Cities Outlook
2022

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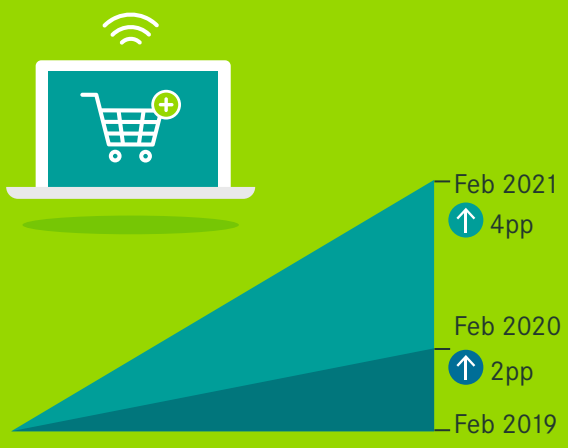
Is Covid-19 killing the high street?

1 Online shopping surged at first, but then stalled

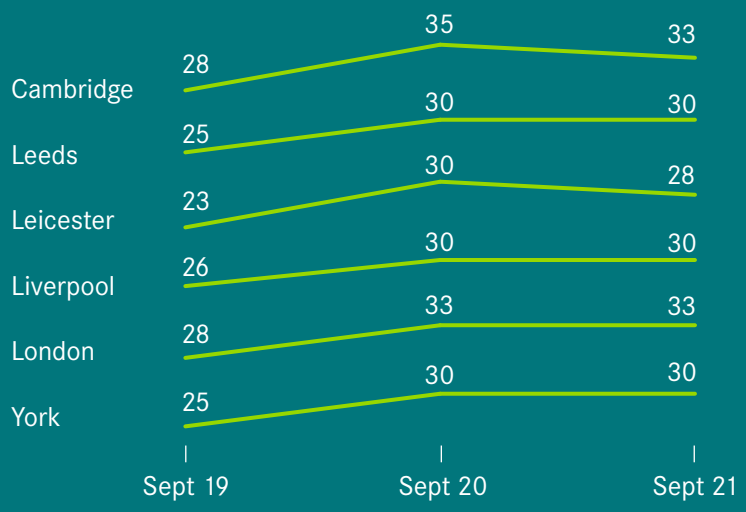
Yes, there has been an acceleration in the amount of online shopping during the pandemic.

Percentage point increase in spend online



However, in most cities, this shift to online stalled when shops opened again.

Percentage of total spend online (%)



2 Pubs and restaurants weren't the hardest hit. The biggest high street casualty was fashion

There's no question that pubs and restaurants have had a hard pandemic.

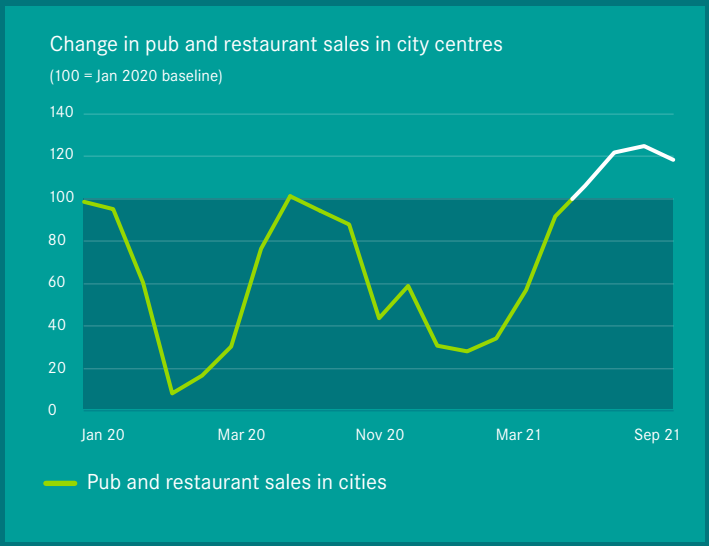
Food and drink: average

37 WEEKS

of lost sales in city centres

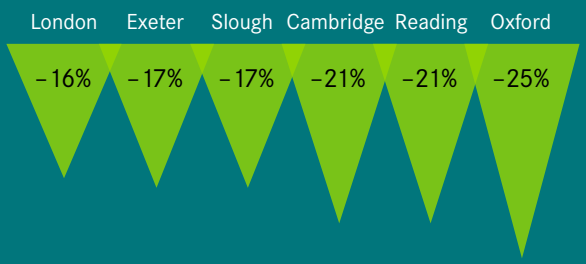
Worst hit cities (weeks of lost sales)

But sales bounced back to above pre-pandemic levels by Sept 2021.



The biggest high street casualty has not been hospitality, but **fashion**. There has been a significant shift to buying clothes online and, in most cities, fashion sales remain well below pre-pandemic levels.

In-store sales for fashion outlets, Sept 2019-Sept 2021:



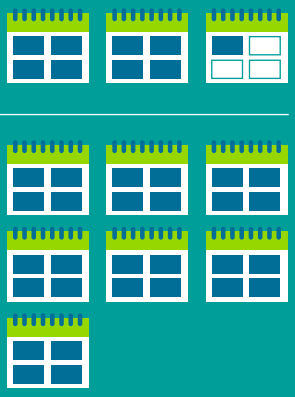
3 The suburbs are not experiencing a boost at the expense of city centres

Suburbs have not been hit as hard as city centres. As a result, the suburbs were cushioned from the worst effects of the pandemic.

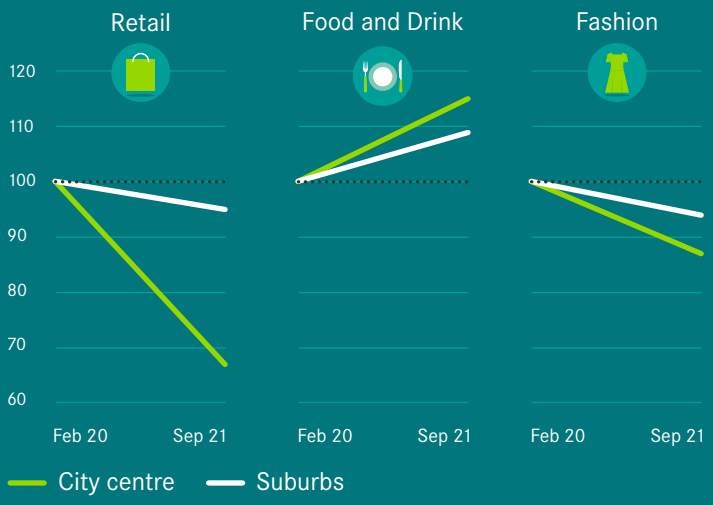
Weeks of lost sales since March 2020

suburbs **-9**

city centres **-28**



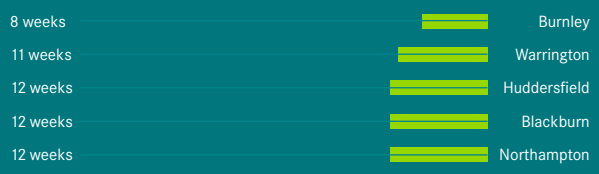
However, most suburbs are not experiencing a boost at the expense of city centres. The suburbs have an advantage in some categories (retail) but there are no real differences in others (food and drink, fashion).



4 High streets in weaker places struggled the least

City centres that entered the pandemic in the weakest position have had the smallest hit during the pandemic.

Lost weeks of sales (March 2020-Sept 2021)

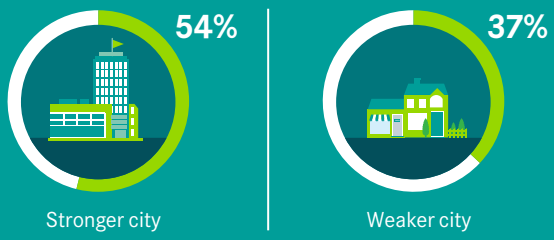


Affluent areas were the worst hit. London and Edinburgh lost nearly a year's worth of sales.

Lost weeks of sales (March 2020-Sept 2021)

Why? Stronger city centres have large catchment areas, and these shrank during the pandemic.

Sales coming from outside the city in 2019

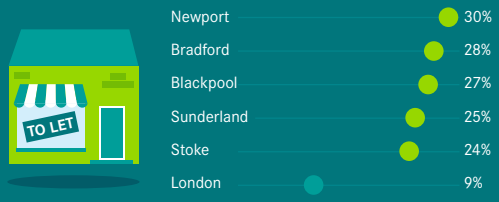


Stronger cities also rely on shopping from office workers; most offices were closed, and not all have reopened.

5 'Returning to normal' might not be possible or desirable

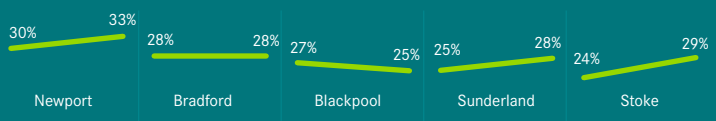
For weaker cities, 'normal' meant up to a third of empty shops on high streets.

Vacancy rates before Covid (March 2020)



Government support during the pandemic slowed down the long-term trend of high street decline in these areas. When pandemic support is gone, shop closures may accelerate again.

Vacancy rates in March 2020 and post-June 2021

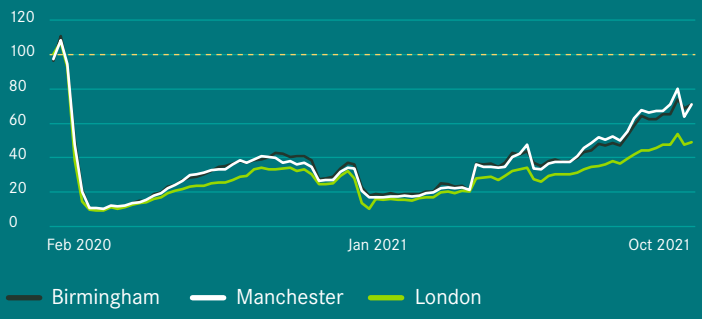


In stronger cities, 'normal' meant well-paid workers spending their disposable income in shops and restaurants.

However, there are many uncertainties. On the eve of Omicron, many workers in central London were still staying away. Even cities that recovered faster like Manchester, and Birmingham still had 30% less footfall compared to pre-pandemic levels. It's hard to predict whether these changes to working patterns will be permanent.

Weekday footfall

(Feb 2020 = 100 baseline)



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Cities Outlook

2022 – the year of levelling up?

The Government's domestic policy agenda has been much vaunted over the past two years, but it has yet to be defined. With the impending publication of the Levelling Up White Paper, this should finally be about to change.

The paper is anticipated to be more than 100 pages. If it is to address a challenge that successive governments have tried (and largely failed) to tackle for over 90 years, what will those pages need to contain?

Here are five questions to ask when assessing how effective levelling up is likely to be as a strategy:

1. Is there a clear mission statement?

Despite the endless hours of officials' time that went into the now defunct industrial strategy, both at a local and national level, it was incredibly easy for Boris Johnson to drop Theresa May's flagship domestic policy. It had no clear goal and its lack of focus meant it became all things to all people (becoming a discussion about inclusive growth rather than productivity growth).

Levelling up must be defined explicitly and coherently in the white paper. If this is not the case, expect it to go the same way as the industrial strategy when there is a change of administration.

2. Is it strategic?

A strategy involves choices, trade-offs and prioritising some things over others. This goes against political instinct, which is to promise something for everyone.

If levelling up is to be a success, its aims will have to be focused. From an economy perspective, this includes improving the underperformance of big cities, rather than spreading resources thinly across the country.

As Figure 1 shows, the underperformance of large cities accounts for a significant share of the overall underperformance in almost all lagging regions, despite the sizeable contributions these cities make to the regional economy.

In the North West, 77 per cent of the gap can be attributed to Liverpool and Manchester. In the West Midlands, Birmingham accounts for 83 per cent of lost potential. And in the North East, Newcastle is responsible for 92 per cent of the wider region's underperformance. Combined, the underperformance of these big cities cost the national economy at least £47 billion (2.3 per cent of output) a year.

Figure 1:

Large cities account for the majority of underperformance in most regions

The gap between current and potential productivity in lagging regions of Britain

Source: ONS; Centre for Cities' calculations
Note: There are no cities with a population above 550,000 in Wales.

While the goal of levelling up the economy should be to help every place achieve its productivity potential, these estimates highlight the current drag that large cities have on their wider regions. But it also shows the size of the prize for regional and national economies if policy can get these cities firing.

3. Is there a long-term plan?

Economic divides across the country are more than a century old and Government has been trying to do something about it since 1928. [1,2] This challenge cannot be solved before the next election, although clearly the

1 Swinney P and Thomas E (2015), Century of Cities: Urban economic change since 1911, London: Centre for Cities

2 The Industrial Transference Board paid people to move from less to more prosperous parts of the country. See https://hansard.parliament.uk/commons/1928-04-18/debates/7412d5fb-f46d-43ec-9bf3-e2212fddb3cd/IndustrialTransferenceBoard

Conservatives must have something to show the electorate when they return to the ballot box.

The UK has a long history of constantly changing policies and institutions, which does not help the development of policy.[3] Germany (often described by the Prime Minister as a model for levelling up) did the opposite during reunification – it saw the goal of bringing the west and east back together as a multi-decade project. The white paper needs to credibly set out something similar if the gaps between the North and South are to narrow.

4. Is it backed with funding, and what are the mechanisms for spending it?

While last October's spending review set out the spending envelope for the Government for the next three years, this only spans the first period of the levelling up plan. The white paper should outline the funding required for the whole plan.

How much should it be? As a yardstick, Germany spent €2 trillion on reunification. Headline-grabbing announcements – something the current Government excels at – will mean little if they are only backed by a £5 billion fund here and a £4 billion fund there. The amount of money committed to the project will show whether the Government is serious.

The mechanisms through which this money will be spent are also important. The Prime Minister has said the white paper will go further on devolution and, for this to be a success, there needs to be a reform of local government to encourage the capacity and institution-building needed to take on further powers. The little power local government does have is diluted by the multitude of authorities that carve up local economies, and this makes it ill equipped to address the challenges these places face.[4]

5. Are there clear metrics for measuring success?

In defining the mission statement, the Government should set out what it hopes to achieve. Without clear targets, policy can never fail. But it is also highly unlikely to succeed.

3 Industrial Strategy Council (2021), Devolution and Governance Structures in the UK: Lessons from Evidence, London: The Stationery Office

4 Jeffrey S and Swinney P (2020), Levelling up local government in England, London: Centre for Cities

Centre for Cities has defined these targets as:

Reducing the share of people who do not have five good GCSEs (or equivalent) to the national average of 17.8 per cent in every local authority exceeding it.

Increasing life expectancy to the national average of 79.3 years in every local authority where the average is below that.

Bringing all lagging places up to their productivity potential, with particular focus on raising the contribution of the UK's largest cities. This goal should have greater weight given the impact of increased productivity on standards of living.

The white paper should also state when the Government expects to achieve these targets or, more pragmatically, that levelling up will remain a national priority until they are met.

To hit these targets, policy must focus on the fundamentals rather than cosmetics

The Conservatives will need some cosmetic policies if they are to have anything to show at the next election; more money to improve the look of high streets, for example, should come as no surprise. But the economics mean that this cannot be done without dealing with the underlying issues.

The important question to ask in addressing the third target above is: 'Why do high-value businesses locate where they do?' It is the lack of these firms in certain parts of the country that drives the economic divide. Without policy to reduce the barriers that cause this, there will be no rise in wages, no increase in innovation and, as the next chapter highlights, no improvement in the fortunes of high streets. Policies announced in the white paper will need to show how they can solve this issue if they are to make places more prosperous.

There is no doubting the sincerity of the many governments that have tried to tackle the levelling up challenge. But aspiration does not always lead to meaningful change. Politicians are good at delivering the former; the white paper needs to provide the latter.

The high street is likely to form a significant part of a levelling up strand that the Government has termed 'pride of place'. Many high streets have been declining for years, even before Covid-19 hit. The next chapter explores the impact the pandemic has had on them and whether, in the time it has taken levelling up to be defined, it has delivered the final nail in their coffin.

02

Will Covid-19 kill the high street?

A storm has been brewing for many years on the high street. Household names such as Woolworths, Debenhams and Topshop have disappeared from town and city centres and more and more spending has shifted online. In many places, Government interventions appear to have done little to reverse retail closures or a perception of decline among the public. When Covid-19 hit, with successive lockdowns affecting shops, cafés and pubs, many commentators predicted the pandemic would knock the final nail in the coffin of the Great British High Street.

Concerns about high streets' futures are long-standing and unsurprising. They play an important symbolic role and their vibrancy is often seen as a proxy for local prosperity. Empty shops are regarded as an indicator of a place's broader economic and social struggles. Regenerating high streets and town centres is, therefore, a core priority for the Government's levelling up agenda and is expected to be an important part of the Levelling Up White Paper. [5]

This chapter uses data on credit and debit card spending and Government support to assess Covid-19's short-term impact on Britain's 62 largest town and city centres. It also looks at the likely long-term consequences and implications for the levelling up agenda.

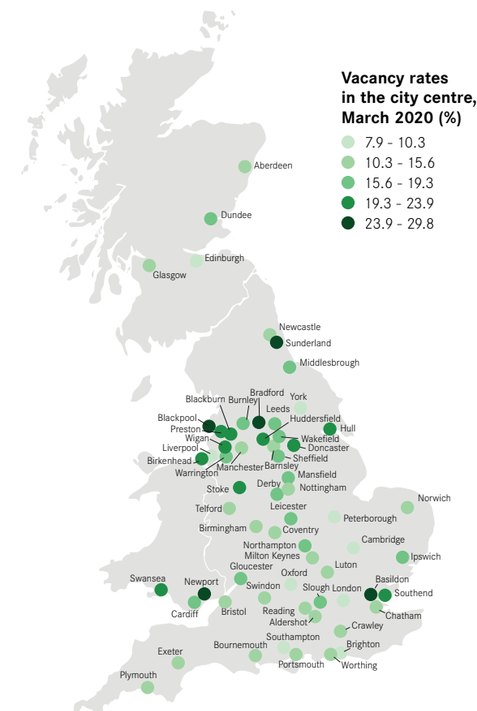
5 Carter A (2021), What does the public think about levelling up?, London: Centre for Cities

Not all high streets were struggling pre-pandemic

Despite several high-profile closures of long-established retail brands in recent years, and the increasing popularity of internet shopping, not all high streets struggled before Covid-19. In Cambridge, London and Edinburgh, just eight per cent of high street units were vacant – that's fewer than one in 10. As Figure 1 shows, many high streets in city and town centres in southern England had low vacancy rates.

But the high streets of some other cities and large towns were clearly experiencing difficulties. In Bradford, Blackpool and Newport, the vacancy rate was nearly 30 per cent of all units, meaning approaching one third of high street property was empty.

Figure 1:
Prior to the pandemic, not all high streets were suffering
Vacancy rates in the city centre pre-pandemic, March 2020



Source: Local Data Company

Box 1: Data used in this research

This research uses data from several sources.

Consumer spending data is provided by Beauclair and is based on anonymised offline and online debit and credit card data from Britain's 62 largest city and town centres (note: data for Belfast is not available). This does not cover cash spending, household bills and services or financial transfers, and is for UK residents only (international tourist spend is not included). Data on retail sales is based on the location of the transaction (and corresponds to the offline sales analysis in this report), while data on spending is based on urban resident spend (and is used for the online spending analysis).

The majority of vacancy rate data is provided by the Local Data Company across 62 city and town centres, most of which were surveyed in 2018, around March 2020 and between June and November 2021. For several of these, the data was updated with information from local authorities or Business Improvement Districts. Ten places not surveyed since June 2021 have been excluded from the analysis.[6]

6 Basildon, Birkenhead, Middlesbrough, Milton Keynes, Slough, Telford, Wakefield, Warrington, Wigan and Worthing.

Box 2: Methodology for defining cities

Centre for Cities' research focuses on the UK's 63 largest cities and towns, defined as primary urban areas (PUAs). Unless otherwise stated, Centre for Cities uses data for PUAs in its analysis – a measure of the built-up area of a large city or town, rather than individual local authority areas. You can find the full definitions and a methodological note at www.centreforcities.org/puas

A large part of the analysis in this chapter focuses on city and town centres. To define these, a circle was drawn around the centre of a PUA and the radius varied according to population size. The radii used were:

- 2 miles for London
- 0.8 miles for cities with populations between 600,000 and 2.5 million in 2011
- 0.5 miles for cities with populations under 600,000 in 2011

The performance of the high street reflected the wider economic strength of the city centre – it did not drive it

Vibrant high streets were the result of a strong city centre economy that attracted skilled workers and generated high wages that people could spend in shops, bars and restaurants. In a number of city and town centres, the presence of productive, skilled, high-paying 'exporting' jobs in sectors such as financial services and advertising underpinned the demand for hospitality and retail.[7] As a result, stronger city and town centres (top half of Figure 2) had some of the lowest shares of vacant high street units.[8] These were mainly large cities such as Bristol and Leeds, or smaller southern city centres like Milton Keynes and Oxford.

Conversely, in cities such as Blackpool or Hull, a lack of high-skilled jobs limited the demand for local businesses. People had less disposable income to spend in shops and restaurants, and more high street units stood empty. These places belong to the group of weaker city and town centres shown in Figure 2.

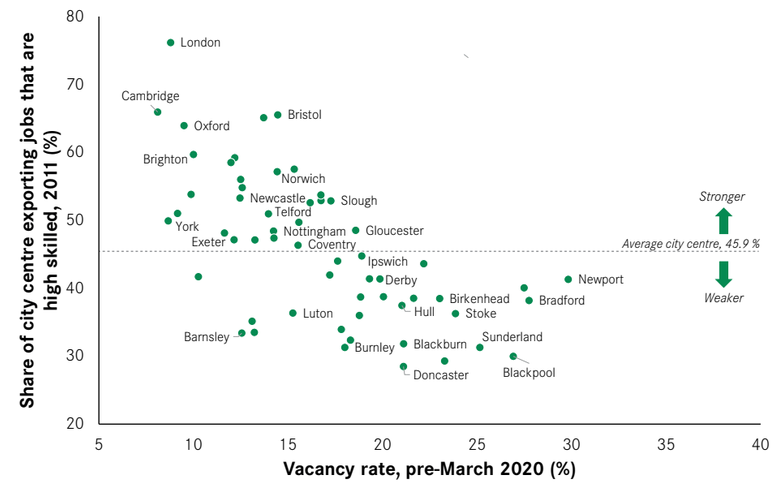
7 McDonald R and Swinney P (2019), City centres: past, present and future. Their evolving role in the national economy, London: Centre for Cities

8 The share of 'exporting' jobs that are high-skilled is used as an indication of the strength of city centre economies, developed in previous work by Centre for Cities. For more detail see: McDonald R and Swinney P (2019), City centres: Past, present and future, London: Centre for Cities

Figure 2:

City centres that are home to productive businesses had fewer vacant units

The relationship between the strength of city centres and vacancy rates, pre-March 2020



Source: ONS, Business Structure Database; 2011 Census; Local Data Company
Note: This chart only contains data for cities in England and Wales (data is unavailable for Scotland and Northern Ireland).
More information on how the strength of city centres is determined can be found in the Centre for Cities publication 'City Centres: past, present and future' (2019).

In economically weaker places, limited spending power meant people allocated more of their day-to-day budget to essentials such as groceries, so the range of amenities there was narrower.[9] In stronger cities and town centres, a more affluent customer base could sustain a broader range of amenities and a greater proportion of spending was on non-essentials like restaurants, bars or gyms (see Figure 3).

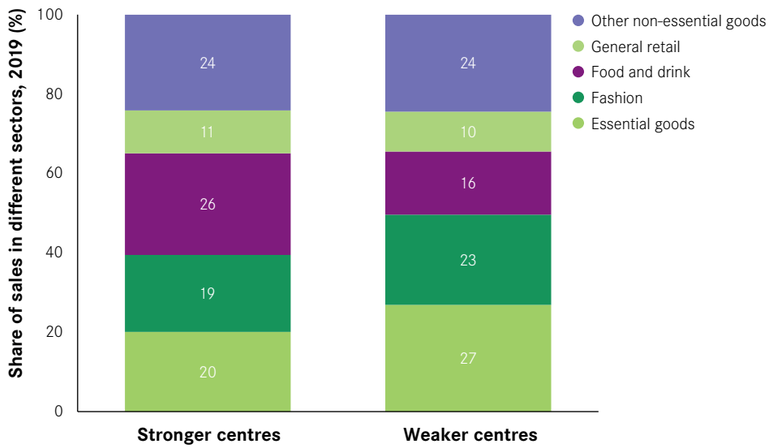
The second point is important. Much has been said about the need for high streets to reinvent themselves but Figure 3 shows that, in stronger city centres, this was already happening before the pandemic. While fewer people bought their fridge-freezers, clothes or TVs on the high street because of the rise of out-of-town and internet shopping, in places where high streets were thriving, businesses were already offering people different ways to spend their money.

9 McDonald R, Ramuni L and Tan L (2019), What's in store? How and why cities differ for consumers, London: Centre for Cities

Figure 3:

Pre-pandemic, stronger city centres were more reliant on food and drink while for less affluent places, essential goods made up a larger share of sales

Make up of sales in city centres pre-pandemic, 2019



Source: Beauclair
Note: 'Essential goods' include groceries and vehicles. 'Other' covers consumer services, entertainment, health and beauty, travel and accommodation. This chart only contains data for cities in England and Wales (data is unavailable for Scotland and Northern Ireland).

A reversal of fortunes: the strongest high streets pre-pandemic were hardest hit

On average, high streets in city and town centres in Great Britain lost 28 weeks of sales between March 2020 and September 2021. This broadly aligns with the number of weeks non-essential businesses were shut (Box 3).

But that statistic hides great variation between places as the actual impact on consumer spending was much bigger in economically stronger city and town centres. In the 81 weeks since the first lockdown in March 2020, the places that entered the pandemic in the strongest position have lost an average of 33 weeks of sales, compared with 22 in weaker city centres.[10]

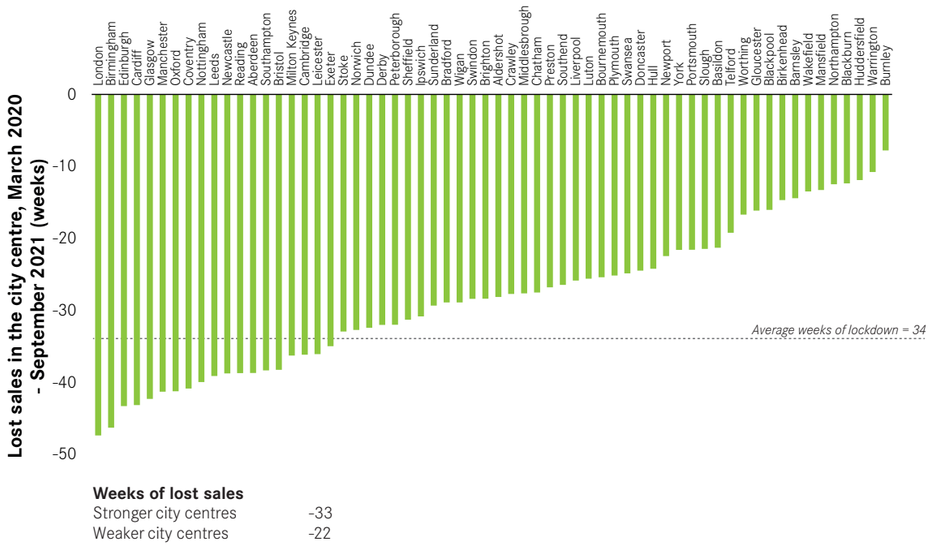
10 81 weeks refers to the period from mid-March 2020 to the end of September 2021.

Central London has been hardest hit. Between March 2020 and September 2021, it lost the equivalent of 47 weeks- almost a year's worth of sales.[11] It was followed by Birmingham and Edinburgh, which also lost more than 40 weeks of sales, around five times more than Burnley and Warrington.

Figure 4:

Stronger city centres lost more weeks of sales

Lost weeks of sales in the city centre, March 2020 to September 2021



Weeks of lost sales	
Stronger city centres	-33
Weaker city centres	-22

Source: Beauclair

11 This is calculated by comparing monthly spend with the 2019 baseline.

Box 3: Weeks lost to lockdown

Since the first lockdown in March 2020, non-essential high street businesses such as shops, restaurants and cafés have had to shut their doors to the public for a total of 34 weeks. This happened over three lockdowns in the spring of 2020, November 2020 and the first four months of 2021. Hospitality businesses were closed for longer (38 weeks) than other retailers (31 weeks) as these always reopened first.[12]

This national average hides geographic variations. For example, Leicester, Greater Manchester and places in West Yorkshire and Lancashire experienced an extra three weeks of lockdown in the summer of 2020.

Covid-19 turned pre-pandemic strengths into weaknesses

There are three related reasons why stronger city centres were hit hardest. All are linked to the fact that their pre-pandemic strengths became a weakness, as the factors that drove their success were constrained by public health restrictions.

1. Stronger city centres relied on a wider catchment area that shrank temporarily

Before Covid-19, stronger city centres attracted more workers, shoppers and tourists from outside their boundaries and, as shown in Figure 5, these people accounted for more than half of all sales. This compares with 35 per cent in weaker city centres.

12 These figures do not include restrictions introduced with tier 2 and tier 3, during which some of these businesses were allowed to open but not at full capacity.

Figure 5:

Stronger city centres pulled in greater spend from customers who live elsewhere

Share of sales coming from outside the city, 2019

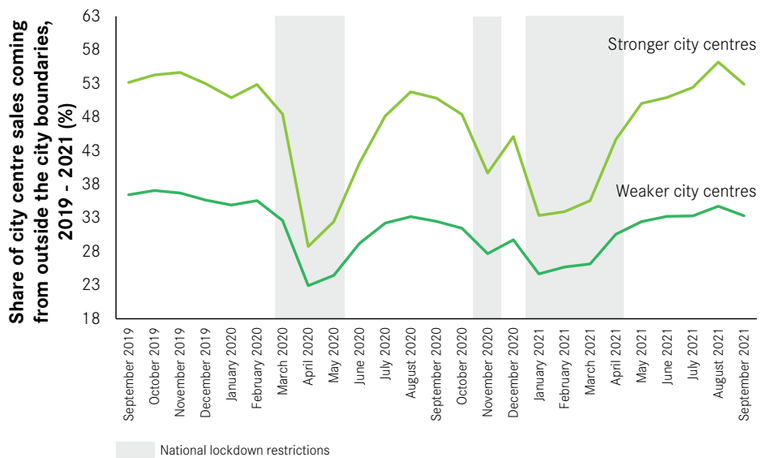
Source: Beauclair
Note: This chart only contains data for cities in England and Wales (data is unavailable for Scotland and Northern Ireland).

Successive lockdowns ended this daily influx of workers and visitors. The share of sales attributed to people coming in from other places dropped more in these stronger city centres than in weaker ones (Figure 6).

Figure 6:

During lockdowns, stronger city centres saw a larger drop in spending by people coming in from elsewhere than weaker city centres

Share of sales coming from outside the city boundaries, 2019 to 2021



Source: Beauclair
Note: This chart only contains data for cities in England and Wales (data is unavailable for Scotland and Northern Ireland).

2. A more affluent customer base meant more spending on non-essential items

Economically strong cities and towns usually had greater numbers of affluent people living close to their centres.

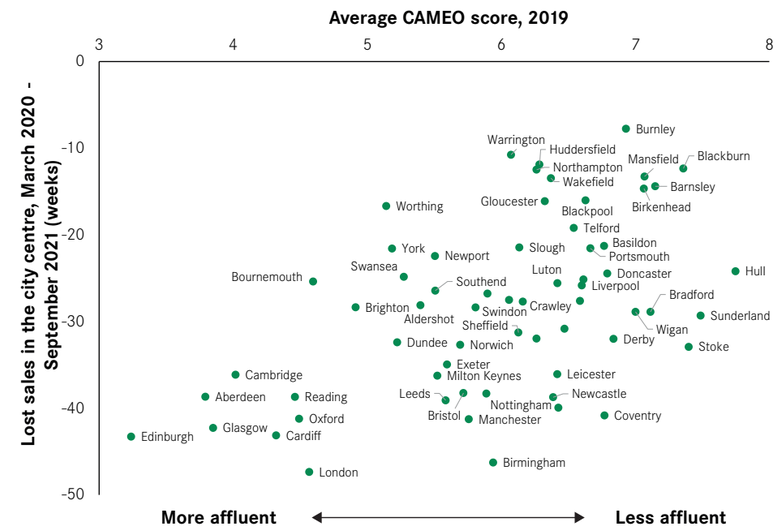
Pre-pandemic, this spurred consumer demand, particularly for non-essential items and services, which made up a higher share of spending (see Figure 3).[13] It meant, however, that the closure of non-essential retail and hospitality during lockdowns left stronger city centres more exposed than less affluent places (see Figure 7).

13 Magrini E and Sells T (2021), An uneven recovery? How Covid-debt and Covid-saving will shape post-pandemic cities, London: Centre for Cities

Figure 7:

The number of lost weeks of sales was higher in cities with a more affluent catchment area

Affluence of customers and lost weeks of sales in the city centre, 2021



Source: Beauclair; TransUnion.
Note: the higher the CAMEO score, the less affluent the people who are spending in an area.[14]

In less affluent places, essentials like groceries accounted for a higher share of people's spending, as seen in Figure 3. This partly explains why the impact of restrictions was not so apparent: there was less non-essential spending to cut back on and most essential shops remained open.

14 The CAMEO score was developed by TransUnion to segment people and households by postcode into groups reflecting affluence and spending habits. It assigns a value to 10 key marketing groups, from the most affluent (which is assigned a value of 1) to the least affluent (assigned a value of 10). The CAMEO score is calculated by multiplying the share of spending for each marketing group by that marketing group's value. The lowest possible CAMEO score is therefore 1, where all spending is carried out by people in the most affluent group, and the highest is 10, where all spending is carried out by people in the least affluent group.

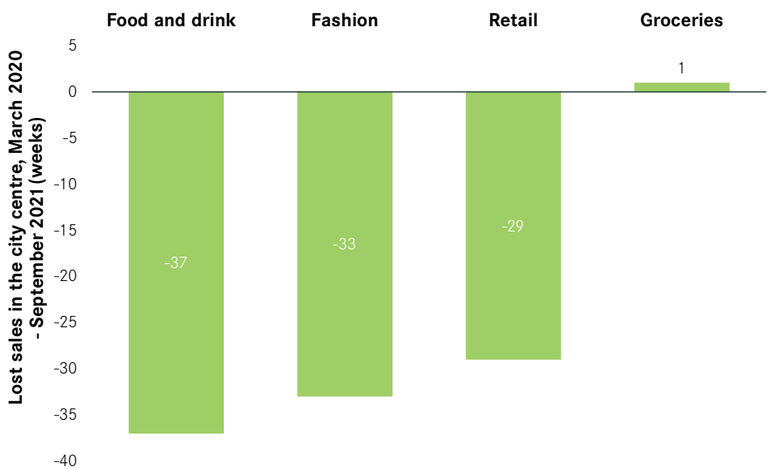
Box 4: The impact of restrictions on different sectors

Of all high street sectors, hospitality was the worst affected. It spent longer in full lockdown than retail and could not operate at maximum capacity for some time after reopening. Across all 62 city centres, it lost an average of 37 weeks of sales, compared with 29 for general retail (Figure 8). Pubs, restaurants and cafés in central London lost the most, about 52 weeks, compared with 11 in Burnley.

Figure 8:

Hospitality, which plays a larger role in stronger city centres, was the sector most affected by the pandemic

Lost weeks of sales in the city centre by sector, March 2020 to September 2021



Source: Beauclair

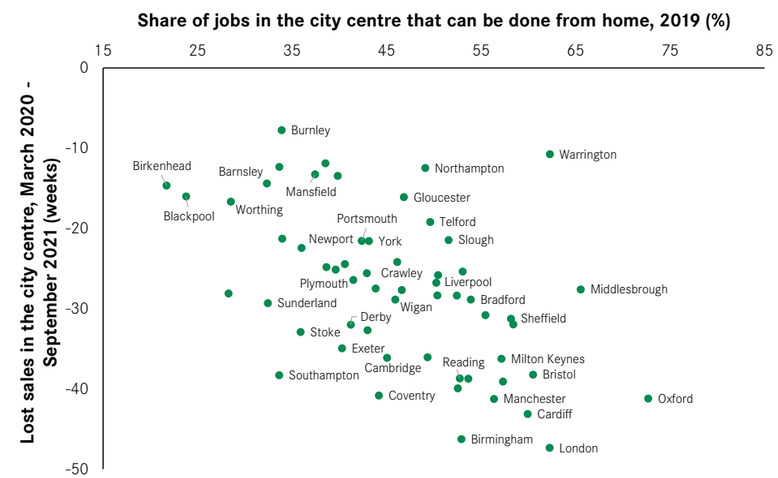
3. Office jobs were no longer tied to their city centre workplaces

In line with Government advice, many office-based employees shifted to home working and the city centre shops, pubs and restaurants that previously catered to them instantly lost their customer base.[15] In economically prosperous city centres, this had a clear impact. As shown in Figure 9, places with a greater number of jobs that could be done from home saw more lost sales.

Figure 9:

City centres with a higher share of jobs easily done from home have suffered more lost weeks of sales

Weeks of lost sales and share of jobs in the city centre that can be done from home



Source: ONS, Business Structure Database; Beauclair

15 Except for a brief period in the summer of 2020, the Government's guidance on remote working was in place from March 2020 to July 2021.

Covid-19 pushed vacancy rates up but did not trigger a large increase in empty shops

In the 52 city centres where recent data is available, there were 2,426 more empty units by November 2021 compared with March 2020 – a 3.3 percentage point increase.[16] From 2018 to before March 2020, vacancies rose by only 1.8 percentage points (1,374 in total).

Figure 10 shows that stronger city centres were particularly hard hit, as there is a correlation between lost weeks and higher vacancy rates. While the number of empty units in these centres rose by only 1.4 percentage points before the pandemic, the increase has almost doubled since March 2020. In London, which ranked first in terms of lost weeks of sales, rates went up four percentage points. In cities like Birmingham and Oxford, the impact on the high street was felt even more acutely with the number of empty units rising by six and eight percentage points respectively (Figure 11).

Figure 10:

In weaker city centres, the pandemic put the ongoing struggles of the high street on hold

Percentage point change in vacancy rates, 2018 to 2021

Source: Local Data Company
Note: This chart only contains data for cities in England and Wales (data unavailable for Scotland and Northern Ireland).

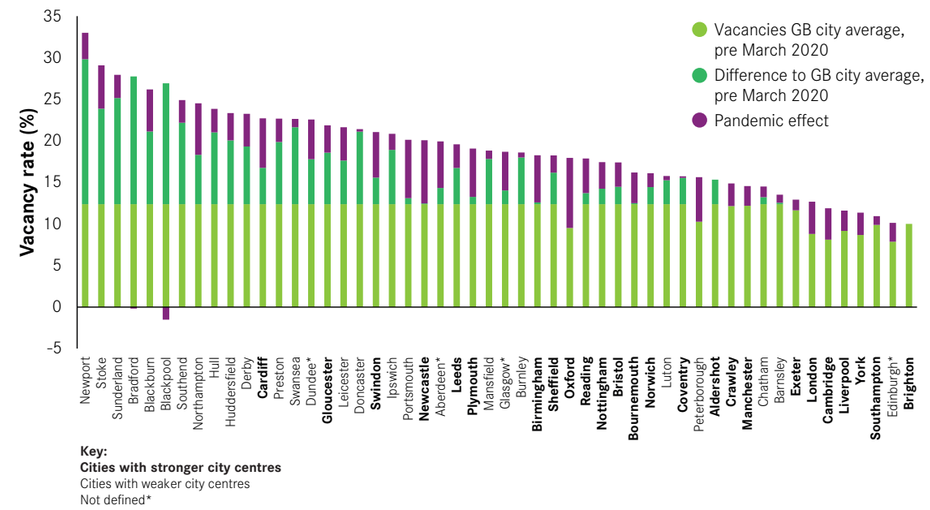
16 The vacancy data only includes cities that have been surveyed since June 2021. This is to ensure a fair comparison between places, including the impact of the economy reopening in April and May 2021.

In contrast, in weaker city centres Covid-19 seems to have halted the high street's ongoing struggles. While vacancy rates increased by 3.6 percentage points between 2018 and 2020, on average they have risen by a lower 2.5 percentage points since the start of the pandemic (Figure 10). For example, in Bradford rates went up by six percentage points between 2018 and early 2020, but have remained at the same level since then. In Swansea, they rose by five percentage points in the two-year pre-Covid period, and by just one percentage point since then (Figure 11).

Figure 11:

The high streets of stronger city centres were relatively harder hit by the pandemic but still have fewer vacancies than weaker city centres

Vacancy rates, post-June 2021



Source: Local Data Company

That said, while Covid-19 has narrowed the gap between places, it has not fundamentally altered the pattern of strong and weak performing high streets. Figure 10 shows that, overall, stronger city centres still have a lower share of empty units than weaker places. For example, Edinburgh and Cambridge were among the top five centres with the fewest vacancies in March 2020 and were still one of the lowest in November 2021 with a vacancy rate below 12 per cent. In contrast, city centres with above-average vacancy rates pre-Covid, such as Newport, Stoke and Sunderland, still have the highest rates at around 30 per cent.

Why lost sales haven't translated into much higher vacancies everywhere

Emergency Government support for businesses appears to have cushioned places from significant damage, in the way the Job Retention Scheme did for the employment market. High street firms were given two broad packages of support – tax cuts, most notably through a business rates holiday, and grants to cover other costs. Box 5 sets out these packages in more detail.

Strongly performing places such as London, Slough and Cambridge have benefited more in monetary terms from the Chancellor's rates holiday. This is because they have fewer properties exempt from tax and higher business rates bills as property is more expensive. However, in Burnley and Barnsley, for instance, around three in five high street firms did not pay business rates (properties below a certain threshold are exempt), so did not benefit during the pandemic. The business rates holiday brought parity between those places that have long benefited from the exemption and those that have not.

Meanwhile, the various grants made available to retail and hospitality businesses appear to have been of greater benefit to those in weaker places in the North and Midlands.[17] There was no clear difference in the size of grants awarded to stronger and weaker places (Figure 12). However, the substantially lower costs in weaker places (shown by rateable values, a proxy for market rents) means it will have stretched much further. And the smaller drop in lost sales equals a smaller shortfall, which doesn't seem to have been reflected in the grants awarded.

So, while business rates holidays evened up existing Government support between places, business grants indirectly mitigated rises to vacancy rates in weaker town and city centres during the crisis disproportionately.

17 The business grant analysis in this section refers to English cities only.

Figure 12:

Affected businesses in weaker city centres received relatively more grant support than those in stronger city centres

The relationship between the average grant per affected business and rateable values, 2021

Source: Valuation Office Agency; Department for Business, Energy & Industrial Strategy
Note: The data is for England only and for grants given to all businesses in cities rather than just those in their centres (data is not provided below local authority level). The rateable value is on a log scale.

Box 5: Business support for high streets during the pandemic

In cities and large towns in England, local authorities distributed £11.5 billion in grants to support businesses during the pandemic. These were:

- Small Business Grants
- Retail, Hospitality and Leisure Business Grants
- Local Authority Discretionary Grants
- Local Restrictions Support Grants (including for open and closed businesses, the Christmas Support Payment and the January 2021 Business Support Package)
- Restart Grants
- Additional Restrictions Grants

By June 2021, applications for all grants – except the Additional Restrictions Grant - had closed.[18]

Some were only made available to specific sectors or types of businesses, such as the Small Business Grants, while others covered a set period during the pandemic or were provided to local authorities under tier 3 restrictions.

The fact that all businesses did not qualify for all grants might explain why there are differences between places. For instance, under the Retail, Hospitality and Leisure Business Grants Fund, only firms with rateable values below £51,000 were eligible. Other grants were designed so that all eligible businesses with rateable values above a certain threshold received the same amount of funding, regardless of their operating costs.

Other support mechanisms included:

- Business loans
- A business rates relief that provided a 100 per cent discount from April 2020 to June 2021, and a 66 per cent discount from July 2021 to March 2022
- VAT cuts on hospitality services (reduced to five per cent between July 2020 and September 2021, and 12.5 per cent until April 2022)

The devolved administrations in Northern Ireland, Scotland and Wales received 'Barnett consequential' funding to establish similar business support schemes.

18 Further funding announced by the Chancellor in December 2021 as a response to the Omicron variant has not been included in this analysis.

What this all means for the future of the high street in large city and town centres

In the short term, Covid-19 has turned the performance of high streets in the centres of Britain's cities and large towns on its head. Economically stronger places were hardest hit by losing the most weeks of sales, while weaker places were less affected by lockdown restrictions. If the pandemic has triggered a long-term shift in behaviour, this impact could become permanent.

Much has been written about the inevitability of a permanent move to home working and the redirection of consumer spending to local centres in residential areas. However, so far, this hypothesis is not supported by data.

1. There has been a shift to online spending, but the impact on the high street is less clear

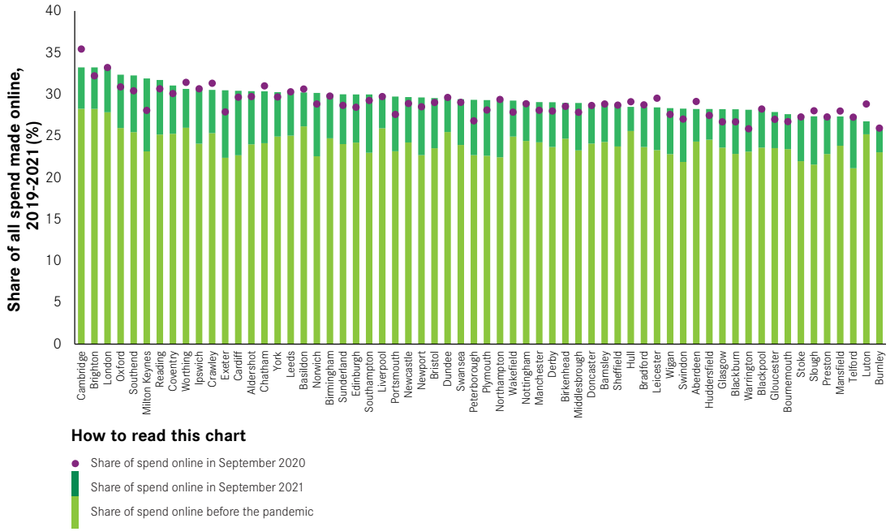
The pandemic accelerated this shift. From February 2020 to September 2021, the share of online spending increased by four percentage points (compared with two percentage points in the year before the pandemic). This upward trend happened in all 62 cities (Figure 13) and reached a peak during the January 2021 lockdown, when more than 40 per cent of all spending happened online.

When the economy reopened between April and July 2021, that figure went down again but stabilised at well above pre-pandemic levels (about 30 per cent of all spend). Although it might be too early to tell, this indicates a long-term shift rather than a short-term response to lockdown restrictions. By September 2021, six months after non-essential businesses reopened, online spending was still near the level seen in September 2020 (Figure 13).

Figure 13:

The pandemic led to more online shopping

Share of all spend online, 2019 to 2021



Source: Beauclair

However, evidence that this rise was a result of a move away from high street shopping is less clear cut.

By September 2021, spending in bricks and mortar stores had bounced back in most cities (52 out of 62), including those where internet shopping increased the most, such as Exeter and Cardiff.

Also, it is not obvious that online spending replaced shopping that would have otherwise been done in city and town centres:

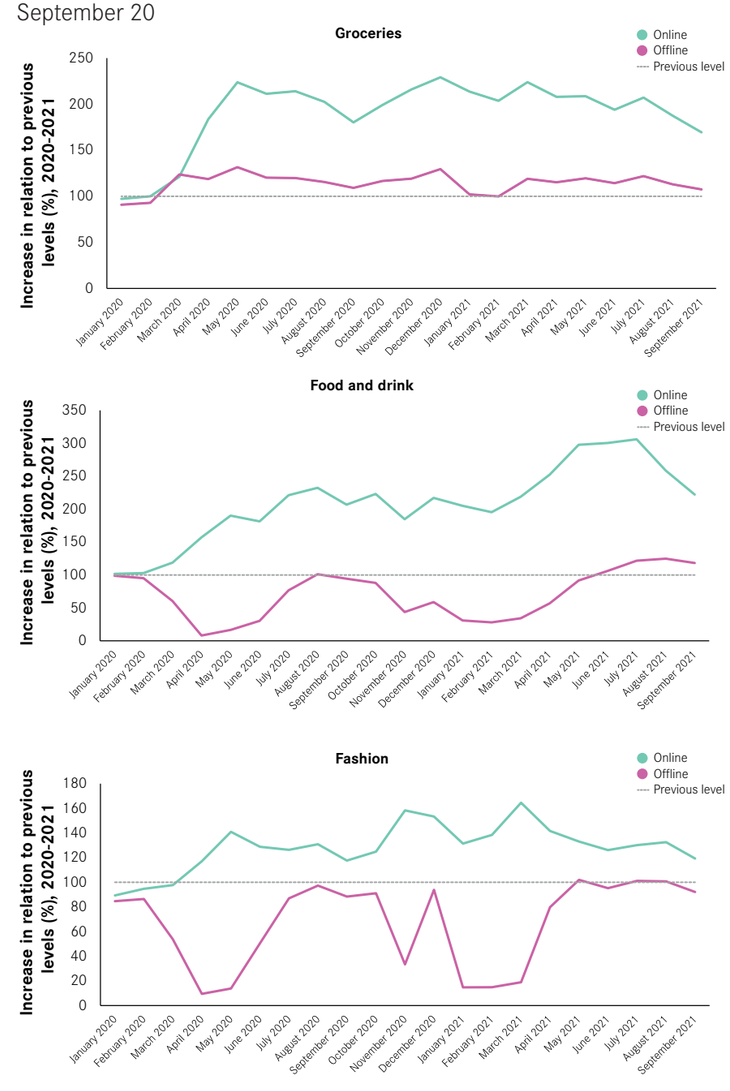
- During the period, the biggest shift was in groceries – online spending was between 200 and 250 per cent higher than the 2019 baseline (Figure 14)
- Despite a rise in the amount of food and drink bought on the internet when restrictions were introduced, offline spending in restaurants, pubs and cafés had bounced back well above the baseline by September 2021. Even in the fashion retail sector, which was heavily affected by the pandemic, bricks and mortar spending is, on average, close to full recovery. However, the overall figure disguises an important variation.

Offline spending on clothing is at or above the baseline level in just seven cities, meaning Covid-19 may have accelerated the demise of high street fashion retailers in some places, especially weaker ones where this sector takes up a higher share of spend (see Figure 3).

Figure 14:

Despite the shift online, most offline spending has returned to normal

Online and offline spending in different sectors, January 2020 to September 20



Source: Beauclair

Finally, the relationship between high street and online shopping is not straightforward. Figure 13 shows that Cambridge was the country's pre-pandemic internet shopping capital, with nearly one in every three pounds spent digitally. Meanwhile, Burnley had the lowest share. The affluence of a local economy is likely to be the determining factor in the performance of the high street, rather than the proportion of online shopping. More money available means more money to spend, wherever that may be. As shown earlier, this is determined by the strength of the local labour market, particularly the presence of high-skilled, high-paid jobs in the city centre.

2. Spending has not moved wholesale from city centres to suburbs

Many commentators have claimed that the city centre's loss is the suburban centre's gain, and more home workers spending time in their local area would lead to an increase in shopping on nearby high streets. This speculation is not supported by data.

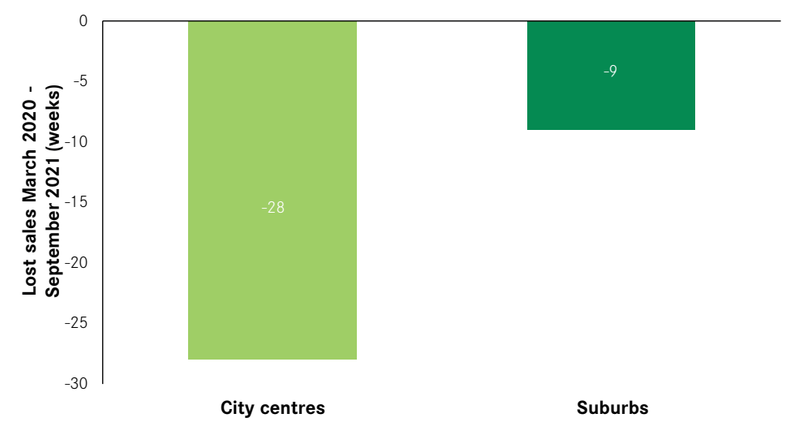
Figure 15 shows the impact of the pandemic was smaller in suburbs as they lost fewer weeks of sales. However, there is no evidence that this boost was at the expense of city centres.

There may have been a partial transfer of spending from city centres to suburbs (which explains why they lost fewer weeks of sales), but not enough for them to outperform their pre-pandemic position. In fashion and other retail, suburbs are doing better than city centres. However, both are in a weaker position than they were two years ago. Meanwhile, pubs and restaurants bounced back after restrictions were lifted in suburbs, but the rebound has been even stronger in city centres (Figure 16).

Figure 15:

During the pandemic, local centres were more sheltered than city centres

Average lost weeks of sales in city centres and suburbs, March 2020 to September 2021

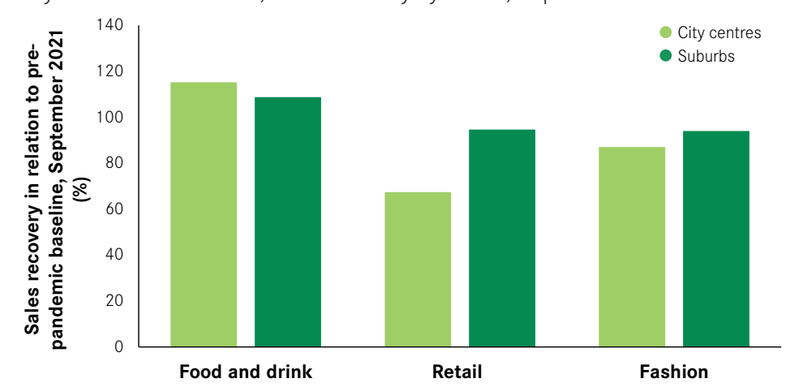


Source: Beauclair

Figure 16:

Local centres did not experience a boost at the expense of city centres

City centres and suburbs, sales recovery by sector, September 2021



Source: Beauclair

3. It is still not clear how often we will return to the office

The past 18 months have seen an unprecedented move towards remote and hybrid working, partly hollowing out the UK's largest city centres. Yet, despite some early predictions at the start of the pandemic, data from Centre for Cities' High Street Recovery Tracker shows more people did return to the office between August 2021 and the emergence of the Omicron variant.[19]

However, in all these places, weekday footfall was still below its pre-pandemic peaks at the onset of Omicron.

Workers in central London have been the most reluctant to return. And, while the recovery in other larger city centres such as Manchester, Cardiff and Birmingham has been stronger, employee footfall was still more than 30 per cent below pre-pandemic levels when advice to work from home was reinstated. This is likely to have an impact on spending; fewer workers means fewer customers in restaurants, pubs and shops.

It is not yet clear what will happen to future working patterns and what this means for city centres. That said, the reasons why city centres were attractive places for higher-skilled businesses and workers pre-Covid are likely to persist, and this is supported by the fact that people did return to offices once restrictions were lifted. However, it is something that can only be properly assessed once the hybrid model has been tested, and this is more likely to be in 2024 than 2022.

19 www.centreforcities.org/data/high-streets-recovery-tracker/

While the government's pandemic support schemes may have slowed the ongoing decline of weaker city and town centres, it has not solved their fundamental challenges

Despite the greater impact of Covid-19 on stronger centres, a familiar pattern remains for empty high street properties. As Figure 17 shows, even with fewer weeks of lost sales and little change in vacancy rates, weaker city centres like Stoke, Blackpool and Bradford still have many more empty properties than stronger centres such as Exeter, Edinburgh and Manchester. Their rebound has been back to a position of relative weakness.

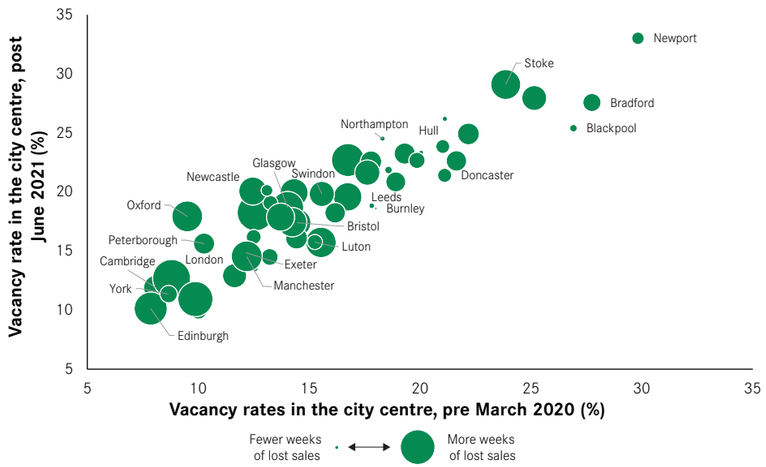
Government support, particularly grants made available to businesses, sheltered struggling places from the worst effects of the pandemic but it is likely to have slowed, rather than solved, the problem. The real impact of the pandemic on vacancies is yet to be seen.

The outlook for stronger city centres is somewhat brighter. To date, Covid-19 has had a significant impact but it is more likely to be a short-term (albeit large) shock rather than a long-term hardship as their broad catchment areas, greater affluence and large numbers of high-skilled jobs point to strong fundamentals. Whether the same shops, bars and cafés will be on their high streets in two years' time is unclear. But it is likely the demand will still be there.

Figure 17:

Stronger and weaker city centres face different challenges on their road to recovery

Pre/post-pandemic vacancy rates and the impact of Covid on sales, pre-March 2020 to post-June 2021



Sources: Beauclair; Local Data Company

Bubble size: Lost weeks of sales in the city centre between March 2020 and September 2021. The larger the bubble, the more weeks of lost sales.

What needs to change?

Policymakers should focus on two things – helping high street businesses to absorb the shock of the pandemic in the short to medium-term and, to enhance long-term economic growth, assisting city centres in adapting to change, particularly by supporting the important role they play as hubs of the high-wage economy.

In places with stronger city centres, the immediate challenge is to attract people back when it is safe to do so. But in weaker ones, the issue is more fundamental. They are not yet hubs for the type of high-wage local economy that sustains a thriving high street, so the priority must be to address the underlying economics behind the lack of demand for high street businesses.

Weathering the storm

All places should receive business support while Covid-19 cases are high and many people are avoiding travelling into the city centre. The recently announced one-off, top-up fund for struggling businesses is welcome news, but the Government should commit to providing sufficient financial support if remote working guidance is prolonged or tighter restrictions are introduced. This could be through additional grants or sector-specific furlough.

For stronger city centres in particular, initiatives to welcome people back could include leisure events. From a work perspective, greater flexibility may be needed around part-time season tickets for public transport to encourage people to return. This would require the Government to provide revenue support to local transport bodies to subsidise fares.

Although properties are not expected to remain empty for long, policymakers could help deal with units that have become vacant during the pandemic. Using existing data they could, for instance, better identify empty properties and allow alternative temporary uses. Local councils could play a ‘match-making’ role, connecting potential business occupiers with landlords.

Adapting to change

All cities and large towns should assess whether the changes made to their centres during the pandemic have had an overall positive impact and whether they should be made permanent. Experiments have included extra cycle lanes and more pavement space for cafés, bars and restaurants.

In their centres, they should seek to get an Article 4 exemption from permitted development that allows commercial property to be more easily converted for residential purposes. Greater flexibility over how space is used is a good thing, but in successful places in particular, office space can be squeezed in favour of residential, impacting the very thing that makes high streets vibrant. The Government should keep these exemptions under review, however, to stop local authorities using them to avoid change, rather than using them to make change more coordinated.

In weaker city centres, policy must focus on creating more attractive places where high-skilled, high-wage businesses can be based. This will lead to high-skilled, high-paid jobs and a market for hospitality and retail.

So far, interventions have mostly focused on improving the physical design of the high street and public realm. These are important from a symbolic perspective and should not be dismissed, but they do little to make city centres more attractive places for shopping and leisure.

This is because they do not address the fundamentals – a lack of footfall and consumer spending power. If revitalising high streets is a core part of the levelling up agenda, the upcoming Levelling Up White Paper needs to offer more than promises to inject 'pride of place' into areas. Unless it deals with these fundamentals, and in particular the vicious circle between low wages, low demand for local businesses and vacancy rates, its pledges will be short lived. Policy should also support and enable the move away from an over-reliance on retail, which leaves weaker city centres exposed to the ongoing struggles experienced by this sector.

This can be done by:

- **Investing in skills** to create a workforce that can attract high-value jobs, as access to the right people is an important factor when high-skilled businesses are deciding where to locate. Recent announcements made by the Chancellor are welcome, including investment in skills through the Lifetime Skills Guarantee or the Multiply programme. However, more spending is needed for further education colleges, especially in locations where the lack of basic skills is the greatest. The Government should also consider expanding the Opportunity Areas programme, which aims to improve school performance in some of the country's most disadvantaged places, beyond the 12 areas already designated.
- Creating a £5 billion **City Centre Productivity Fund** from the existing National Productivity Infrastructure Fund. Local authorities should put forward bids that include a multi-year plan and aim to integrate different measures into a single strategy rather than focusing on several independent interventions. This could include demolishing or converting dated commercial space, creating new offices or improving public transport.

03

City Monitor

Urban areas are home to the majority of the UK's people, jobs and businesses. They are where the national economy happens but there is considerable variation in the economic performance of the country's 63 largest cities and towns. Explore and compare the latest economic data on how places are doing against a wide range of indicators in our interactive tool.

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