

North East Covid-19

Economic Response Group

COVID-19 Intelligence

Arts, Culture, Tourism and Hospitality



on behalf of business:



on behalf of regional universities:



This report was written in September 2020 and reflects the most up-to-date data and information available at the time. Any questions about the report and its findings can be directed to emma.ward@nelep.co.uk.

Introduction

The impact of COVID-19 on the North East – and the wider regional, national and global economy – is unprecedented. The pandemic has created a deep economic shock that will be difficult to recover from. It has had a very real, immediate impact on many people and businesses in the region, and is likely to continue to impact as consumer and business behaviours change, over both the short term and longer term.

It is difficult to understand the impact of the COVID-19 pandemic on the North East economy as very little timely data is available. There are multiple potential scenarios for the future. Recovery is dependent on the public health response to controlling the future spread of the virus, including any resurgence, as well as the effectiveness of temporary measures to mitigate the economic shocks caused by COVID-19. Regardless, recovery is likely to be accompanied by significant structural changes to sectors, and the economies of places in the North East. Some of these changes will result in substantial difficulties for some businesses and their employees, and for individuals seeking to enter or return to the labour market.

To support the regional response to this context, the North East COVID-19 Economic Response Group was formed under a mandate from the North East Local Enterprise Partnership (LEP) Board to return the North East to pre-COVID-19 GDP and employment levels, and then to move forward in pursuit of the economic ambitions set down in the North East Strategic Economic Plan.

The Group has agreed a five-point plan to:

- provide support to businesses
- maintain people in employment
- support innovative responses to national challenges and regional problems
- prepare for recovery with a plan focused on regional economic priorities
- co-ordinate key messages from the region to the government.

In order to inform planning for economic recovery, reports collating up to date economic and labour market intelligence relating to the immediate and longer timer impacts of the COVID-19 pandemic in the North East have been produced. An initial report in May 2020 was received by the North East LEP Board in order to present the latest position for the North East economy. This was then repeated in September 2020.

Drawing on official data, sector consultations, regional surveys, and insights from Local Authorities, academics, and other groups, the evidence presents an overview of the ongoing impact of COVID-19 on the North East economy, and views and insights on projected impacts and opportunities over the longer term drawn from these sources. The report will be updated on a regular basis to ensure that the latest available intelligence informs the LEP's economic response to the pandemic.

This report is a complimentary summary report that focusses on the data and intelligence gathered on the arts, culture, heritage and tourism sectors as part of the wider evidence base. This is part of a suite of sector specific summary reports that will be published in due course.



Why is Arts, Culture, Tourism and Hospitality important to our economy?

Tourism and hospitality

Tourism is an important and growing part of the North East LEP economy. It adds £1.58bn per annum to the North East LEP area economy, and £2.11bn per annum to the wider North East region economy - equalling 4.5% of the North East total GVA.

In 2018, the North East attracted a total of 466,000 international visits, four million domestic overnight visitors and 77 million day visits. These visitors contribute significantly to the economy through their activities and spend.

Main activities on visits to the North East

-  General sightseeing
-  Eating out
-  Shopping
-  Walking
-  Visiting artistic / heritage exhibitions or attractions
-  Visiting the beach

The region attracts a high level of repeat visits. 60% to 65% of visitors said the main influence for their visit was experience from a previous visit.

In terms of business base, in 2019 there was a total of 6,290 businesses operating in tourism in the North East LEP area. Approximately 42,000 are employed directly within the tourism sector, with an additional 31,000 employed in tourism industries. This equates to 5.2% of all employment in the North East LEP area.

Arts and culture

In 2019 the Department for Digital, Culture, Media and Sport (DCMS) issued a breakdown of Regional Gross Value Added (GVA) for the first time, comparing the GVA between 2010 and 2017 for the DCMS sectors, creative industries, cultural and digital sectors in each UK Region. The North East Culture Partnership analysis showed consistent growth across the North East culture sector:

- The digital sector's GVA in the North East increased by 49% - the largest regional percentage GVA increase in the UK between 2010 and 2017. The Telecoms sector was responsible for increasing the GVA by £1.1bn in this time. The digital sector accounted for 5.84% of the North East's GVA in 2017 (2.2 times the GVA for all sectors) and was worth £3.1bn; ahead of London's position
- Between 2010 and 2017 the GVA for the North East's DCMS sector showed the second highest increase in the UK - 46.1% (2.2 times the GVA for all other NE sectors) - second to London's DCMS sectors GVA growth of 58%.
- The North East's creative industries were worth £1.25m of GVA in 2017; a 49.9% increase from 2010 - the fourth largest increase in the UK.
- The North East's cultural sector was worth £232m of GVA in 2017; the 7th highest increase in the UK culture sectors GVA since 2010, at 16%.



What has the impact on the Arts, Culture, Tourism and Hospitality sectors been so far?

The sector continues to be impacted significantly by COVID-19, with some businesses still not able to open (e.g. theatres, live music venues, and nightclubs) despite the easing of lockdown since June having now benefited businesses in most other sectors of the economy.

Tourism and hospitality

The summer period has seen a significant growth in domestic tourism, with many visitors rediscovering what the UK (and the North East) has to offer, or holidaying in the North East for the first time. Many businesses in the region's rural areas (e.g. self-catering accommodation, campsites, restaurants) have had a good summer, recouping some of the income lost during early 2020.

Travel writers are encouraging visitors to explore rural North East, while Newcastle has hosted more visitors from London than in previous years, as people look to get away from the larger cities.

There is a good degree of confidence in the sector that at least some of the extra visitors and spending in 2020 can be retained in future years.

The active travel and outdoors tourism market has fared particularly well, and this change in visitor behaviour may create new growth opportunities into the future.

By contrast, hotels and hospitality businesses in urban areas are operating at low levels of capacity, or have not yet re-opened at all. For example, in Newcastle the occupancy rate for city centre hotels was approximately 30% this summer, compared to 70% in a normal summer season. Low occupancy rates are a

result of a lack of tourist visitors, as well as a downturn in the corporate and wedding markets.

Positively, there is evidence of increased collaboration between tourism and hospitality businesses, who have been working together to attract visitors to some locations, rather than competing for custom.



In the North East region (including Tees Valley) **2,467 outlets registered** to take part in Eat Out to Help Out Scheme¹, with discounts given on **2,413,000 meals**. Reimbursement claims totalled **£14,454,000** - an average discount of **£5.99 per meal**.²

The scheme has:

- Had a positive impact through increased footfall, boosted spending and rebuilding confidence for customers and businesses
- Mitigated the impact from social distancing
- Seen a number of restaurants continue to self-fund the scheme into the Autumn.
- Varying reports on whether the Mon-Wed increase trade affected Thurs – Sun trade

To date, the North East tourism and hospitality sector has not been as badly affected as some other regions, particularly because there has not been a local lockdown.

The pandemic has driven businesses to innovate and finds new ways of engaging and supporting customers and visitors. For example:



Pavement cafes



Take out services



Ordering apps



Discount schemes for key workers

This has helped many businesses to continue trading and has generated new business. It has also shown businesses how they can operate more efficiently in the future.

Some national hospitality chains (e.g. Byron Burger, Carluccio's, Pizza Express) have announced closures which will impact in the North East, but some independent local businesses are doing well. There appears to be some evidence that customers are choosing to support local independent businesses over the larger chains.

¹ The scheme allowed diners in participating restaurants, cafes, bars or pubs to get a 50% discount on food or non-alcoholic drinks to eat or drink in (up to a maximum of £10 discount per diner), three days a week. Participating establishments were able to claim a reimbursement from government for the discount given.

² HMRC. Businesses with more than 25 outlets were not required to provide individual restaurant details, and their claims are not allocated to a region.

Arts and cultural sector

The continued closure of theatres and live performance venues, and the cancellation of festivals, is a major concern. These venues and events play a very important role in the vibrancy of the region, and our city centres.

Due to continued social distancing requirements these venues are unlikely to be in a position to re-open at anything close to capacity in the near future. Many rely on ticket sales to generate income, and with limited capacity (of approximately 20%) they would not be commercially viable.

Continued closure at Christmas, when most venues generate a significant proportion of their annual income, will have a huge impact on future sustainability.

Several performing arts venues in the region are reluctantly beginning to consider mothballing venues, as a full re-opening does not appear to be in sight. These venues are at risk of losing audiences and experienced staff, as well as incurring additional costs in re-opening when the time comes.

Some venues that benefit from Arts Council England funding subsidy may be able to re-open with smaller audiences in the coming months, as they are not entirely dependent on income from ticket sales. However, this operating model is not sustainable in the long term as venues will incur additional operating costs (e.g. cleaning, managing social distancing / movement around the venue).

Some museums, galleries and heritage venues - particularly those with outside spaces - have reopened with limited capacity and social distancing measures in place. Some of these venues have been able to provide a limited food and beverage and retail offer, which has helped to generate income. Those in rural areas have benefited more from re-opening as visitors tend to book online as part of a planned day out. By contrast, venues in urban areas rely more on walk-ins, and this market has been impacted significantly by COVID-19.

Jobs, skills and training

A high proportion of staff in the sector remain on furlough as most organisations are not generating sufficient income to cover salary costs. In general, at the start of lockdown, businesses had sufficient reserves to cover two-three months of operating costs, so the furlough scheme has been absolutely crucial in safeguarding these businesses in the short-term, as well as safeguarding employment.

However, the end of the furlough scheme in October is leading to a significant number of staff now being issued with redundancy notices and currently working their notice period.

Forecasts from sector representatives suggest there **could be up to 30,000 redundancies** in the North East arts, culture, tourism and hospitality sector by the end of 2020 (including up to 10,000 in Newcastle/Gateshead alone)

Resilience

Current expectations are that most tourism and hospitality businesses will survive the pandemic (assuming life returns to normal during the next six to 12 months), as most have adapted to new ways of working.

Arts and culture organisations are at much greater risk and there is a real possibility that some organisations will close permanently, or at best remain mothballed for an extended period until the pandemic is over.

However, many businesses are downsizing so while they may survive, their economic value and number of jobs they support is likely to be significantly lower than pre-COVID-19 levels.

The evening economy in city centres and urban areas is particularly vulnerable if cultural venues and nightclubs remain closed for an extended period.

To date, there have been three rounds of national Arts Council England funding aimed at supporting the resilience and recovery of individuals, organisations and venues in the cultural sector. However, the total amount of financial support secured by North East organisations has been low (approximately 5% of the total available in rounds 1 and 2, and £700,000 out of £33m in round 3). Funding from DCMS to support sector recovery has not yet been announced (expected 6th October 2020). It is hoped the North East will benefit from a larger proportion of this funding, as the support is much needed in the region.

What do we need to recover



While international visitors make up a very small proportion of all visits to the North East, they spend three times as much as domestic visitors. It is very important therefore that marketing and promotion campaigns are put in place to encourage these high spending visitors to return to the North East, once it is safe to do so. This should be a key part of a tourism recovery plan.



Businesses are hoping that the autumn may see an increase in hotel bookings in city centres as this is typically when people look for city breaks. However, there are some concerns about the impact of local lockdowns on bookings, particularly as online booking sites are no longer charging cancellation fees. This encourages customers to make multiple bookings for the same period, with most being cancelled near the time of the visit.



In terms of planning for the future in arts and culture, a large proportion of theatre audiences are middle aged and older people who may be more concerned about safety and therefore more reluctant to return. To support recovery in this sector, there is a need for a co-ordinated marketing campaign, once venues have started to re-open, informing audiences about safety measures and encouraging them to return.



There are concerns about the future viability of some key air transport routes into the region, resulting from lower demand for air travel. For example, if Emirates pulled out of Newcastle Airport, there would be a significant impact on the regional economy and international visitor markets.



Weddings and corporate events are key markets for the North East hospitality sector and they have been impacted significantly by COVID-19. Businesses are ready and have safety measures in place, but the sector needs clear government messaging to encourage a return for the conference and wedding markets.



Brexit is expected to have an impact on all parts of the sector. For tourism and hospitality, this is likely to include a reduction in the number of European workers staying in local hotels while they are working in the region, and a reduction in families from Europe visiting students studying at the region's universities. In arts and culture, it is expected that venues will find it more challenging to attract artists and travelling companies from Europe. While these impacts are expected, there appears to be little activity in the sector in preparing for Brexit. This is because the final outcome in terms of a trade deal and future arrangements is still unknown, and most organisations are fully focused on short-term survival through the pandemic.

Current and future support

Collaboration and joint working to promote the North East's tourism offer to UK and international visitors is needed as part of a future recovery and growth plan for the region's tourism sector.

There is a need for a recruitment and training programme to match staff being made redundant, or freelancers looking for new opportunities, with new job vacancies in the sector to prevent the loss of skills and talent.

Winter will be a critical time for the sector, with no Christmas activities to attract visitors and spending, and an expected decline in interest in outdoor activities and venues as the weather worsens. Some short-term financial support may be required to support businesses in the sector to survive the winter months.

The furlough scheme should be extended for those sectors and businesses that are not yet able to re-open as a result of ongoing government restrictions e.g. performing arts venues. These were sustainable businesses pre-COVID-19, which will be successful in future if they are supported to survive through the pandemic.

There may be a need for financial support to maintain and secure cultural buildings if they have to be mothballed.

The tourism sector is now positioned much more strongly, both economically and politically, at local and national levels. The pandemic has highlighted the value and importance of the sector to the North East and UK economies, and there is optimism that this may translate into additional investment in future to support and grow the North East visitor economy.