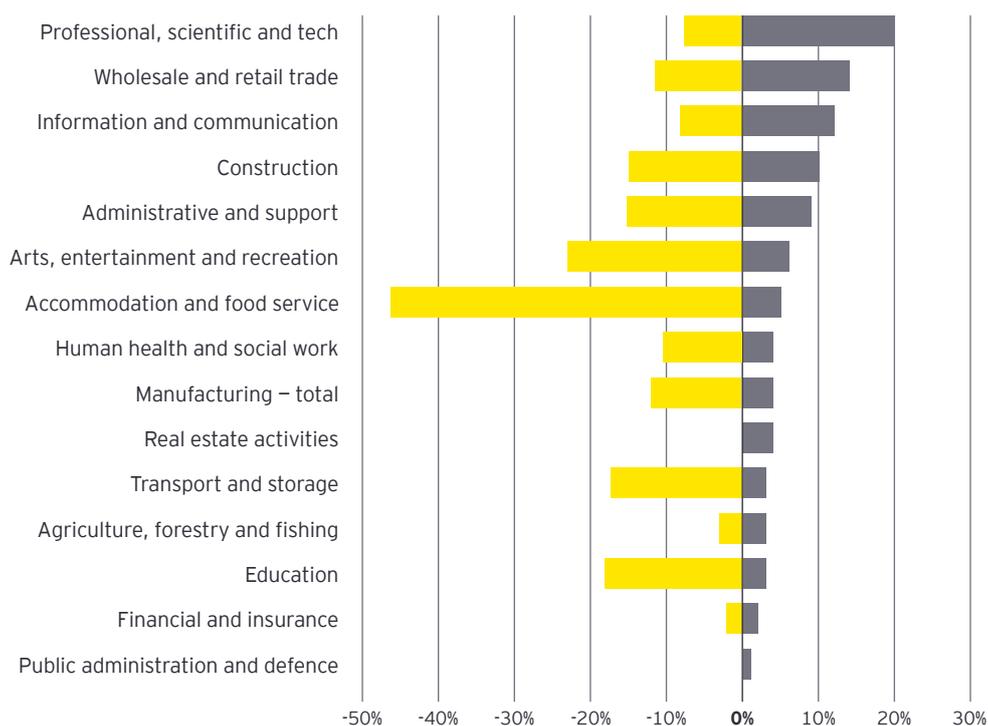
Some of the most prominent sectors in the region, such as professional services, scientific, tech and information and communication, appear to have weathered the storm reasonably well, with forecast reductions in GVA growth between 2019 and 2020 less than 9%. The pre-pandemic preparedness of these businesses to seamlessly transition to remote working practices has likely had a protective effect.

However, on the other end of the spectrum, the region has a number of medium sized sectors where the short-term impact to economic activity has been particularly large.

Sectors such as arts, entertainment and recreation and accommodation and food services are two such examples, with severe reductions in GVA growth of 23-47% forecasted between 2019 and 2020.

The region's short-term prospects may partly depend on how quickly workers and capital can be reallocated from less productive sectors such as arts, entertainment, accommodation and food services to more productive sectors such as technology, business services, and scientific research.

Figure 8: **Percentage change in GVA by sector compared to sector size**



Source: Oxford Economics 29.07.20, ONS.

■ GVA forecast 2020 ■ Sector composition in Thames Valley

The immediate impact: Business – employment

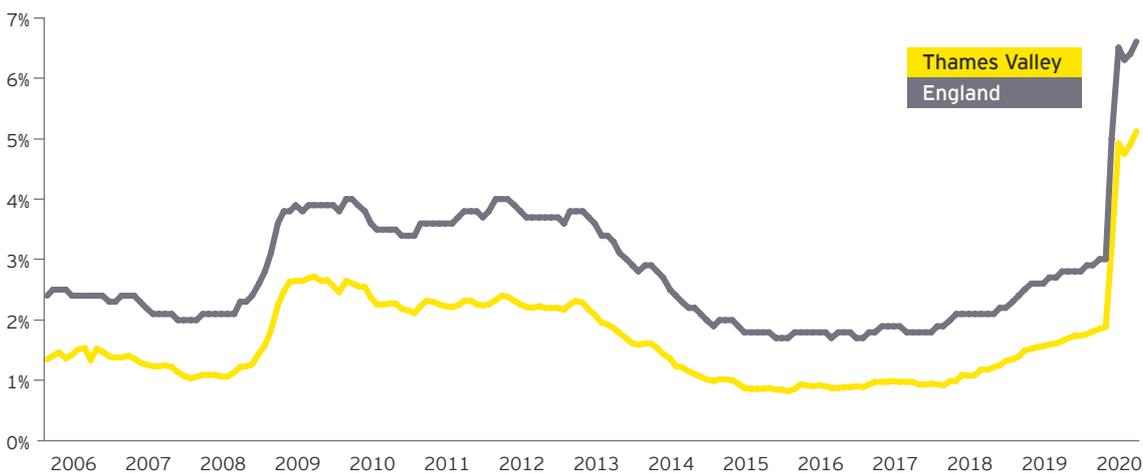
Unemployment claims have reached an unprecedented level ...

Across the UK, unemployment has risen dramatically due to COVID-19. The impact on unemployment has been just as pronounced in the Thames Valley region. Between July and August 2020, 64.3k unemployment-related benefits were recorded, or 2,991 claims per 100k population. A total of 61.5k claims were recorded between June and July 2020, meaning there was a 4.64% rise (or 2.9k increase) in the number of claims lodged between those months.

The Thames Valley has historically had much lower unemployment rates than the UK as a whole, and unemployment remains significantly below the rest of the country (4.1% compared to 7.6% at the end of August). Across the UK, there has been an average of approximately 4,082 claims per 100k population.

Within the Thames Valley itself, the unemployment rate is lower than the UK average in all areas, but there are outliers such as Slough, which has the highest unemployment rate in the region (8.1%). The areas that had the highest unemployment before the crisis are likely to experience the largest levels of change. Unemployment will increase by 0.4 percentage points in Slough and 0.3 in Wokingham and Buckinghamshire, but just 0.1 in Oxfordshire and West Berkshire. This illustrates that areas with higher unemployment rates tend to be more vulnerable to economic shocks, as people who have struggled to find work in the past are most likely to lose their jobs when hardship strikes.

Figure 9: People claiming benefits for unemployment related purposes as a proportion of residents aged 16-64



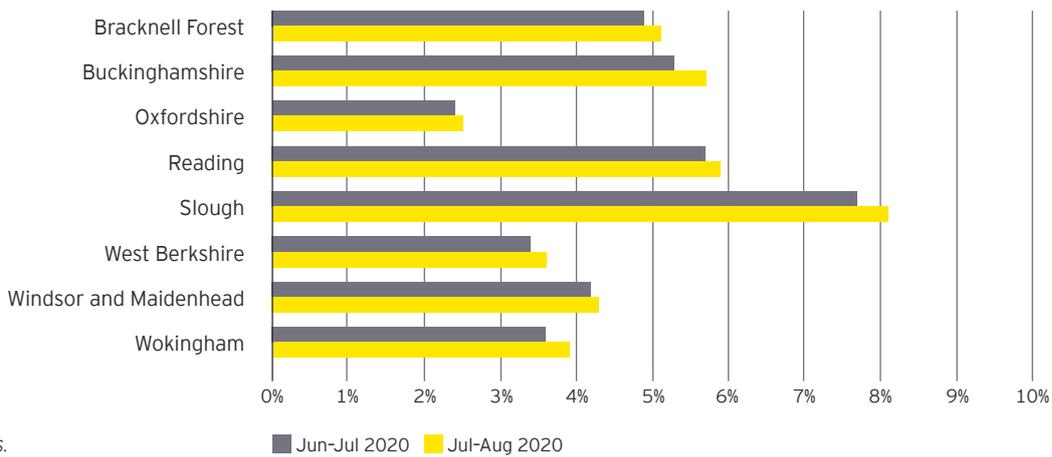
Source: ONS.

... and joblessness is likely to continue to grow

Unfortunately, unemployment rates are likely to continue to rise as wage support schemes end. The furlough rate (the number of employments divided by the size of the workforce in given area) in the Thames Valley (18.80%) is slightly higher than in London (17.48%), but is still considerably lower than the UK average rate (24.32%).

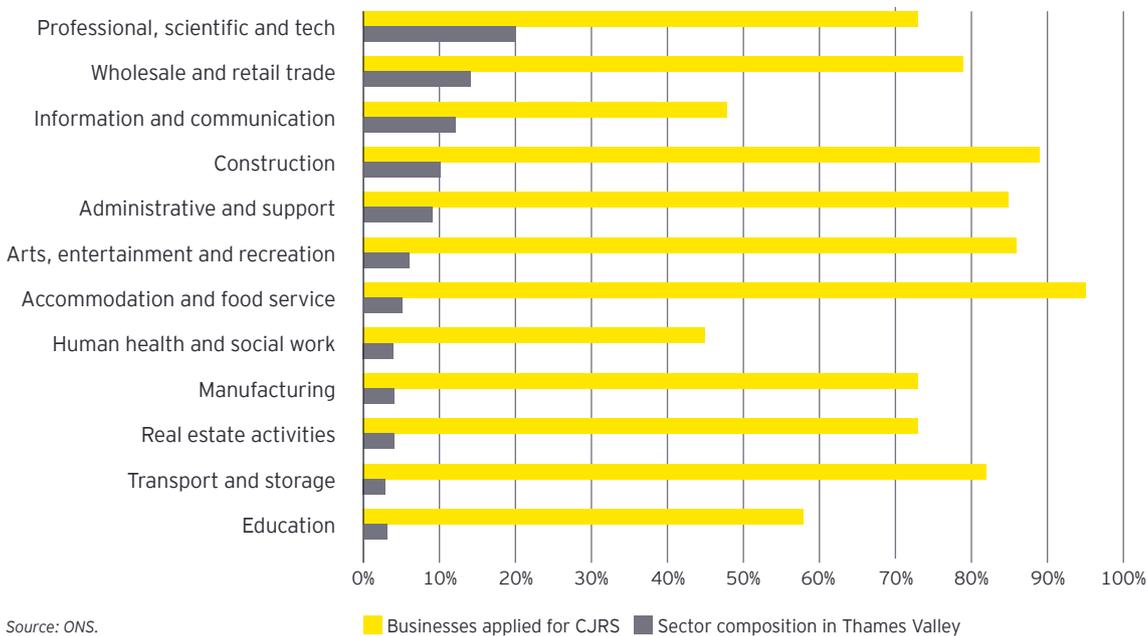
Naturally, the sectors that have seen the greatest output impact are likely to experience the greater increase in unemployment. In the most severely impacted sectors, entertainment, recreation, accommodation, and food services, over 80% of businesses are likely to have opted into the Government's furlough scheme, with workforces with little option to work remotely. Businesses' ability to continue to employ and pay workers might be particularly precarious when the Government's furlough scheme comes to an end on 31 October. These sectors traditionally employ younger staff, meaning that growing unemployment will have a particularly high impact on younger generations.

Figure 10: **Unemployment rates across the Thames Valley**



Source: ONS.

Figure 11: **Proportion of businesses who have applied for the COVID-19 job retention scheme by sector compared to sector size**



Source: ONS.

The medium-term impact

Over the next five years, the Thames Valley's strong sector mix will continue to drive the region's recovery

Despite the short-term impact of COVID-19, the Thames Valley is likely to remain one of the UK's fastest growing regions, with forecast GVA growth of 9.40% between 2019 and 2025, which is below London at 10.10%, but significantly higher than the UK rate of growth (7.33%) over the same period.

Over the medium-term, all areas within the Thames Valley are forecast to outperform the UK average in terms of GVA growth between 2019 and 2025. This indicates that the region's strong sector mix is driving productivity across the region, with each area expected to bounce back from COVID-19 and grow rapidly over the medium-term.

It is expected that Wokingham will be the fastest growing area in the region, with forecast GVA growth of 14.11% between 2019 and 2025. Similarly, Windsor and Maidenhead (10.04%) is expected to grow rapidly over the medium-term, in line with London (10.10%) from a GVA growth perspective.

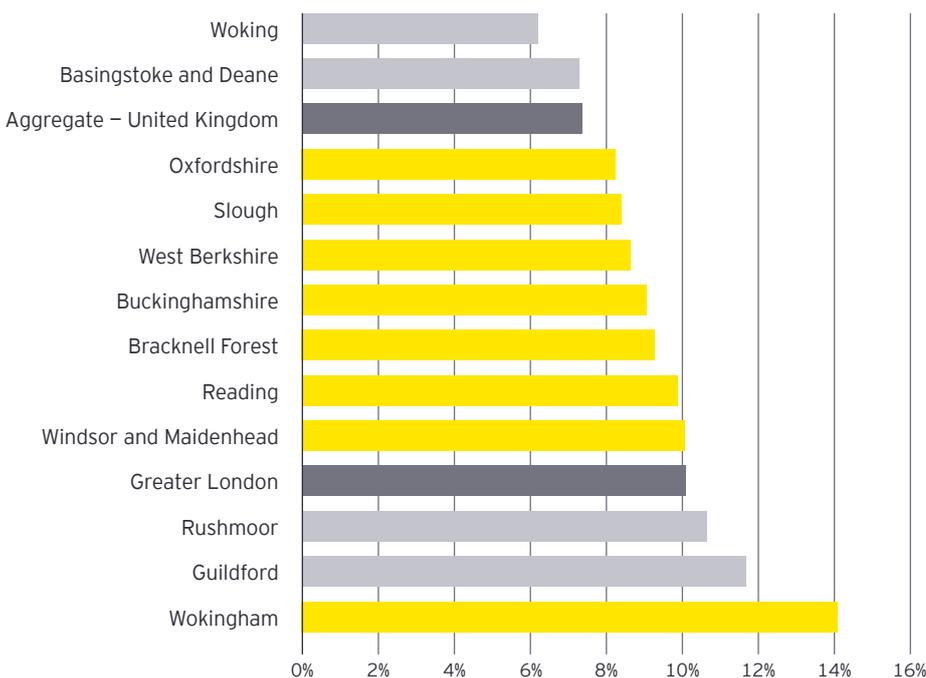
The region's most prominent sectors are likely to become increasingly productive through to 2025

Figure 13 demonstrates that the most prominent sectors within the Thames Valley are forecast to become increasingly productive in the period from 2019 to 2025, as GVA will grow faster than employment, indicating that these sectors are expected to achieve productivity gains i.e., increasing GVA per capita.

The Thames Valley's strongest sectors, such as technology, life sciences, and advanced engineering, will continue to drive growth. In each of these sectors, the GVA growth actually outstrips the employment growth by more than 7%, suggesting these sectors are highly productive.

Over the medium-term, employment will recover in the hardest hit sectors, such as accommodation and food services, arts, entertainment and recreation, and education. However, these sectors will not see the same levels of productivity growth.

Figure 12: GVA Change 2019 > 2025



It is expected that Wokingham will be the fastest growing area in the region.

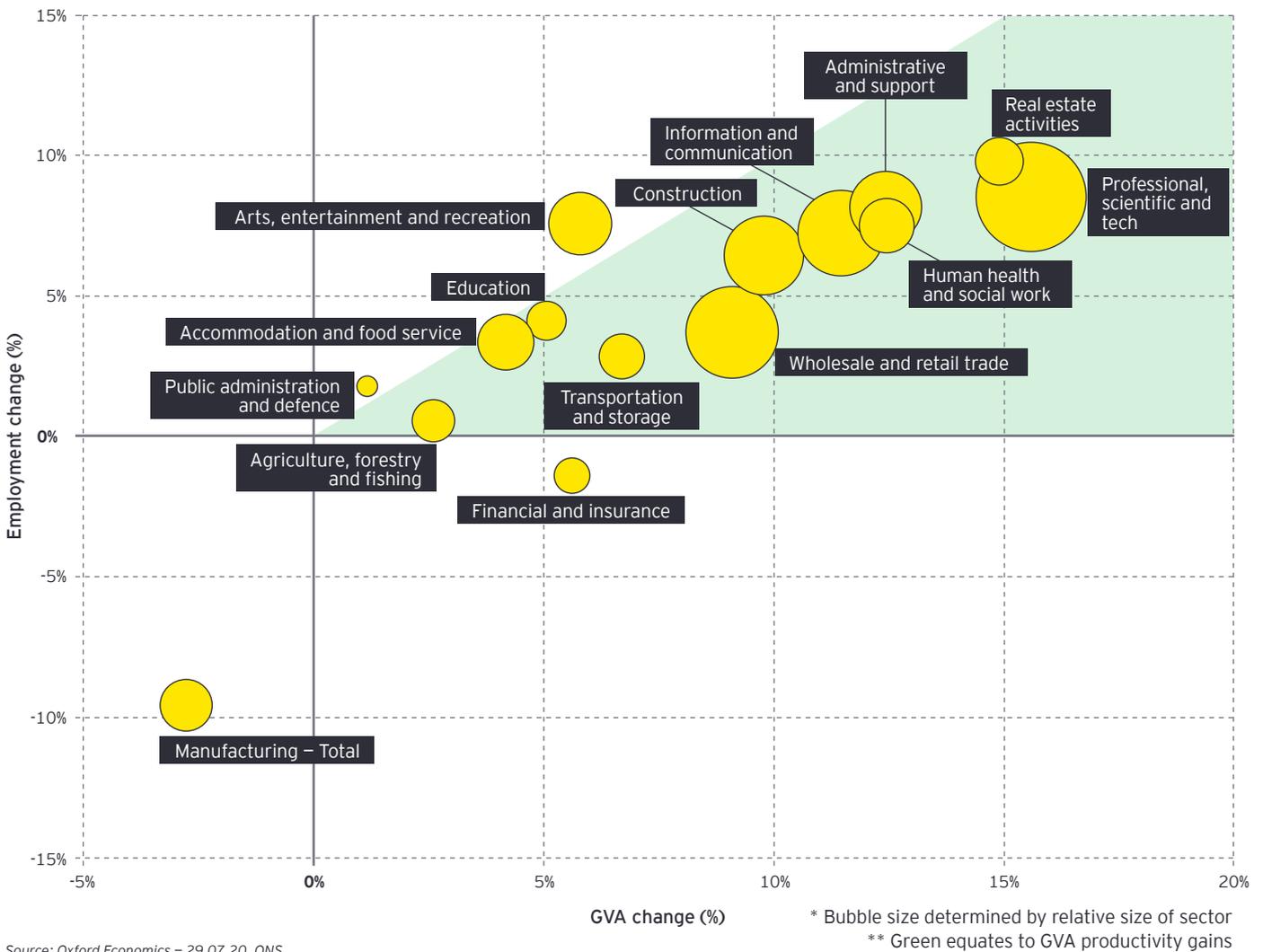
Source: Oxford Economics – 29.07.20.

■ Included in Thames Valley ■ Included for information only

In the manufacturing sector, employment levels are forecast to reduce significantly by 9.58% in 2025, whereas GVA growth is forecast to reduce by as little as 2.79%. Despite the negative growth forecast for the sector, this translates to increases in productivity over the medium-term.

It is important to recognise the connections between sectors. For example, while productivity is unlikely to increase in the education sector itself, opportunities for collaboration across academia and business mean that education can play a key role in the growth of science, engineering, and technology.

Figure 13: Percentage change in GVA and employment 2019 > 2025



Source: Oxford Economics – 29.07.20, ONS.

The future of the Thames Valley beyond COVID-19

The medium-term outlook for the Thames Valley remains particularly strong, with the most prominent sectors in the region forecast to bounce back from COVID-19 and grow at a faster pace than most other regions in the UK.

Nevertheless, there are still longer-term issues requiring attention, such as congestion and housing affordability, amongst others. The region continues to benefit from a range of inbuilt advantages but, at the same time, it is important to recognise that the Thames Valley also faces a number of issues which may have been exacerbated by the COVID-19 crisis. Below, we have provided some additional considerations to take forward.



The Thames Valley must continue to identify, harness and support key growth opportunities, while contributing to the levelling up agenda.

There are a range of key growth projects already underway in the region that will continue to support the growth of the regional economy, Crossrail is one such example. However, amid the increasing businesses uncertainty following the fallout from the pandemic, and the increasing prominence of rival destinations for investment such as Northern Powerhouse Rail and Midlands Engine, action must be taken to reassure investors and retain existing employers. At the same time, planned investments should be re-assessed to ensure that returns remain high.

Damage to the region's global links threatens flows of investment and jobs from international firms.

COVID-19 has brought international travel to a sudden halt. With London Heathrow at its eastern apex, the Thames Valley is a globally connected region which provides access to the UK's largest and busiest airport. Almost every sector feels some repercussions, yet few have been as hard hit as the airline and travel sector. The airport is a major draw to businesses that have chosen to locate in the Thames Valley, so it is imperative that the total impact on businesses is understood in light of the international travel restrictions.

Accelerating digital transformation can help local businesses retain a competitive edge.

COVID-19 has significantly accelerated the shift to digital and fundamentally shaken up the business landscape. Following the fallout from the pandemic, it is important that businesses in the region revisit their business models and consider how they need to change given digitization.



The region must address high housing costs to attract new talent.

COVID-19 will have lasting effects on people's housing needs, and may exacerbate the region's already high housing costs. It is increasingly likely that businesses will begin to shift out of town centres, with less demand to commute into London. People across the UK have become accustomed to working from home, and many will be tempted by the Thames Valley's high quality of life. With a lower than average number of people in their 20s, there is an opportunity for the area to attract skilled young workers.

Re-imagining town centres can open up new possibilities for hospitality and retail.

Since lockdown restrictions were imposed, store closures and sharp declines in discretionary consumer spending has crippled non-essential retail. Many retailers have already had to make tough choices, including temporarily or permanently closing doors and furloughing staff. As retail begins to re-open and looks to the future, it is clear that the high street experience has fundamentally reformed, with social distancing measures and recognising the need for a sense of community and place.

A focus on skills transfer and diversification is needed to help the workforce adapt.

COVID-19 is likely to change the region's sector composition. In the short-term, employees in the hospitality industry, many of whom will have only recently entered the workforce, are finding themselves without a job. While many of these roles are likely to be revived as the lockdown ends, supporting workers to retrain and move to more productive sectors such as technology, science, and business services will improve the region's resilience.

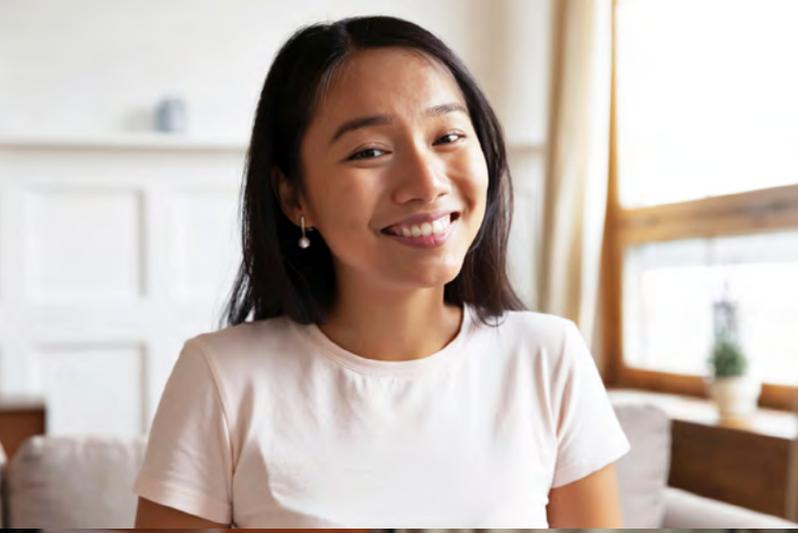


“We continue to believe that more coherent and integrated thinking across the Thames Valley region will help to promote cooperation and growth, accelerating the recovery from COVID-19. Material and lasting change is more likely if the business community expresses itself in a joined-up and cohesive way.”

Richard Baker

Managing Partner
Thames Valley and South





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