

North East Covid-19

Economic Response Group

COVID-19 Intelligence

Food and Drink



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 economy - 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 will likely continue to have an impact as consumer and business behaviours change over both the short and longer term.

It is difficult to understand the impact of the COVID-19 pandemic on the North East economy as there is very little timely data 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 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 was presented to the North East LEP Board in May 2020 in order to demonstrate the latest position for the North East economy. This was then repeated in September 2020.

Drawing on official data, sector consultations, regional surveys, 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, as well as views and insights on projected impacts and opportunities over the longer term. The report will be updated on a regular cycle, to ensure that the latest available intelligence informs the LEP's economic response to the pandemic.

This report is a complementary summary report that focusses on the data and intelligence gathered on the food and drink sector 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 Food and Drink important to our economy?

The food and drink sector includes workers in food and drink manufacturing, agriculture and farming, hospitality, and retail. The food and drink supply chain is also closely linked to the tourism, transport and logistics sectors.

The North East food and drink manufacturing sector employs 15,250 people, and exported £240m of food and drink in 2018.

Food and Drink North East (FADNE) is a community interest company established to represent the sector in the region and champion the North East food and drink offer. Over 500 individuals are part of the FADNE community.

What has the impact on the Food and Drink sectors been so far?

- The impact of COVID-19 has varied greatly across different parts of the food and drink industry. Hospitality has been the most severely hit due to forced closures and its reliance on attracting customers back to aid recovery. For example, there has been a big impact on breweries and other businesses that cross over into catering and hospitality, particularly those that are volume driven and reliant on pubs and restaurants.
- Unlike many other sectors, the bigger organisations have often suffered more due to the collapse of supply chains and the need to shrink the business very quickly.



Greggs had to reduce its workforce of 25,000 to around 30 staff.

Meanwhile, less risk-averse medium and smaller businesses with less to lose **have been able to adapt quite quickly, finding new routes to market.**

- Food and drink manufacturing has largely returned to normal; in most cases with no noticeable impacts. Some were able to undertake contingency planning and adapt to being COVID-19 secure very quickly, so there has been little impact on the business.
- Some artisan operators, such as butchers and bakers, have experienced significant increases in demand as people have switched to hyper-local patterns of shopping.
- Significant investment has been required by food and drink businesses to make them COVID-19 safe, including PPE, social distancing arrangements, and track and trace facilities. This has left some of them unable to reopen, as it is not financially viable for them to do so.
- One FADNE member summarised the impact on the sector as businesses having to choose to “innovate, hibernate or liquidate”. Some have been able to adapt quickly, some have closed, and some are starting to re-emerge with different ways of operating.

Jobs, skills and training



FADNE surveyed the 500 businesses in its network to explore the impacts of COVID-19 and received 150 responses within 36 hours. Responses came from the region's largest businesses down to small, artisan producers. The data indicates there had been a **decline of around 89% in employment** in the sector. Further survey work is being undertaken to update the intelligence and assess how long-term the employment decline is likely to be. The main fear is the potential impact on jobs post-October when the Coronavirus Job Retention Scheme is planned to end.

- The consultations also suggest that some businesses have shrunk the number of staff, but have realised they can operate in a more streamlined way and may not need to grow job numbers again.
- For some small and artisan businesses the most significant problem was lack of skills rather than lack of demand or supply chain problems. For example, fishmongers, butchers and bakers require skilled staff that take time to train, making it difficult for them to respond quickly to sharp rises in demand.
- Longer-term plans are required to attract more people into the industry and to train them adequately in order to strengthen the workforce in the food and drink sector.

Resilience

- Those businesses that were quickest out of the blocks in adapting to the challenges have done well. For example, businesses that were built on supplying restaurants and hotels have successfully built alternative 'direct to consumer' routes. The impact of COVID-19 has forced them to think differently and created the impetus to change and create longer-term sustainability.



There are also some businesses that did not have the wherewithal to survive. **There are many small food and drink businesses that lack the necessary business skills and acumen, and work is needed across the sector to improve long-term sustainability and resilience.** As a result of COVID-19 these weaknesses became more evident and those businesses without contingency plans began to fail.

- The hospitality sector in particular operates on low margins and businesses are often close to the edge in terms of sustainability, which left them very exposed.

Opportunities and changes

- Convenience is always key for consumers and many will return to old shopping patterns focused on large supermarkets. Nevertheless, lockdown restrictions have generated a cultural shift and even if the impact of localised shopping falls in the longer-term, even an overall increase of 5% is significant to a small, independent business.

- The agenda around localism and strengthening local food and drink supply chains is really important, both post-Brexit and in response to COVID-19. It offers a real opportunity for the North East to recognise its significance as a food producing region and increase the sector's overall contribution to the local economy. The North East has many really strong regionally based businesses as well as large areas of rural land, which makes it ideally placed to grow its role and significance in the sector.

There are some key challenges in the UK that the food and drink sector has a role in addressing, including:



Strengthening local supply chains



Reducing food waste



Improving health and wellbeing



Tackling food poverty



Addressing climate change

There is a huge opportunity to shape and grow the sector in order to respond to these challenges in radical and innovative ways.

Pre-COVID-19 there was a big focus on building resilience in the sector in response to the threats posed by EU Exit and the reliance in the UK on food imports, as well as in response to issues with public health and food waste. These issues are more relevant than ever and continue to feature in future planning.

Current and future support

Eat Out to Help Out has been really successful for some businesses where they had the infrastructure to cope with the increase in demand it created. However, for some smaller businesses it has been a real problem as they lacked the staff, and sometimes the confidence, to meet the increased demand and make the scheme work.



Some businesses would benefit from rent rebates, for example restaurants that have had to significantly reduce covers to accommodate social distancing and are finding it difficult to remain financially sustainable.



Support is needed to address the skills gaps in the sector and to attract more people to work in the food and drink industry. In Europe the hospitality sector is considered to be a high-profile occupation and the perception towards the sector in the UK needs to change.



DIT only supports businesses that are trading at £500k or above and there is a gap in support for start-ups. Much of the start-up support currently available is very general, for example business planning and website development. A more tailored and relevant solution is needed for the sector.