



**Brexit and COVID-19
An Economic Assessment
for
Midlothian Council**

Report
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1 Introduction

Overview

1.1 ekosgen were commissioned by Midlothian Council in March 2022 to undertake an analysis of the economic impact of Brexit and the COVID-19 pandemic on the Midlothian economy. Both Brexit and COVID-19 have had a profound negative effect on the Scottish economy as a whole.

1.2 In early 2020 economic analysis had already identified that Brexit had impacted on the UK's economic performance. This was compounded by the COVID-19 pandemic, the recovery from which is not anticipated to be conventional. There is a consensus that the nature of the post-pandemic economic recovery has not been previously experienced, uneven economic performance and tight labour markets expected due to the pandemic's long-lasting impacts. Many commentators anticipate that these challenges will be exacerbated by the effects of Brexit.

1.3 It is therefore important to understand the nature of the impact on the Midlothian area, so that the Council, in conjunction with its strategic partners, can adequately prepare its response to the much-changed economic circumstances through a refreshed economic strategy.

Aims and objectives

1.4 This report sets out an analysis of the socio-economic characteristics and performance of Midlothian based on available evidence. It also presents an analysis of challenges, opportunities and strategic priorities to inform the next phase of Midlothian Council's strategic planning.

1.5 It draws on a range of available socio-economic data from a number of Scottish and UK sources, as well as a number of targeted consultations with key informants from Midlothian Council and strategic partners.

Report structure

1.6 The report is structured as follows:

- **Section 2** sets out an overview of the Midlothian economy;
- **Section 3** presents an economic outlook for Midlothian in the short term as well as providing a longer term outlook;
- **Section 4** discusses labour market impacts from Brexit and the COVID-19 pandemic;
- **Section 5** considers community impacts of Brexit and COVID-19;
- **Section 6** examines sectoral impacts and implications in Midlothian;
- **Section 7** analyses business impacts of both COVID-19 and Brexit;
- **Section 8** summarises the changing funding environment for investment in economic development projects in Midlothian;
- **Section 9** identifies the threats, challenges and opportunities facing Midlothian; and
- **Section 10** sets out key findings, conclusions and priorities for Midlothian Council to take forward in refreshing its economic strategy.

2 The Midlothian economy: an overview

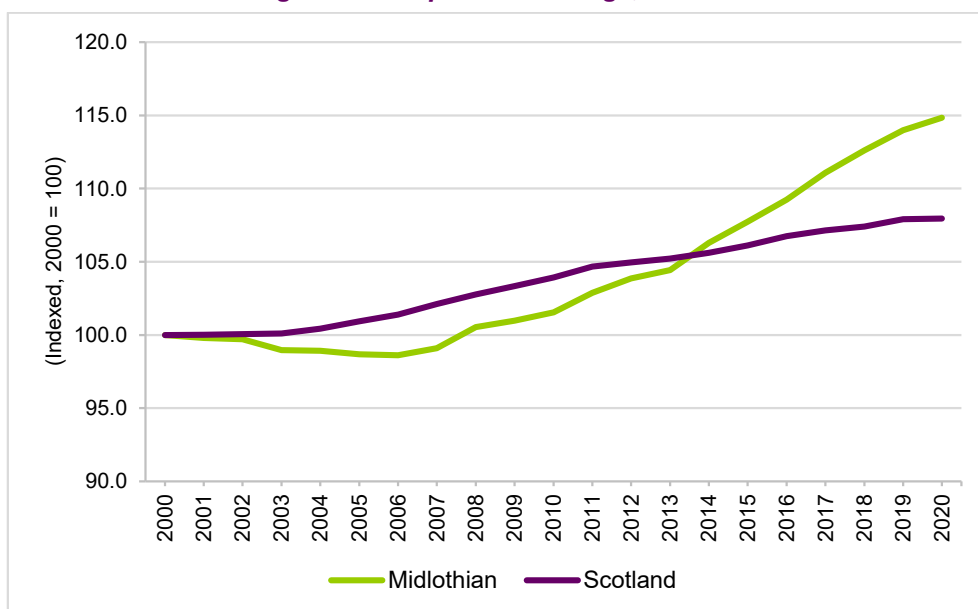
Introduction

2.1 This section gives an overview of the economic position of the Midlothian region, comparing it to Scotland as a whole. It presents recent trends on population structure and skills, economic activity, employment, and business base in the region.

Population structure

2.2 As of 2020, Midlothian has a population of 93,200, accounting for 1.7% of Scotland's total population. Midlothian's population has increased yearly since 2006, and since 2015, has risen by 5,800 people (6.6%). Midlothian's population has been growing at a faster pace than Scotland's since 2008. This growth rate has been driven by natural change (i.e. higher number of births than deaths), and net immigration into the area.

Figure 2.1: Population change, 2000-20

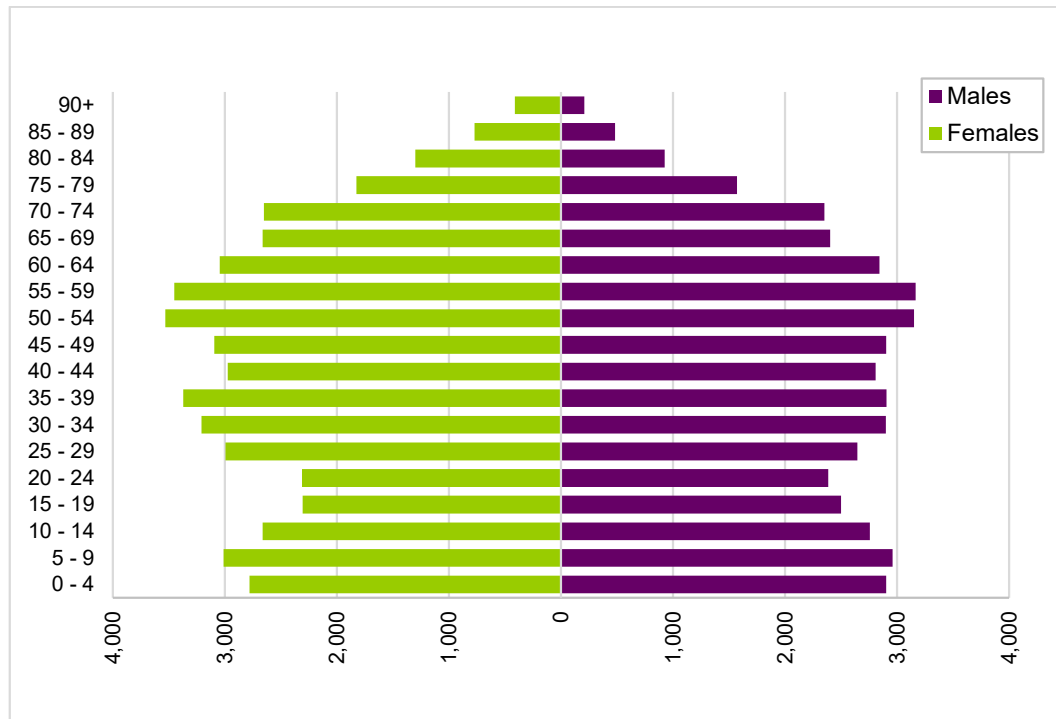


Source: NRS, 2022

2.3 Importantly, Midlothian's population is forecast to increase by 31% between 2018 and 2043 – compared to a growth of 2.5% across Scotland as a whole.¹

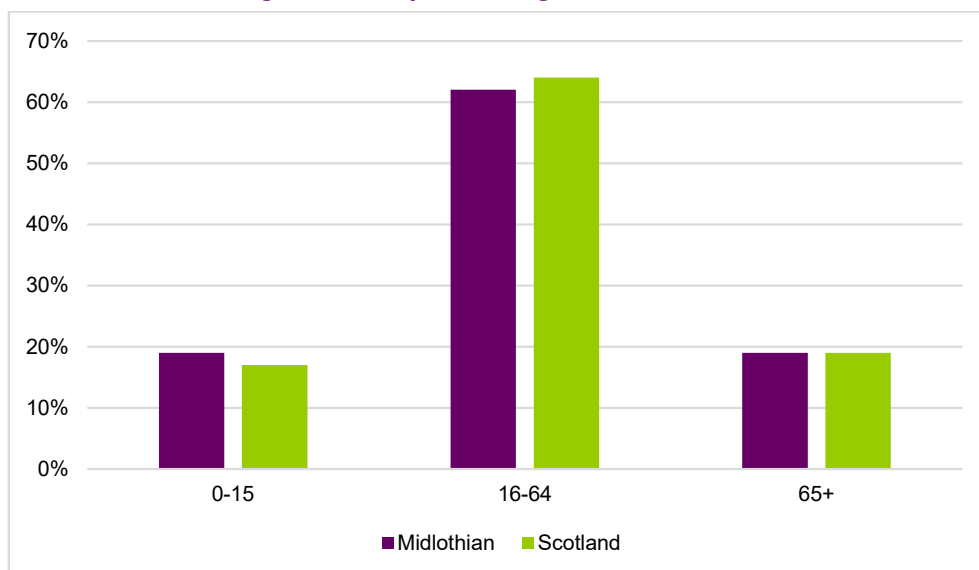
2.4 Figure 2.2 shows the population structure of Midlothian. As of 2020, there were approximately 48,400 female residents and 44,800 male residents, accounting for 52% and 48% of the total population respectively.

¹ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections>

Figure 2.2. Population structure of Midlothian, 2020

Source: ONS Population estimates

2.5 Midlothian has a somewhat younger population than nationally. Figure 2.3 shows that the average number of residents in Midlothian ages 0-15 is higher than the national rate (19% v 17%). More than half (62%) of Midlothian's population is of working age (16-64), which is slightly lower than the national average (64%). Similar to national trends, those aged 65+ in the area account for 19% of the total population. Consequently, Midlothian has a higher dependency ratio² than Scotland as a whole – though in contrast to the national picture, those aged 0-15 constitute the larger share of the dependent population.

Figure 2.3. Population age structure, 2020

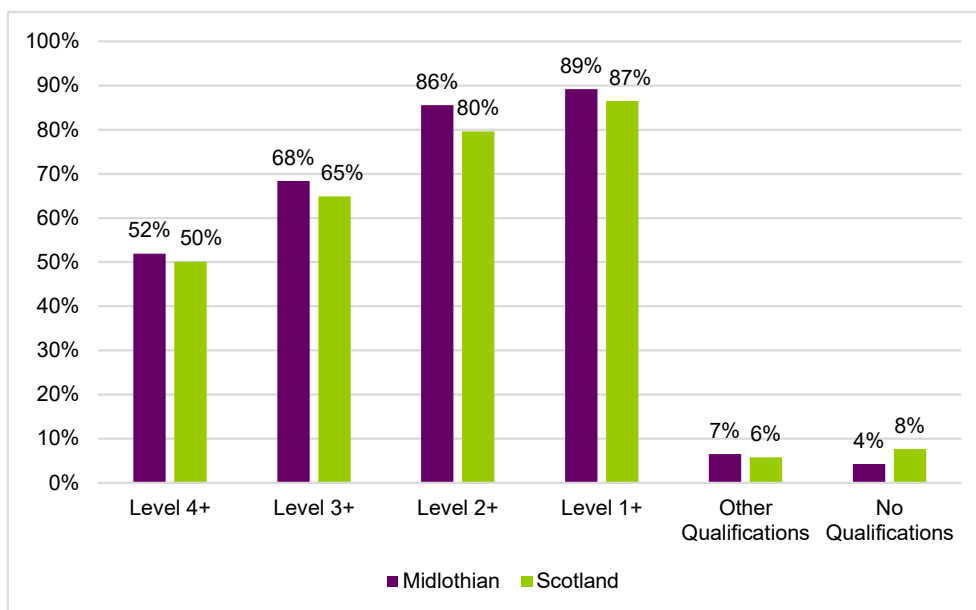
Source: ONS Population estimates

² The ratio of non-working age population versus those of working age

Population skills

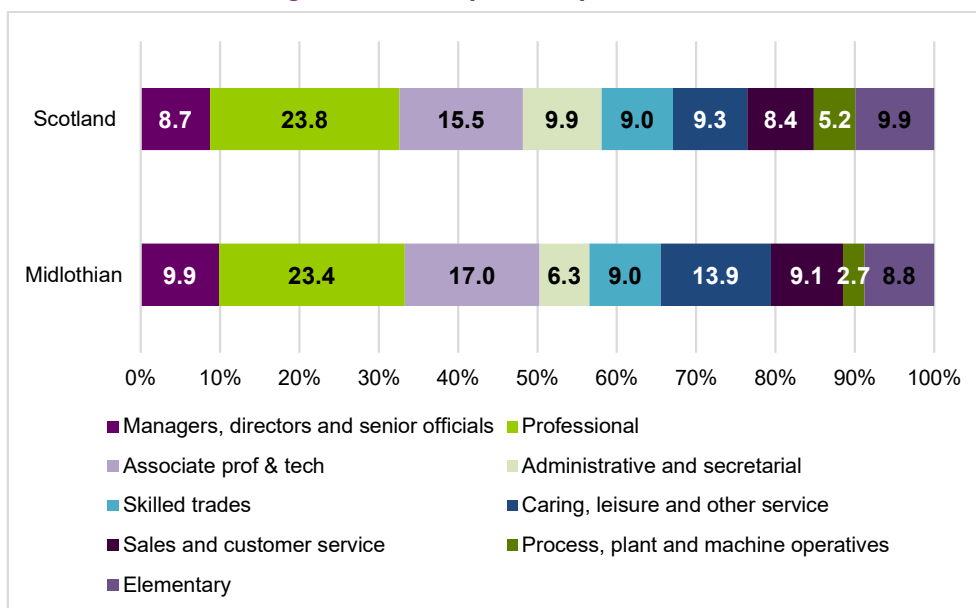
2.6 The Midlothian population is highly skilled. As of 2021, 52% of the working age population were skilled to Level 4 and above, which is higher than the national (50%) average (Figure 2.4). In addition, a much lower share than nationally holds no formal qualifications, with just 4% of working age residents without qualifications compared to 8% across Scotland.

Figure 2.4 Skills Levels of Working Age Population, 2021



Source: ONS annual population survey

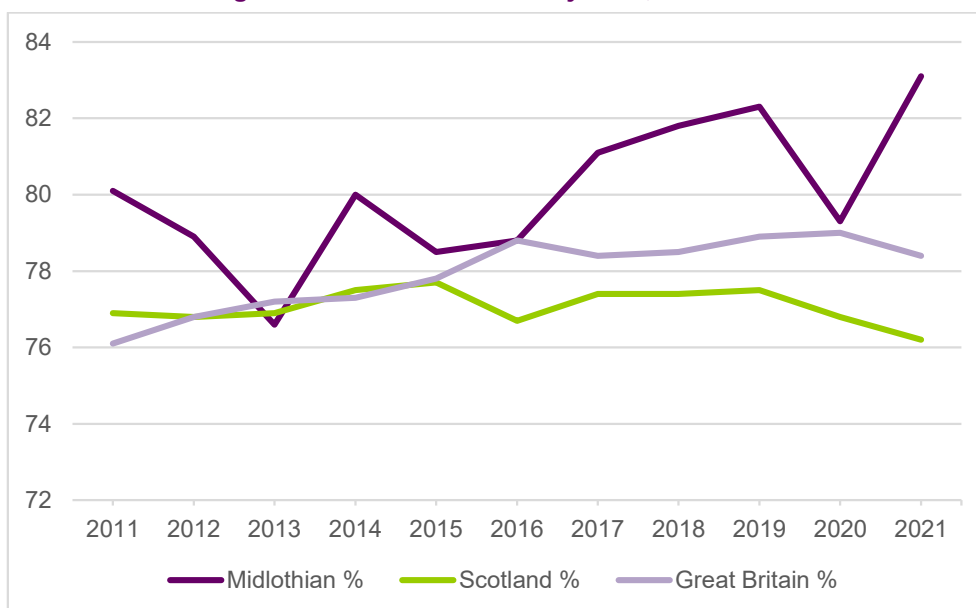
2.7 A relatively large share of Midlothian's residents are working in skilled, high-value occupations. In the year ending December 2021, *Managers, directors and senior officials*, *Professional occupations*, and *Associate professional and technical occupations* accounted for more than half of Midlothian's workforce (50.3%). Professional occupations (23.4%) was the most highly represented occupational group amongst the working population in Midlothian, a slightly smaller share than nationally (23.8%). *Associate professional and technical occupations* were the second largest occupational group, accounting for 17% of working residents compared to 15.5% nationally. Whilst fewer workers in Midlothian work in *Administrative and secretarial*, *Process, plant and machine operative*, or *Elementary* occupations than for Scotland as a whole, a significantly higher proportion work in *Caring, leisure and other service occupations* than nationally.

Figure 2.5. Occupational profile, 2021

Source: ONS annual population survey

Economic activity

2.8 The Midlothian local authority area has typically presented a higher proportion of the population than the Scottish and British averages that are “economically active” for the years 2011 to 2021, with the exception of 2013 when Midlothian reported 76.6% of the working age population as economically active compared to a Scottish average of 76.9% and a British average of 77.2%. For the year January to December 2021, Midlothian has peaked over the ten-year period, reporting that 83.1% of the population were economically active, compared to a Scottish average of 76.2% and a British average of 78.4%. Figure 2.6 below details the economic activity rate for Midlothian, Scotland and Great Britain over the period 2011 to 2021, with the years presented from January to December.

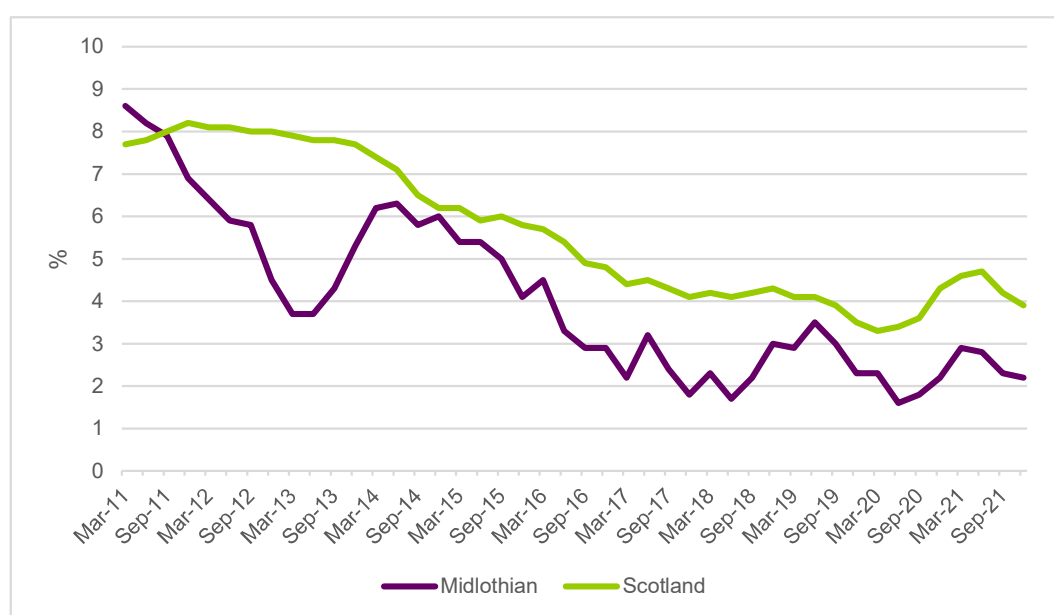
Figure 2.6. Economic Activity Rate, 2011-2021

Source: Annual Population Survey, 2022

2.9 In the five years prior to the COVID-19 pandemic, Midlothian has been characterised by low unemployment, typically falling below the Scotland average, as Figure 2.6 shows. In September 2021 unemployment in Midlothian was also lower than in Edinburgh and South East City Deal Region, 2.3% and 3.6% respectively.³ Midlothian therefore has higher employment rates of not only Scotland as a whole, but also surrounding areas.

2.10 In the year ending December 2021, unemployment remained below the national level at 2.2% compared to 4.0%. Despite the low unemployment levels, a clear spike in unemployment cases occurred during the height of the pandemic, rising from 1.6% (July 2019-June 2020), to 2.8% (July 2020-June 2021). However, as Figure 2.7 shows, the unemployment rate decreased to previous levels as the economy gradually reopened.

Figure 2.7: Unemployment Rate, 2011-2021

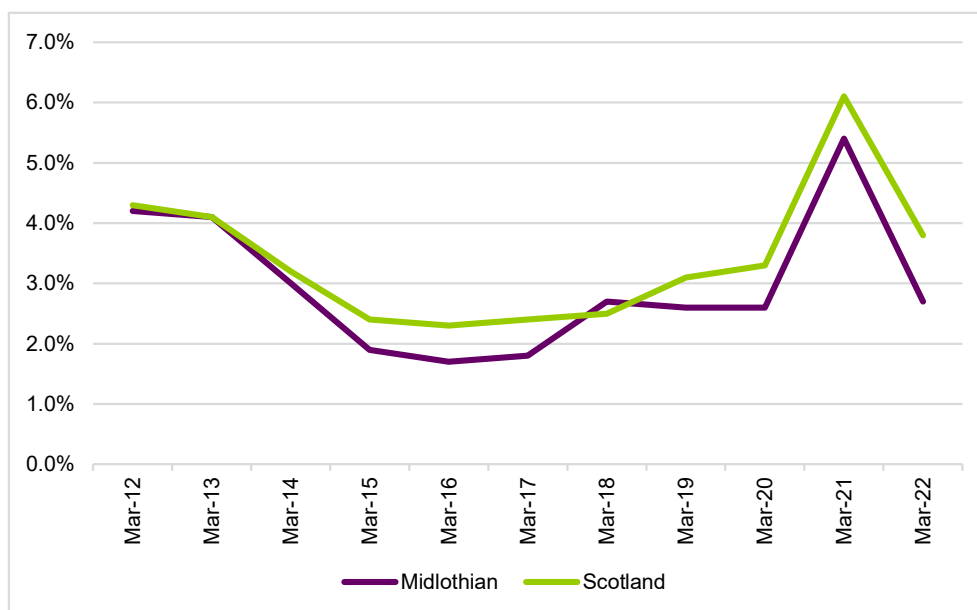


Source: ONS Annual Population Survey, 2022

2.11 The Claimant Count, which captures people claiming Job Seekers Allowance (JSA) and those who are claiming the unemployment related elements of Universal Credit (UC), provides a more up to date picture of unemployment. Except for March 2018, over the past ten years the proportion of claimants in the working age population has been consistently below the national levels (Figure 2.8).

2.12 In March 2022 there were 1,570 claimants in Midlothian accounting for 2.7% of the working age population, nearly half of the 3,090 (5.4% of the working age population) claimants from the previous year. This indicates the level of influence and financial pressures created because of the COVID-19 pandemic during its peak, and the reliance on extended finances from local and national governments, although it still falls below the Scotland (6.4%) levels.

³ Regional Skills Assessment 2022. Available at <https://www.skillsdevelopmentscotland.co.uk/media/49092/ras-city-region-report-edinburgh-and-south-east-city-deal.pdf>

Figure 2.8. Claimants as % of the working age population, 2012-2022

Source: ONS Claimant Count, 2022

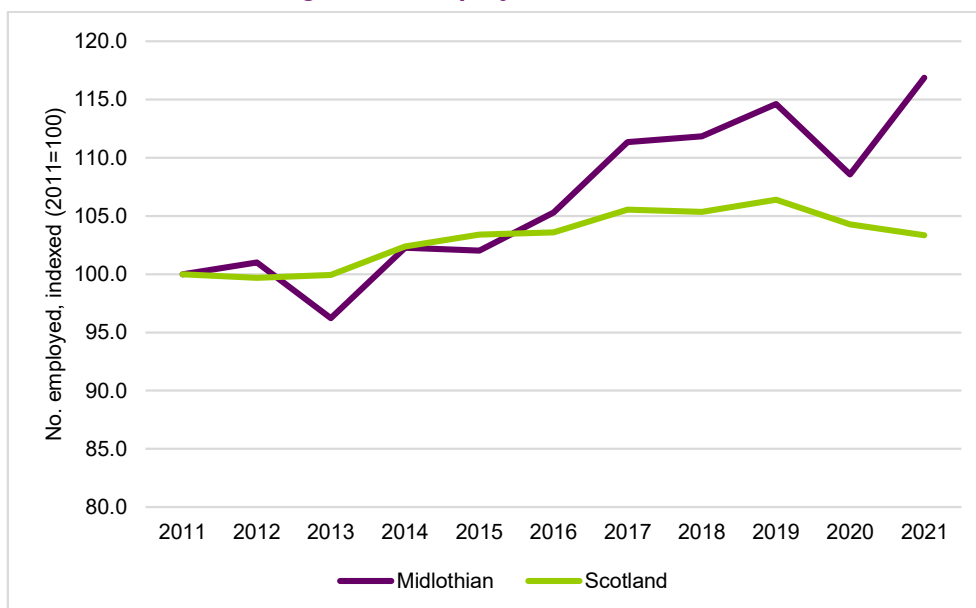
2.13 It should be noted that there has been a significant increase in the number of in-work recipients of Universal Credit across Scotland. The proportion of in-work recipients of Universal Credit in Scotland has risen from 30.4% in May 2015 to 38.4% in May 2022. In Midlothian, a similar pattern has emerged. In May 2015, the proportion of in-work recipients in Midlothian of Universal Credit was 31.3%, In May 2022, this had increased to 40.9%.

2.14 7,711 people were in receipt of Universal Credit in Midlothian in May 2022. Of these, 3,152 (40.9%) recipients were in employment. This compares to the national figure of 171,821 of 447,696 (38.4%) of Universal Credit recipients that are in employment.

Employment

2.15 In 2021, 46,400 people worked in Midlothian, accounting for 2% of total employment in Scotland.

2.16 Since 2011 an additional 6,700 jobs have been created in Midlothian, an uplift of 16.9%, and a faster rate of growth than seen nationally (3.4%). As shown in Figure 2.9, the national trend of employment growth is steady, whereas Midlothian's is slightly inconsistent, but the overall growth spanning this period is clear.

Figure 2.9. Employment, 2011-2021

Source: ONS Annual Population Survey, 2022

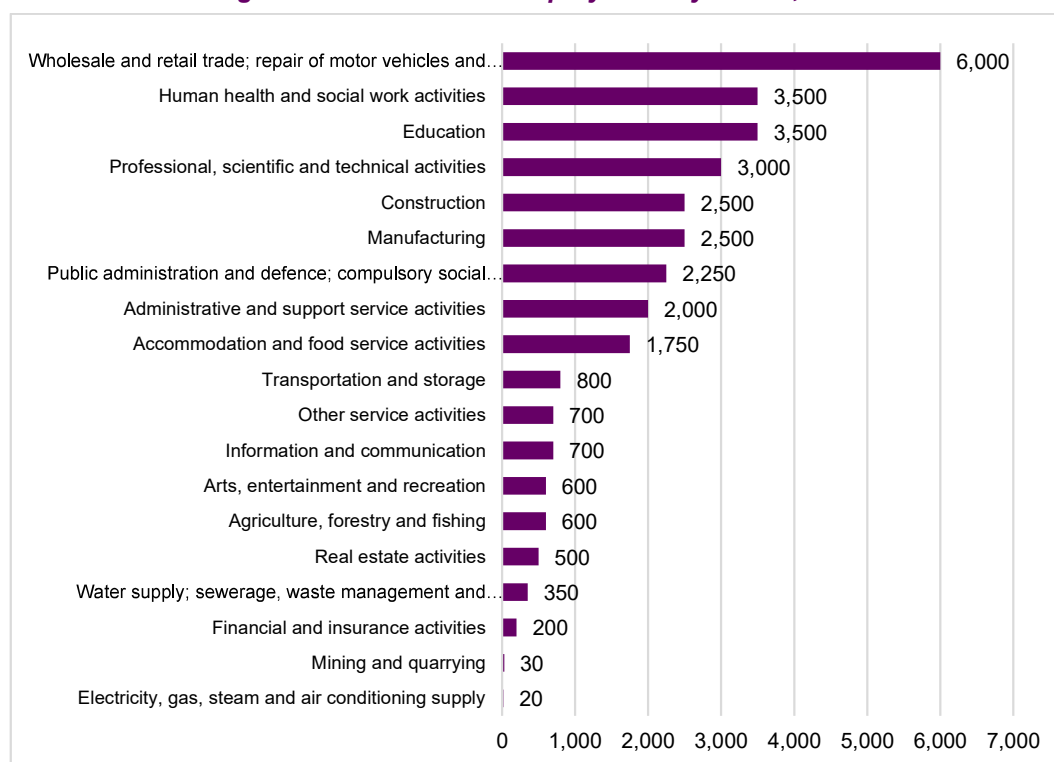
2.17 Of the 30,000 employees in Midlothian (figure excludes self-employed, government-supported trainees and HM Forces), 20,000 (67%) are full-time employees, with 10,000 (33%) working part-time. These trends are identical to those nationally, with 67% of total employees working full time and 33% working part-time.

2.18 In Quarter 1 of 2020, there were 4,900 people in Midlothian that were classified as self-employed, accounting for 1.5% of the total of self-employed people in Scotland. This is the second lowest proportion Midlothian had in Quarters 1 from 2011 to 2020, but is a marked improvement from 2018 when Midlothian had 4,100 (a 1.3% national share of) self-employed people. Self-employment in Midlothian peaked at 6,200 (a 2.0% national share) people in 2015.

2.19 Employment in Midlothian is concentrated in wholesale and retail trade; human health and social work; and education which together account for 43.4% of employment in Midlothian, compared to 38.9% in Scotland. Midlothian has a relatively large administrative and support service activities, which has nearly tripled in the past 5 years, accounting for 2.6% of Midlothian's total employment in the sector in 2015, rising to 6.3% in 2020. The professional, scientific and technical activities sector is also highly represented in the area, accounting for 10% of employment, and has remained a consistently high employer.

2.20 Midlothian and Edinburgh and South East City Deal Region have similar shares of employment in Education and in Human health activities. Midlothian, however, has a much higher share of population employed in Wholesale and retail trade compared to Edinburgh and South East City Deal Region: 18.8% in Midlothian in 2020, 2.3% in Edinburgh and South East City Deal Region in 2021.⁴ For reference, 13.7% of the Scottish workforce was employed in Wholesale and retail trade in 2020.

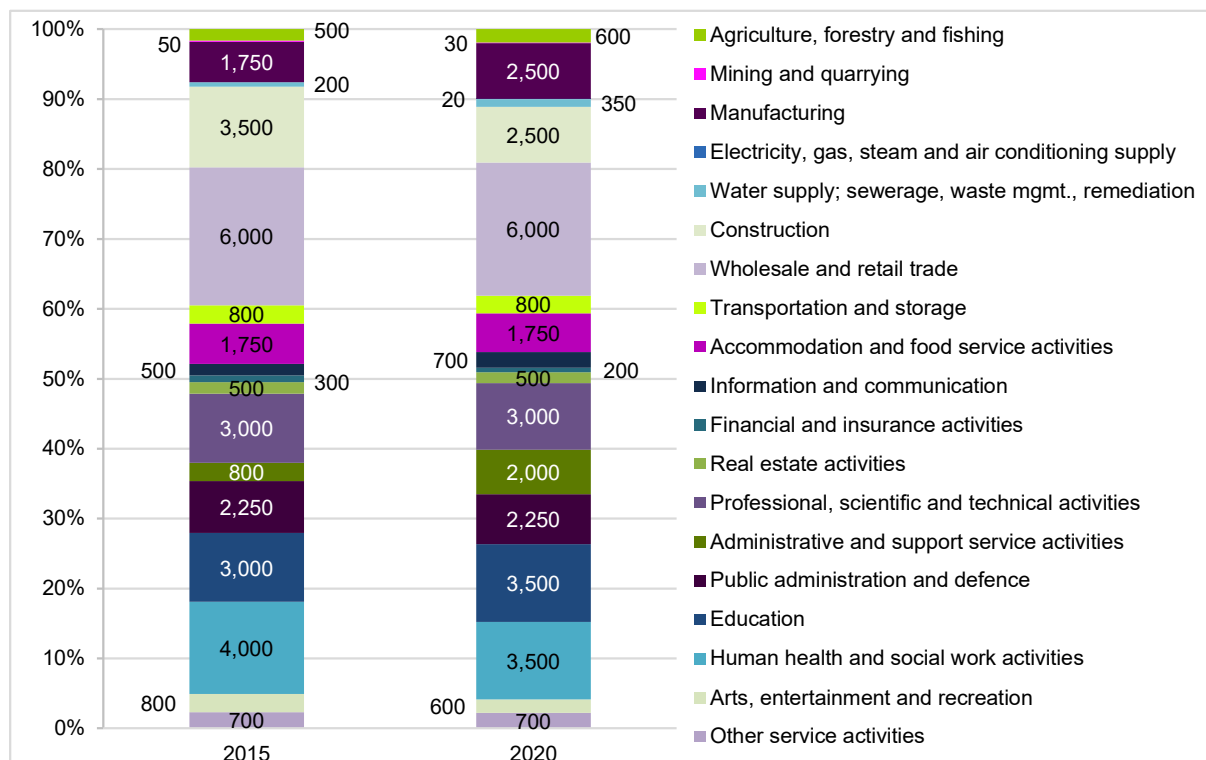
⁴ Ibid.

Figure 2.10. Midlothian employment by sector, 2020

Source: ONS Business Register and Employment Survey, 2022

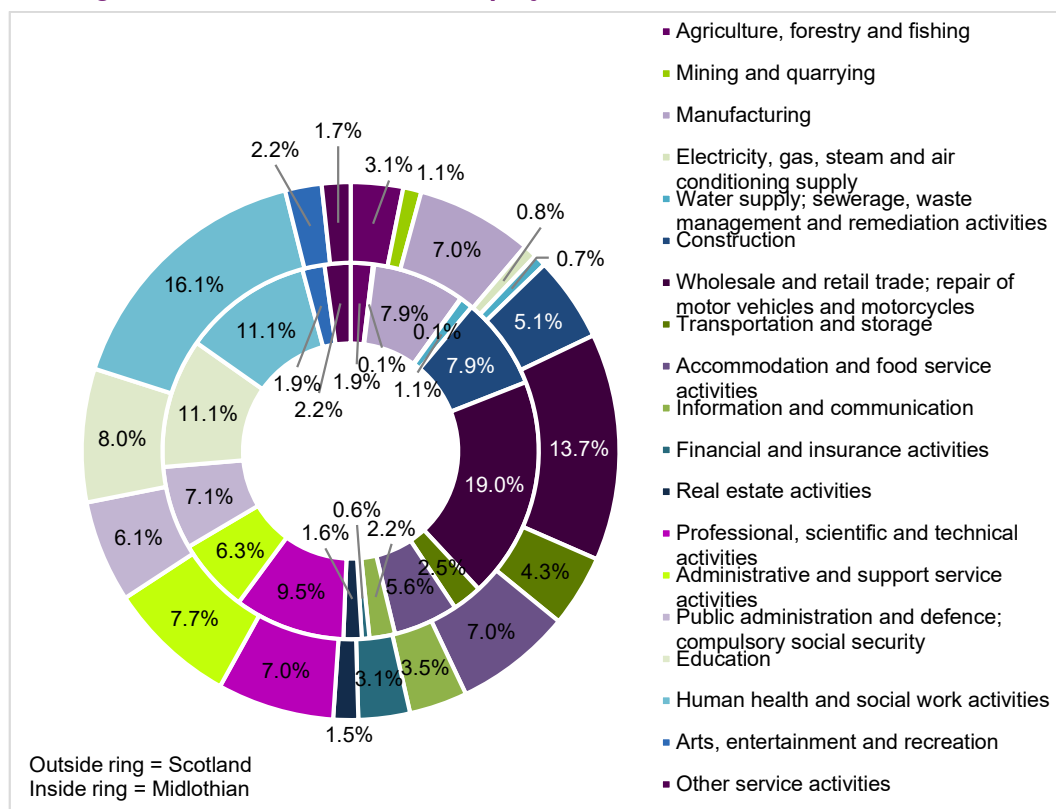
2.21 From 2015 to 2020, workforce has expanded in a few sectors. These are Administrative and support service activities; Water supply, sewerage, waste management and remediation activities; Manufacturing; Information and communication; Agriculture, forestry and fishing; Education; and Electricity, gas, steam and air conditioning supply. In particular, the number of people in employment in Administrative and support service activities has more than doubled, going from about 800 people in 2015 to around 2,000 people in 2020.

2.22 The sectors that experienced a decrease in employment numbers were Mining and quarrying; Financial and insurance activities; Construction; Arts, entertainment and recreation; and Human health and social work activities. As Figure 2.11 shows, these changes in employment from 2015 to 2020 have made the Midlothian workforce somewhat less concentrated. A workforce more evenly spread across more sectors is seen as a good thing, as it would provide more resilience in the face of economic shocks.

Figure 2.11: Midlothian employment sector shares, 2015 and 2020

Source: ONS Business Register and Employment Survey, 2022

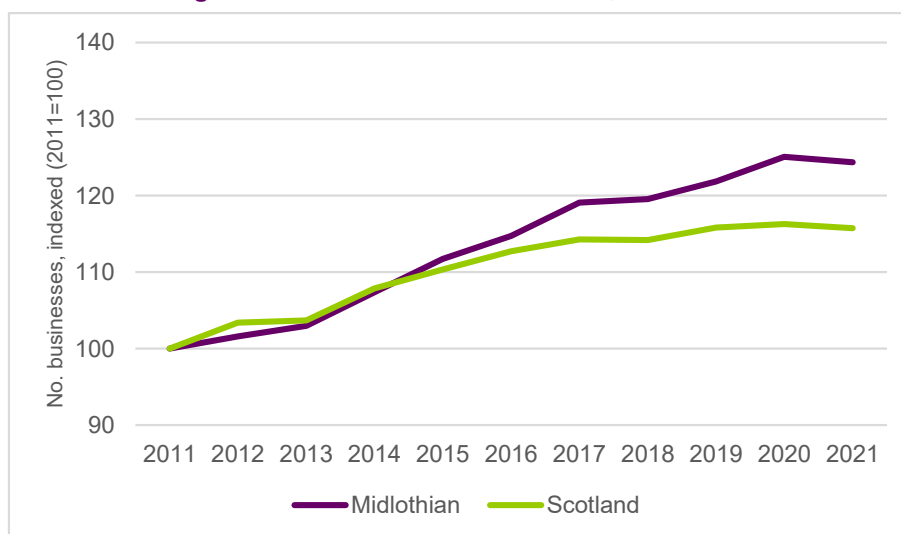
2.23 As demonstrated by Figure 2.12, a number of sectors are more highly represented in Midlothian than nationally. Wholesale and retail trade accounts for 19% of employment versus c.14% at the Scotland level, whilst Professional, scientific and technical activities accounts for almost 10% versus 7% nationally. Construction (c.8% versus c.5%), Education (c.11% versus 8%) and Manufacturing (c.8% versus 7%) are also more highly represented. Whilst Human health and social work accounts for a high volume of employment in Midlothian and is therefore an important source of employment in the local authority area, it is less highly represented than nationally.

Figure 2.12: Sectoral share of employment, Midlothian and Scotland, 2020

Source: Business Register and employment Survey, 2022

Business base

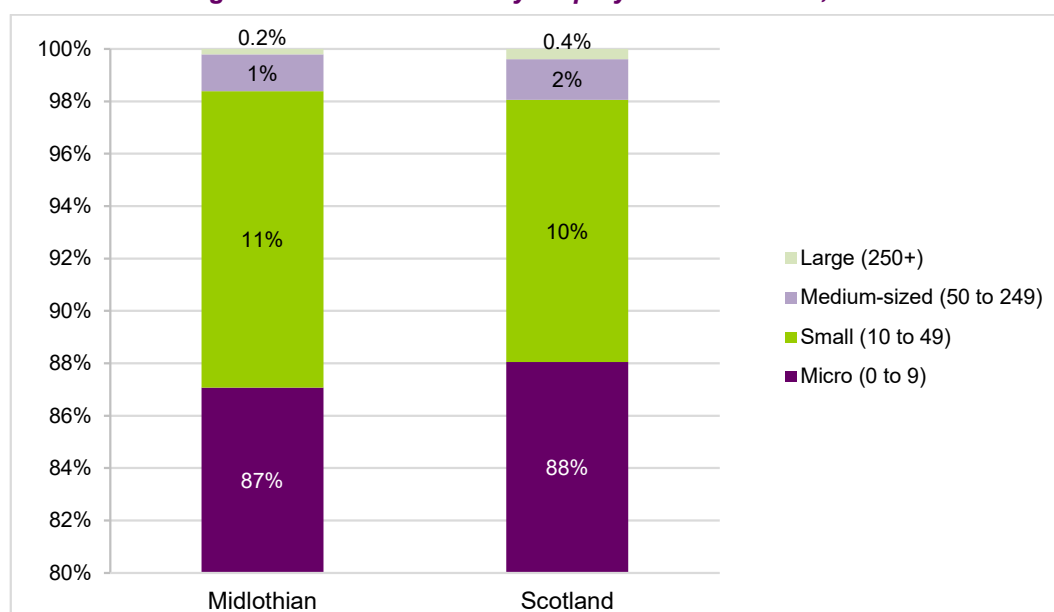
2.24 As of 2021, there were 2,705 businesses operating in Midlothian, accounting for 1.5% of the national business base. This represents a decrease of 15 businesses (0.6%) from the previous year. Between 2011 and 2021, there was an uplift of 530 businesses (+24.4%). From 2015 to 2020 the business base in Midlothian has grown at a faster pace compared to Scotland as a whole. From 2020 to 2021, the number of businesses in Midlothian has also decreased slightly more than in Scotland, 0.6% and 0.4% decreases respectively.

Figure 2.13. Number of businesses, 2011-2021

Source: Scottish Government Businesses in Scotland, 2022

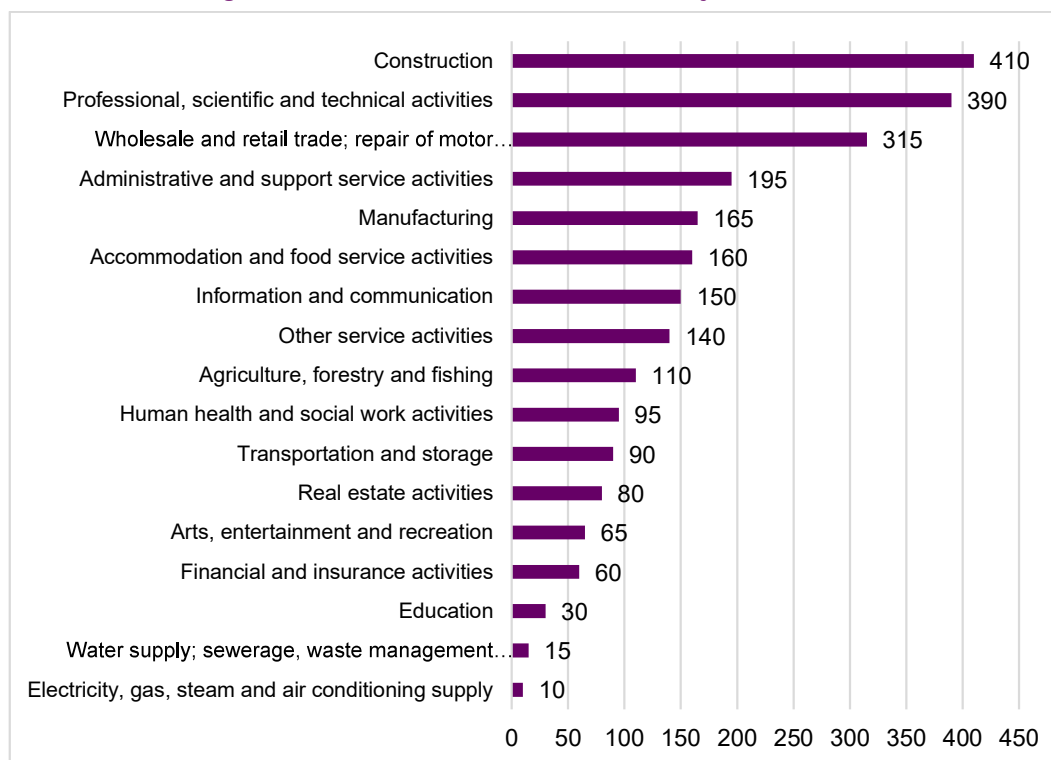
2.25 In terms of the number of businesses per employment size, Figure 2.14 shows a significant disparity between micro size and large sized businesses. In 2021, 87% of business in Midlothian were recorded as micro businesses (0-9 employees), . Small, medium and large sized businesses accounted for 13% of the total business base, with large businesses accounting for the lowest share of the total Midlothian Business base (0.2%). These trends are similar to those at a national level, with micro sized businesses accounting for 88% of the total business base (Figure 2.13). Midlothian's position is in line with its geographical nature – a mix of small urban centres and rural hinterland, on the periphery of major conurbation – which puts it at a disadvantage in terms of competing for large employers.

Figure 2.14. Businesses by employment size band, 2021



Source: ONS UK Business Counts, 2022

2.26 In 2021, the sector with the largest amount of businesses registered in the Midlothian local authority were within the construction sector, in which 410 businesses are registered. This is followed by the Professional, Scientific and Technical sector which features 390 enterprises in Midlothian, and Wholesale and Retail Trade, in which 315 businesses are registered within Midlothian. The smallest sectors with regards to business counts in Midlothian are within the Education (30 businesses), Water Supply (15 businesses) and Electricity, Gas, Steam and Air Conditioning Supply (10 businesses) sectors. Figure 2.15 details the business count across sectors within Midlothian.

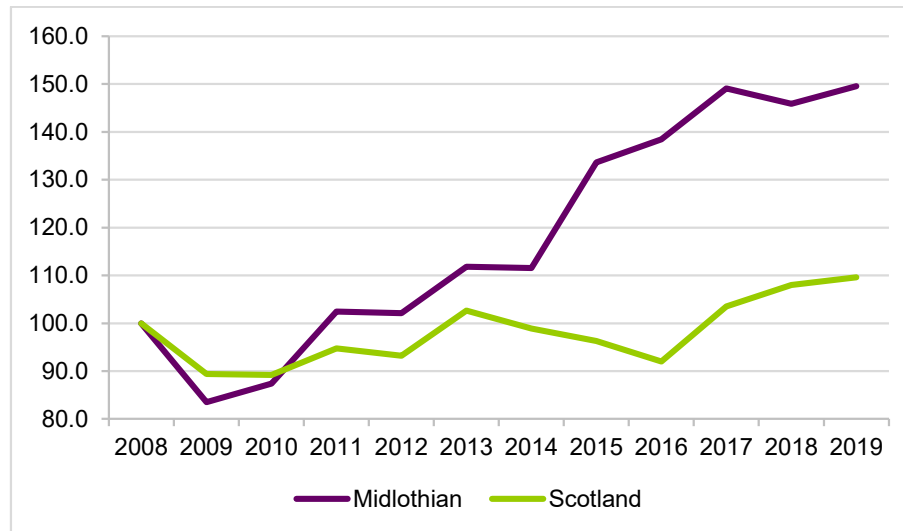
Figure 2.15 Midlothian Business Base by Sector, 2021

Source: ONS UK Business Counts (Nomis), 2022

2.27 From 2011 to 2021 the businesses base by sector has either grown or stayed the same: no sector had a smaller number of businesses in 2021 compared to 2011. The sector to grow the fastest is Financial and insurance activities, which during this period went from 25 to 40 businesses (+140%). The sectors that added the largest number of businesses are Professional, scientific and technical activities (125 more businesses from 2011 to 2021), and Construction (55 more businesses).

Gross Value Added

2.28 Midlothian's economy has grown significantly in GVA terms in recent years. In 2019, GVA in the Midlothian economy was approximately £991 million, accounting for around 1% of total Scotland GVA – an increase from 07.% in 2010. Importantly, GVA in Midlothian has grown at a faster rate than nationally since 2010 (Figure 2.16) – an almost 50% increase versus 10% nationally.

Figure 2.16: GVA in Midlothian and Scotland, 2008-19

Source: Scottish Annual Business Statistics, 2021

A changing economic landscape

2.29 The population in Midlothian has been growing at a steady pace in recent years, thanks to net immigration into the area, and is somewhat younger than Scotland's population as a whole. The Midlothian population tends to have higher skills than the Scottish average, and as a result it is less likely to be unemployed, less likely to claim unemployment benefits, and more likely to work in skilled, high-value occupations.

2.30 Large shares of the workforce are employed in Education and in Human health and social work, in line with national trends. The largest share of workforce is employed in Wholesale and retail trade: 18.8% in Midlothian, compared to 13.7% in Scotland. Professional, scientific and technical activities, Construction, and Education are also more highly represented in Midlothian compared to Scotland.

2.31 This overview shows that prior to COVID-19 pandemic, Midlothian had a strong economy with a positive outlook of diversification and growth. Despite a brief increase in unemployment and claimants, and a slight fall in businesses in 2020, these areas of the economy now look to be on the mend and strengthening its position once again.

3 Economic outlook

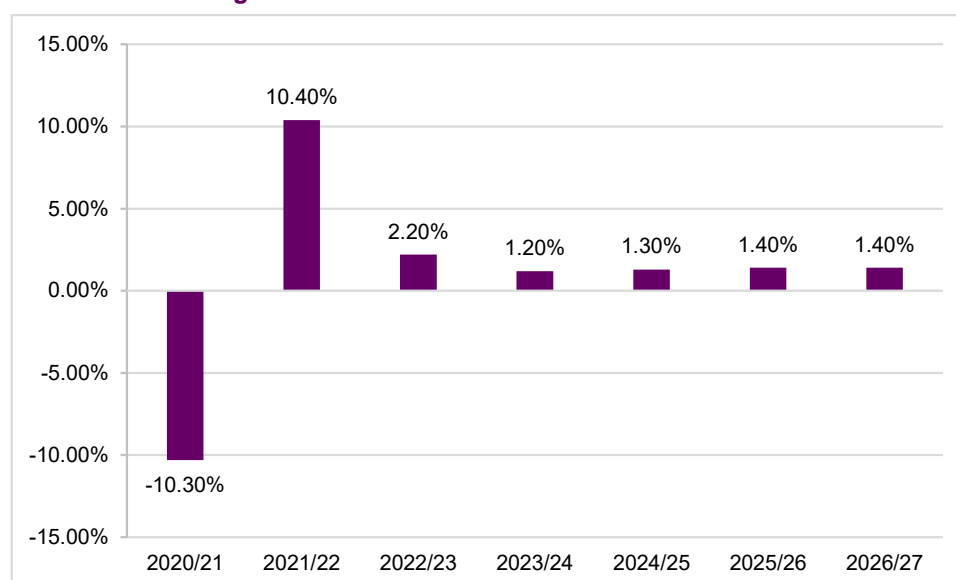
Introduction

3.1 This section sets out the short-term and longer term economic outlook for Midlothian.

Short-term economic outlook

3.2 COVID-19 has caused a significant shock to the Scottish economy. Recent Scottish Fiscal Commission reports⁵ which rely on a range of independent data sources suggest that in 2020/21 GDP declined sharply by 10.3% as a result of the COVID-19 pandemic but has been forecast to have grown back to pre-pandemic levels (10.4%) in 2021/22 and this growth is likely to continue to some degree in 2022/23 (2.2%), 2023/24 (1.2%) and 2024/25 (1.3%). Figure 3.1 below details the Scottish Fiscal Commission's December 2021 GDP forecasts.

Figure 3.1: GDP Forecasts 2020/21 – 2026/27



Source: Scottish Fiscal Commission (2021) Scotland's Economic and Fiscal Forecasts

3.3 While the uncertainty around Brexit between 2016 and 2019 is likely to have constrained growth, the impact from leaving the EU has been materialising throughout 2021 and 2022, impacting upon the scale of economic recovery following the COVID-19 pandemic. The Office for Budget Responsibility reported that in Q4 of 2021, goods imports from the EU were down 18% on 2019 levels, double the 9% fall in goods exports to the EU. The rise in non-EU imports indicates some substitution, however as it has only risen by 10% this does not indicate full substitution.⁶

3.4 As the furlough support ended in September 2021, it was envisaged that unemployment would rise through 2021, with many businesses re-opening with fewer staff. However, the Scottish Fiscal Commission⁷ placed the unemployment rate for 2020/21 at 4.5% in December 2021, and forecasts that it shall remain relatively steady in 2021/22 (4.6%), 2022/23 (4.5%), before falling in 2023/24 (4.3%) and

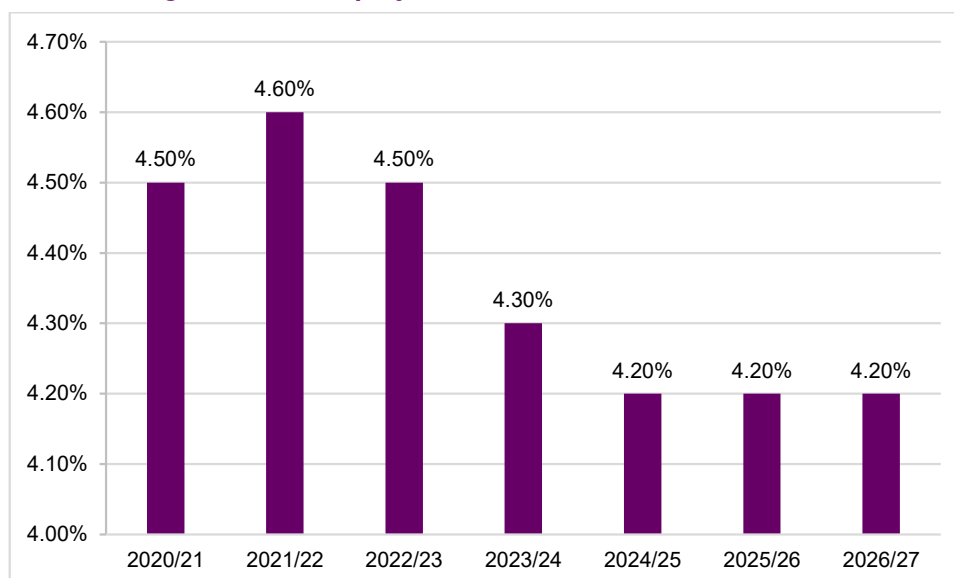
⁵ https://www.fiscalcommission.scot/wp-content/uploads/2021/12/Scotland_s-Economic-and-Fiscal-Forecasts-December-2021-Full-report.pdf

⁶ <https://obr.uk/box/the-latest-evidence-on-the-impact-of-brexit-on-uk-trade/>

⁷ https://www.fiscalcommission.scot/wp-content/uploads/2021/12/Scotland_s-Economic-and-Fiscal-Forecasts-December-2021-Full-report.pdf

2024/25 (4.2%). Figure 3.2 below details the Scottish Fiscal Commission's December 2021 unemployment forecasts.

Figure 3.2: Unemployment Forecasts 2020/21 – 2026/27



Source: Scottish Fiscal Commission (2021) *Scotland's Economic and Fiscal Forecasts*

3.5 Prior to the pandemic, the unemployment rate in Scotland was 3.2%.⁸ This, taken together with the above forecasts, implies policy support will continue to be needed over the next couple of years to support people and businesses to recover. The recovery from the COVID-19 pandemic is not anticipated to be conventional. There is a consensus amongst economic commentators that the nature of the post-pandemic economic recovery has not been previously experienced, with extremely high demand for skills leading to tight labour markets, uneven economic performance expected due to the long-lasting impacts of the pandemic, e.g. on severely disrupted supply chains, and ongoing uncertainty negatively affecting business confidence.

Longer term economic outlook and impacts

3.6 Due to the profound economic fallout from COVID-19, output in the UK is not likely to return to 2019 levels before at least 2023. COVID-19 in the long term may lead to some economic activity moving out of major urban centres, and the shift to more hybrid and flexible patterns of working (including increased incidence of home-working may lead to a reduced demand for commercial office space, while some of the retail impacts and the acceleration of online shopping and home delivery may further impact on town and city centres.

3.7 As of October 2021, the IFS⁹ anticipate output to remain 2.5% below the Office of Budget Responsibility's pre-pandemic (March 2020) forecasts¹⁰ trajectory for 2024-25, with Brexit continuing to have an additional impact due to having continued access to the common market until January 2020 and the relative weakness of Sterling.

3.8 The consensus is that the UK economy will be between considerably smaller in 2030 as a result of leaving the Single Market and Customs Union.¹¹ The key reasons cited for this are:

⁸ <https://www.gov.scot/publications/scotlands-labour-market-people-places-regions-statistics-annual-population-survey-2020-21/pages/7/>

⁹ <https://ifs.org.uk/publications/15691>

¹⁰ https://obr.uk/docs/CCS001_CCS0320221496_CP-231-Web-Accessible-FINAL.pdf

¹¹ See, for example: Resolution Foundation (2022) *The Big Brexit: An assessment of the scale of change to come from Brexit*

- A reduction in trade – mainly as a result of significant non-tariff barriers to trade covered in Section 6;
- A reduction in migration – due to changes in immigration policy and the attractiveness of the UK as a place to work;
- A fall in foreign direct investment flows; and
- A reduction in collaboration in research.

3.9 There is some cause for optimism, however. Midlothian was identified as the 4th most resilient local authority in Scotland according to the Oxford Economics Covid-19 Vulnerability Index, with a likely lower reliance on sectors most exposed to the effects of the COVID-19 pandemic.

3.10 Additionally, a recent EY report has underlined Scotland's attractiveness as a destination for foreign direct investment, and Edinburgh's position as joint top city in the UK for inward investment projects (Alongside Manchester). Midlothian stands well positioned to benefit from this attractiveness as an investment location.

Midlothian's economic outlook

3.11 Prior to COVID-19 pandemic (April 2019 – March 2020), Midlothian had an unemployment rate of 2.4% (1,200 people). Throughout the pandemic, this increased to a maximum of 4.0% (1,800 people) from the period March 2020 – April 2021, however the unemployment rate has now reduced again to an unemployment rate of 2.9% (1,400 people) from the period January 2021 – December 2021.¹²

3.12 Young people are likely to continue to be affected by their high representation in sectors such as hospitality and leisure, and companies postponing recruitment to determine the extent to which the recovery supports new recruitment.

3.13 COVID-19 is expected to continue to have serious consequences for low income households and vulnerable groups, including families and children falling further behind as a result of long periods of online home learning, or for people that fall sick that would be unable to work from home. Research has highlighted the impact of COVID-19 on lower income household spending, suggesting that working adults on the lowest incomes were most likely to see a fall in household income for the year 2020-21.¹³

3.14 Prior to the pandemic, Midlothian had experienced a period of high growth in Gross Domestic Product, achieving growth of 2.6% from 2015 to 2016, 4.7% from 2016 to 2017, 4.9% from 2017 to 2018 and 6.0% from 2018 to 2019.¹⁴ This is considerably higher than the UK averages for the period (with the exception of 2015 to 2016), and also higher than Scottish averages. Table 3.1 below details this change across the three geographies.

Table 3.1: GDP Growth across Midlothian, Scottish and UK Geographies 2015 – 2019

Area	Year				
	2015	2016	2017	2018	2019
Midlothian GDP (£m)	1,392	1,428	1,495	1,568	1,662
Annual % Change		2.6%	4.7%	4.9%	6.0%
Scotland GDP (£m)	131,549	133,593	138,834	142,369	147,333
Annual % Change		1.6%	3.9%	2.5%	3.5%
UK GDP (£m)	1,712,072	1,777,366	1,844,010	1,910,247	1,977,096
Annual % Change		3.8%	3.7%	3.6%	3.5%

¹² https://www.nomisweb.co.uk/reports/lmp/la/1946157423/subreports/ea_time_series/report.aspx?

¹³ <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/weeklyhouseholdspendingfellbymorethan100onaverageduringthecoronaviruspandemic/2021-09-13>

¹⁴ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/regionalgrossdomesticproductallnutslevelregions>

Source: Office of National Statistics (2021) Regional Gross Domestic Product: All ITL Regions

3.15 Forecasts have not been developed for the Midlothian geography. It has been noted that GDP is above pre-pandemic levels for the first time, however the Fraser of Allander's latest Economic Commentary has seen their predictions of growth in the Scottish economy for 2022 to have been revised down from 4.7% to 3.5% as a result of higher than anticipated inflation¹⁵, as a result of the situation in Ukraine affecting global commodity and energy prices.¹⁶ This growth is expected to continue to be dampened, with the Fraser of Allander institute forecasting 1.5% growth in 2023 and 1.4% growth in 2024.

3.16 The 2022, 2023 and 2024 forecasts indicate a Scottish economy with lower levels of employment and the loss of output compared to the pre-COVID trend, highlighting the long-term loss of economic momentum coupled with rising inflation and the Ukraine crisis.

3.17 It should be noted, however, that at the start of 2022 there was still optimism about Scotland's economic performance by some commentators such as KPMG in January 2022¹⁷, in the middle of the Omicron wave of the COVID-19 pandemic, were prepared to forecast a growth of 4.8% in GDP in Scotland before moderating again to 2% in 2023. It should be noted that they forecasted this growth in tandem with rising inflation as a result of rising energy prices (prior to considerations of the crisis of Ukraine).

3.18 The Federation for Small Businesses' (FSB) Small Business Confidence Index measures whether businesses believe whether trading conditions will improve or deteriorate. FSB's Small Business Confidence index for Scotland stands at +14.3 points for the first quarter of 2022, a lower figure than over the same period in 2021 (+18.8 points). This figure is slightly lower than the UK average, which is placed at +15.3 points for Q1 2022.¹⁸

3.19 However, the average Scottish business owner is now much more optimistic than they were at the end of last year when the index stood at -22.0 points. This is partially due to the public health rules in Scotland at that time, which stipulated that most shops and all businesses in the hospitality sector had to remain closed.

¹⁵ <https://fraserofallander.org/wp-content/uploads/2022/03/2022-03-FAI-Economic-Commentary-1.pdf>

¹⁶ <https://www.gov.scot/publications/monthly-economic-brief-march-2022/pages/6/>

¹⁷ <https://home.kpmg/uk/en/home/media/press-releases/2022/01/scotland-economy-to-grow-after-omicron-slowdown.html#:~:text=With%20Omicron%20posing%20a%20milder,levels%20of%202%25%20in%202023.>

¹⁸ <https://www.fsb.org.uk/resources-page/recovery-in-scottish-business-optimism-dampened-by-rising-costs.html>

4 Labour market, unemployment and skills

Introduction

4.1 This section sets out an analysis of the dynamics of Midlothian's labour market.

Migration

4.2 In December 2020, approximately 8,000 (8.7%) of Midlothian's resident population were of non-United Kingdom origin, below the proportion across Scotland (10.7%).¹⁹ In the year ending September 2020, 99 national insurance numbers were issued to migrant applicants in Midlothian, down from 279 the year before, highlighting the impact of COVID-19.²⁰

4.3 The number of EU nationals entering the country and registering for National Insurance numbers has been falling for a number of years following the EU referendum in 2016. Between 2016 and 2019 the number of National Insurance registrations to EU nationals entering the UK fell by 28%.²¹

4.4 This drop in EU nationals has immediate and long-term implications for certain sectors of the economy.

4.5 Sectoral impacts, as a result of restricting the freedom of movement following Brexit, are likely to depend on the share of EU-born migrants in each sector as well as local skills shortages in UK-born citizens and the level of unemployment. An estimated 4,000 people in Midlothian are EU nationals.²² A reduced flow of EU nationals who work in Midlothian is important for the sectors which employ a large proportion and number of EU citizens including: hospitality, transport, manufacturing, business admin, retail, professional, scientific and technical and construction.

4.6 Prior to Brexit the arrangements to extend existing EU residents' long term status appears to have avoided any large-scale out-migration – although the new immigration policy is likely to have a significant impact upon future migration.

4.7 Prior to the introduction of the new immigration system, the UK launched an EU Settlement Scheme that allows EU and EEA citizens who live in the UK to remain without needing to apply for additional visas or become subject to the new points based system. All workers from EEA nations who are already resident in the UK had until 30th June 2021 to apply for the EU Settlement Scheme which guaranteed their right to work in the UK indefinitely.

4.8 In total, 6.3m people have been granted the right to remain in the UK under the EU Settlement Scheme as of 31st March 2022²³, considerably higher than the pre-Brexit estimate of 3.1m EU citizens living in the UK. This estimate appears to have seriously undercounted EU citizens' role in the UK economy.

4.9 The EU Settlement Scheme has granted 3,780 applicants in Midlothian with the right to work and live in the UK without needing to apply for an additional visa or becoming subject to the new points-

¹⁹ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/population-by-country-of-birth-and-nationality/jul-20-jun-21>

²⁰

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/migrationwithintheuk/datasets/localareamigrationindicatorsunitedkingdom>

²¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811541/nino-registrations-adult-overseas-nationals-march-2019.pdf

²² <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-estimates/population-by-country-of-birth-and-nationality/jul-20-jun-21>

²³ <https://www.gov.uk/government/collections/eu-settlement-scheme-statistics>

based system between August 2018 and December 2021. This equates to 95.9% of all applicants, while 60 (1.5%) applications were refused, 70 (1.8%) were withdrawn or void and 30 (0.8%) were invalid.²⁴

4.10 This acceptance rate is higher than the Scottish and UK averages. It compares to a Scottish average of a 95.4% acceptance rate, a 1.8% refusal rate, a 1.6% withdrawal rate and 1.2% of applications were invalid. The UK average was a 93.5% acceptance rate, 3.0% refusal rate, a 1.8% withdrawal rate and 1.7% of all applications across the UK were invalid.²⁵

4.11 On 1st of January a points-based immigration system was adopted based on the skills or job shortage within the UK and the appropriate qualifications and skills of the application. This system includes a 'Skilled Workers route' which requires that people obtain 70 points, of which 50 come from the mandatory criteria of having:

- a job offer from a licenced sponsor.
- a job offer which is at, or above, the minimum skill level of an RQF Level 3 (A-level) or equivalent.
- spoken English of an acceptable standard.

4.12 A further 20 'tradeable' points might also be drawn from a combination of a worker's salary, a job in a shortage occupation (as designated by the Migration Advisory Committee), or their possession of a relevant PhD.

4.13 There is no automatic mutual recognition of professional qualifications, however, and while a framework is laid out to allow professional bodies to move in this direction, it may take some time before all relevant occupations are covered.

4.14 The changes in migration rules could reduce the number of EU nationals living and working in Midlothian, and are particularly important for the sectors including: banking and finance; retail, restaurants and hotels; manufacturing; and health and social care, and some of these sectors need lower paid/lower skilled staff, in addition to higher skilled recruits. A reduction of EU migrants working in the health and social care sector could impact the ability for Midlothian to deliver vital children and adult health and social care services in the future. A priority should be focussing on attracting and retaining staff in this sector as well as identifying any current or future skills shortages and policies to target them.

4.15 In order to address long term recruitment of the health and care workforce, Midlothian Council should make the case for the Shared Prosperity Fund (as part of the wider Edinburgh and South East Scotland Regional Economic Partnership) to replace current EU funding invested in training and skills development. Consideration should be given to ensuring training related funding prioritises the Health and Social Care sector, as well as manufacturing and industry. This is likely to relieve some of the skills shortages in these areas.

COVID-19 impacts on employment

4.16 The Claimant Count captures people claiming Job Seekers Allowance (JSA) and those who are claiming the unemployment related elements of Universal Credit (UC) and provides a comprehensive and up to date view of unemployment levels.

²⁴

<https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/migrationwithintheuk/datasets/localareamigrationindicatorsunitedkingdom>

²⁵ Ibid.

4.17 In March 2022 there were 1,570 claimants of JSA and unemployment related UC in Midlothian accounting for 2.7% of the working age population, down from 3,090 claimants and 5.4% of working age residents in March 2021 – a 49.2% drop.²⁶

4.18 COVID-19 has disproportionately affected employment amongst young people, of which there will have been a cohort leaving education and entering the labour market in the past couple of years who have been unable to secure employment. Young people also typically have a high representation in sectors such as hospitality and leisure which have been severely impacted by COVID-19 lockdowns and travel restrictions. Between March 2020 and March 2021 the claimant count amongst those aged 16-24 grew by 109.2% from 1,495 to 3,095 in Midlothian (compared to 106.7% across all ages) with this cohort accounting for 22% of all claimants in March 2021.²⁷

4.19 The Coronavirus Job Retention Scheme (CJRS) was a vital support mechanism for businesses affected by the pandemic, helping them to retain and continue paying their employees. It ended on 30th September 2021. CJRS Statistics (reporting figures up to 30th September) show there were a cumulative total of 16,300 people who accessed furlough support out of a total of 43,900 eligible jobs, representing an overall take up rate of 37% in Midlothian.²⁸ The largest take-up rate in Midlothian at any one time was on 31st July 2020, with 7,400 (16.5% take-up rate) employments on furlough.²⁹

4.20 The impact of COVID-19 has hit the self-employed particularly hard. Figures for the Self-Employment Income Support Scheme (SEISS) to the 31st December 2021 show there were a total of 12,400 claims made in Midlothian by 3,400 individuals, equating to £35.9 million being claimed across the five grants that were made available, with the largest take-up rate being for the first grant available, which received an 80% take-up rate.³⁰

4.21 In total some 19,700 jobs in Midlothian were assisted by Government support. As evidenced in Section 3, the Scottish Fiscal Commission placed unemployment in Scotland at 4.5% for 2021/22, a 40.6% rise from the pre-pandemic figure of 3.2%. It should be noted, however, that the number of JSA claimants has fallen in Midlothian from March 2021 to March 2022 by 49.2%, indicating that people are beginning to find employment again.

4.22 HM Treasury published comparison of independent forecasts suggest the unemployment rate could reach 4.1% by Q4 of 2022, with estimates ranging from 4.8% to 3.2%.³¹ This represents a fall of 0.1% in unemployment in the UK from the previous year.

4.23 Whilst unemployment levels across Scotland have fallen to record lows, the ongoing economic uncertainty means that there remains a risk that unemployment in Scotland – and thus Midlothian – can rise in future. This is as a result of inflation, increased cost of living, ongoing global supply chain disruption as a result of the pandemic, the effects of Brexit and the economic impacts of Russia's invasion of Ukraine.

4.24 Looking at the 2008/9 recession shows that unemployment can take a number of years to reach its peak as highlighted in recent analysis from the National Institute of Economic and Social Research, which suggests there could be a delayed recovery in the labour market due to the reallocation of labour

²⁶

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

²⁷ <https://www.nomisweb.co.uk/query/construct/submit.asp?forward=yes&menuopt=201&subcomp=>

²⁸ <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-16-december-2021>

²⁹ <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-december-2020>

³⁰ <https://www.gov.uk/government/statistics/self-employment-income-support-scheme-statistics-december-2021>

³¹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1083817/Forecomp_June_2022.1_Final.pdf

as the economy adjusts to sectoral shifts as a result of COVID-19 and Brexit.³² Additionally, the nature of the post-pandemic recovery is expected to be atypical, and potentially 'bumpy'.

4.25 Extended periods of unemployment can have significant impacts on longer-term earnings. Typical estimates suggest that workers who are made unemployed are 6–9% less likely to be in work in the longer term, and have wages 8–10% lower than they would otherwise have had even if they find another job.³³

4.26 Given the significant labour market impacts of COVID-19 on young people and on lower-skilled workers across the UK with regards to disproportionate detrimental employment outcomes throughout the pandemic³⁴, interventions such as the new Kickstart Scheme for those aged under 25, will have an important role to play in preventing more-lasting damage.

4.27 There is an immediate need to provide training and job search support to respond to the considerable job losses arising from the pandemic as well as the reduced opportunities from companies and organisations changing or postponing recruitment plans.

4.28 COVID-19 has accelerated use of digital technology across all areas of work and activities. It is evident that adopting universally applicable skills can increase the likelihood of success entering and progressing through employment, as well as the ability to transfer into other key and emerging sectors. The demand for digital skills and transferrable skills such as creativity, critical thinking, interpersonal communication skills and leadership skills will also become more important as technology advances and virtual working becomes a lot more common.

4.29 Recent research by PWC suggests that Scotland is best placed out of anywhere in the UK to deliver on the “Green Jobs Revolution.”³⁵ They estimate that 1.65% of total advertised jobs in Scotland are “green,” compared to a UK average of 1.2%. This is due to the high presence of renewable energy projects undertaken in Scotland, although Scotland has also been noted to be leading in terms of green agricultural and professional services sectors when compared to the rest of the UK.

4.30 It should also be noted, however, that Scotland is projected by PWC to have the largest share of regional job losses in the UK as a result of the transition to a net zero economy, with 9.4% of Scotland’s total job share to be deemed “sunset” jobs that will need to be replaced.³⁶ A large proportion of these jobs will be lost with the decommissioning of offshore oil and gas installations. However, this transition presents an opportunity for people working in offshore oil and gas to find work in the decommissioning sector.

4.31 Roughly 100,000 of the jobs in the decommissioning sector by 2030 are projected to be filled by people transferring from existing oil and gas jobs to offshore renewable roles, new graduates and new recruitment from outside the existing Scottish offshore energy sector.³⁷ In order for this to be achieved, however, there is a requirement for strategic intervention to support the traditional workforce to diversify, upskill and pivot to decommissioning activities. In order to achieve net zero, a significant increase in ‘green’ skills and education is required across Scotland.

4.32 There is an opportunity to create jobs by investing in the green economy and supporting projects that involve retrofitting buildings, green transport and the related training programmes. For example, the

³² <https://www.niesr.ac.uk/publications/recovery-stalling-not-soaring?type=uk-economic-outlook>

³³ <https://www.researchgate.net/publication/273454843> The scarring effect of unemployment from the early '90s to the Gre at Recession

³⁴ <https://jech.bmj.com/content/76/1/8>

³⁵ <https://www.pwc.co.uk/who-we-are/regional-sites/scotland/press-releases/scotland-in-prime-position-to-benefit-from-green-jobs-revolution.html>

³⁶ Ibid.

³⁷ Robert Gordon University: Energy Transition Institute (2021) UK Offshore Energy Workforce Transferability Review

Scottish Government has committed to reducing emissions from heating buildings by 68% from 2020 to 2030.³⁸ As result, the Scottish Government estimates that by the late 2020's, 200,000 new low and zero emission heating systems will need to be retrofitted or installed per annum to meet its targets for 2030, creating significant demand for accredited installers.

³⁸ <https://www.gov.scot/publications/heat-buildings-strategy-achieving-net-zero-emissions-scotlands-buildings/pages/3/>

5 Brexit and COVID-19: Impacts on communities

Introduction

5.1 The impacts of COVID-19 have been experienced differently within different areas and communities. There is a growing body of evidence that the worst effects of the COVID-19 pandemic have disproportionately impacted people from BAME backgrounds, people in lower-paid or more public-facing work, disabled people, and people with pre-existing health and economic difficulties.³⁹

5.2 A recent report with contributions from the NHS, PHS, and University of Edinburgh⁴⁰, reported higher infection, hospitalisation and death rates of COVID-19 in more deprived areas of the country. This is linked to increased vulnerability including higher prevalence of diabetes and respiratory conditions, heart disease, obesity as well as increased transmission from higher population densities and inequalities in housing conditions (such as houses of multiple occupation and limited access to outdoor and communal greenspace) in more deprived areas.

5.3 While Midlothian is in the lower half of deprived local authorities as of 2020, pockets of deprivation exist within certain area and communities in the area for example in parts of Dalkeith, Mayfield, Gorebridge and Middleton, North Gorebridge, Straiton, and Easthouses, which are likely to have faced worse health and economic impacts from COVID-19.

SIMD

5.4 The SIMD is the Scottish Government's standard tool for identifying small area concentrations of multiple deprivation across Scotland. The SIMD ranks small areas (datazones) from the most deprived (ranked 1) to the least deprived (ranked 6,976).

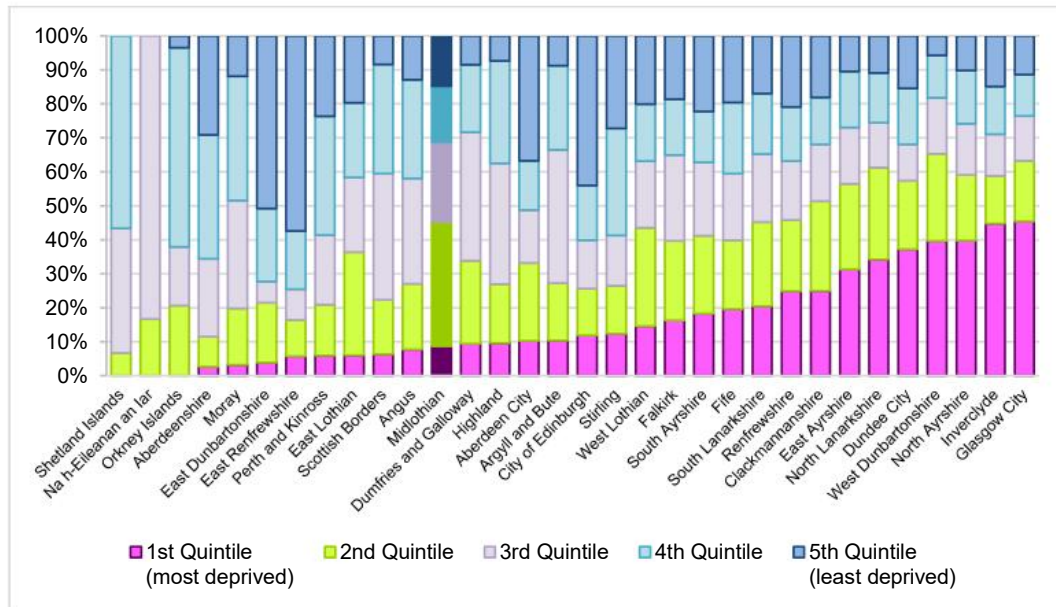
5.5 The local share is used to compare areas and is calculated by dividing the number of deprived data zones in the area by all datazones in the area.

5.6 Analysis of SIMD 2020 data shows that levels of relative deprivation in Midlothian have decreased. Around 9% of datazones (10 datazones in total) in Midlothian are in the most deprived 20% deprived areas in Scotland, compared to 11% in SIMD 2016, when 11% of datazones (13 datazones) were among the 20% most deprived areas in Scotland (Figure 5.1). These most deprived datazones in Midlothian were in the areas of Dalkeith, Easthouses, Gorebridge and Middleton, Mayfield, North Gorebridge and Straiton. The most deprived data zone in Midlothian in the overall SIMD 2020 is located in Dalkeith (S01011012, rank: 207). The same data zone in Dalkeith was the most deprived area in SIMD 2016, with a ranking of 254. The least deprived data zone in Midlothian is in Eskbank (S01010995, rank: 6,737). Similarly, this data zone in Eskbank was the least deprived area in SIMD 2016, with a ranking of 6,906.

5.7 Midlothian is also ranked 21st out of the 32 council areas in terms of the local shares of datazones in each that are found in the top 20% most deprived data zones in Scotland.

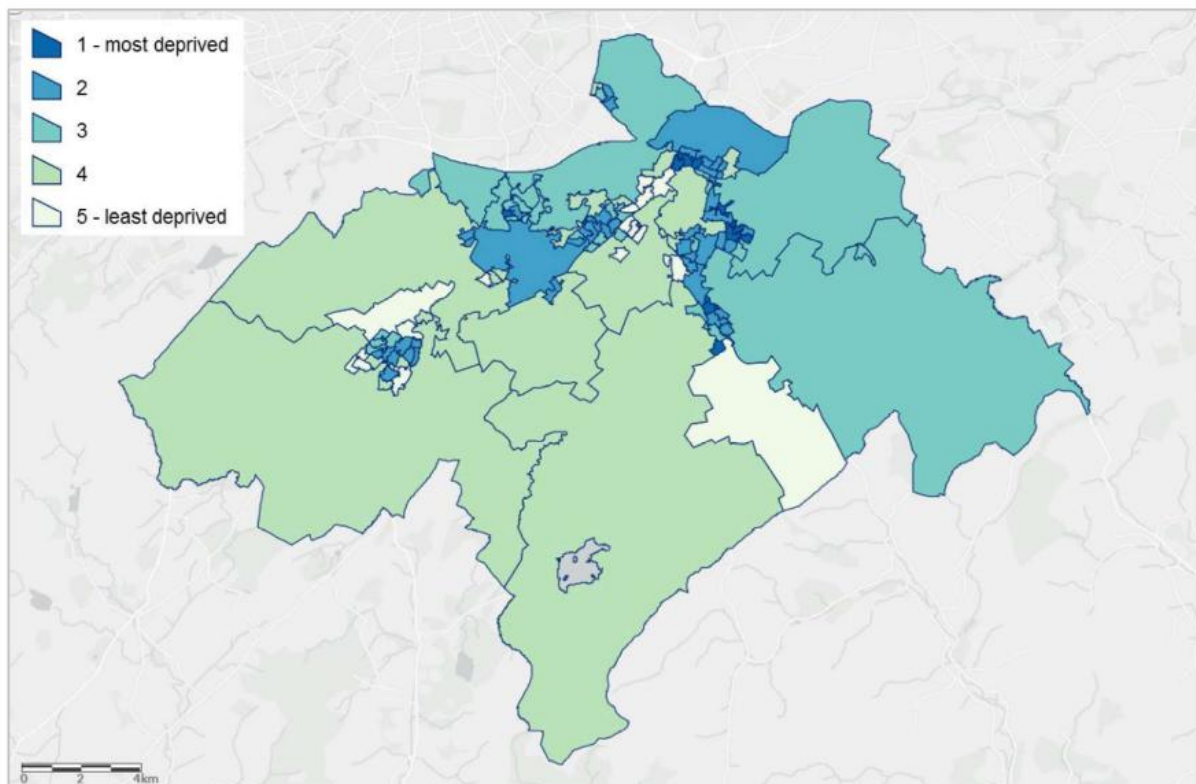
³⁹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/908434/Disparities_in_the_risk_and_outcomes_of_COVID_August_2020_update.pdf

⁴⁰<https://www.sciencedirect.com/science/article/pii/S2666776220300053>

Figure 5.1. Local share of the 20% most deprived data zones, 2020

Source: SIMD 2020

5.8 Many of Midlothian's most deprived datazones are in Dalkeith, Bonnyrigg and Penicuik (Figure 5.2).

Figure 5.2. Midlothian SIMD by Quintile, 2020

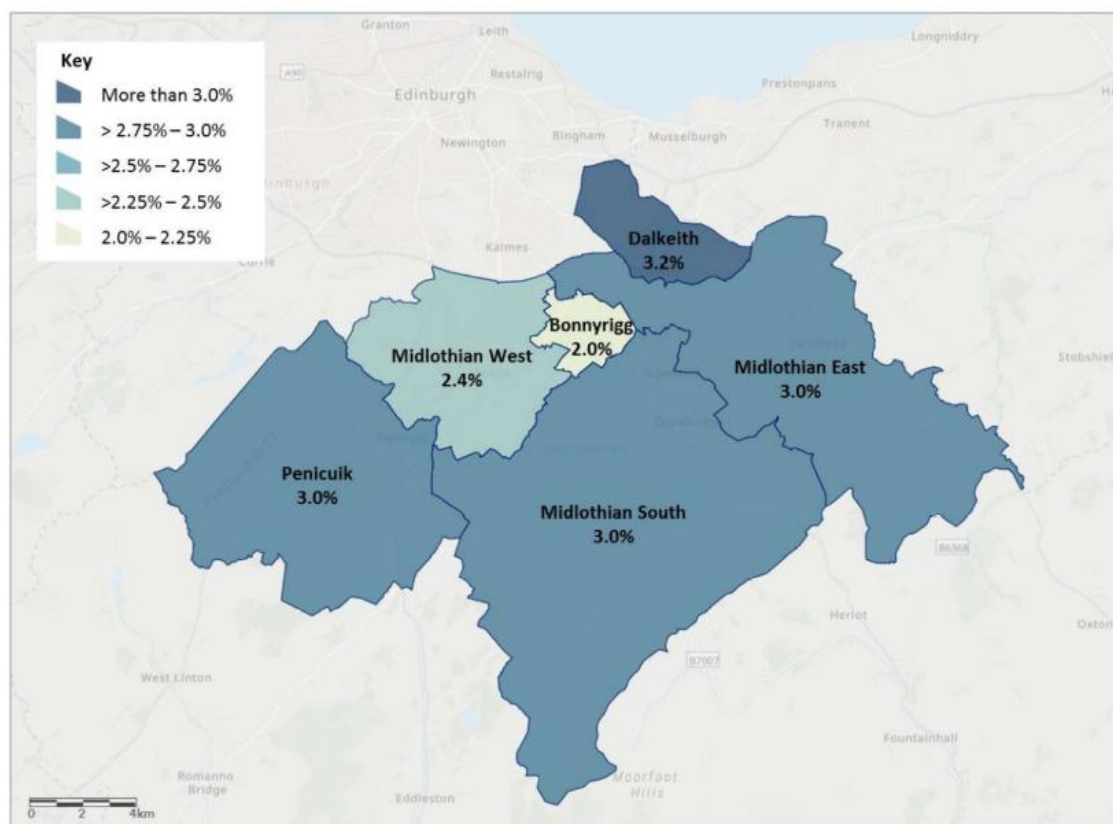
Source: SIMD, 2020

Claimant count by ward

5.9 Looking at the Claimant Count by ward for March 2022 (Figure 5.3) shows that levels of unemployment reflect the typical pattern of deprivation in Midlothian with unemployment concentrated in

the north-east of the area, towards Dalkeith and Midlothian East. Despite this, the general rate of unemployment across all of Midlothian is significantly low (all <3.3%).

Figure 5.3. Claimant count by ward, March 2022



Source: ONS Claimant Counts, 2022

5.10 The wards with the highest proportion of claimants in the working age population are Dalkeith (3.2%), Midlothian East (3.0%), Midlothian South (3.0%), and Penicuik (3.0%), which together have 1,100 claimants accounting for 70% of total claimants in Midlothian. The areas with the lowest proportion of claimants are located in the north-west of the area and include Bonnyrigg (2%) and Midlothian West (2.4%).

5.11 With there being 1,570 claimants in Midlothian accounting for 2.7% of the working age population, this shows that the overwhelming majority of those able to work are in employment. Further to this, there is little variance in the spread of claimants, with only a minor majority of claimants situated in Dalkeith, in which there are some clear signs of deprivation found in small pockets of land.

5.12 Whilst COVID-19 emphasised and exacerbated economic, social and health inequalities which exist, the ongoing economic recovery is seemingly addressing these inequalities in Midlothian, which are capable of acting as a constraint to growth and influence quality of life and deprivation among communities. This is emphasised by the fact that the rate of claimants has nearly halved in the last year from 3,090 to 1,570, a decrease of 49%.

6 Sectoral impacts

Introduction

6.1 The sectors most at risk from the impact of Brexit are those companies more reliant on exporting and/or importing, such as Manufacturing; and those sectors that require a highly-skilled workforce including the Health and social care sector, where there is regular recruitment of international workers required to meet demand.

6.2 Sectors most exposed to the impacts of COVID-19 are not the sectors most at risk to Brexit. The at risk from COVID-19 sectors are dependent on a robust economic rebound as the country recovers from the end of lockdown restrictions, and are predominantly enterprises that have been (either fully or partly) unable to trade during the pandemic – and in particular those dependent on face-to-face trading and with limited (or no) digital presence).

Wholesale and retail

6.3 There are more than 6,000 jobs in Midlothian in the retail sector, making it the largest sector in terms of employment. There are also 315 businesses in the sector.

6.4 COVID-19 lockdown measures meant that during periods of lockdown restrictions, many ‘brick-and-mortar’ retail premises had to remain closed, or had to continue trading under strict public health conditions related to numbers of shoppers, spacing and display of goods, etc. During the height of the pandemic, whilst overall retail sales fell, there was a sharp increase in online retail, and this has persisted since the easing of lockdown restrictions.

6.5 COVID-19 has resulted in an accelerated shift to online shopping with effects on town centre retail business rates and employment. McKinsey estimate that online sales will continue growing at a faster rate than before COVID-19, with many people permanently shifting to more online shopping. This trend, in addition to a shift to more permanent home and hybrid modes of working, will continue to have an effect on town centre retail business rates and employment. There is expected, however, to be a compensating increase in warehouse and delivery jobs.

6.6 These trends could have a significant impact upon the vitality and viability of key town centres such as Dalkeith, Bonnyrigg and Penicuik, as well as retail locations such as Straiton Retail Park.

Human health and social work activities

6.7 There are 3,500 people employed in Human health and social work activities in Midlothian, making it an important employment sector. However, the sector has long faced significant workforce challenges that impact on its economic productivity. Previous research has identified evidence of current and future skills shortages and gaps in Midlothian and the wider Edinburgh and South East Scotland City Region.⁴¹ These challenges have been exacerbated by both Brexit and the COVID-19 pandemic.

6.8 The impact of the COVID-19 pandemic has resulted in acute staff shortages, driven by staff absences (through isolation and other reasons), adversely impacted staff health and wellbeing, and many staff taking or considering (early) retirement or leaving the sector.⁴²

⁴¹ ekosgen, for SDS (2020) Employer Skills Research: Health and Social Care Sector

⁴² https://www.audit-scotland.gov.uk/uploads/docs/report/2022/nr_220224_nhs_overview.pdf

6.9 The impact of Brexit on non-UK Health and social care staff numbers, and the ability to continue working in the sector in Scotland is well-documented. Previous estimates have indicated that around 5% of the NHS Scotland workforce were non-UK workers.⁴³ However, the combined effect of Brexit and COVID-19 in reducing migration of skilled Health and social care workers to Scotland has made it more difficult for the NHS and other Health and social care employers to access the growing number of workers they need.⁴⁴ There is also ongoing uncertainty around the impact of Brexit on health determinants – for example the cost of living, unemployment, access to health and social care services, etc., as well as a challenge in disentangling the impact of Brexit from the effects of COVID-19 on public health.⁴⁵

6.10 Overseas recruitment in Scotland for NHS posts has increased recently following a recruitment drive.⁴⁶ However, there is some concern that this will not be sufficient to meet the staff shortage in the NHS⁴⁷, and more widely in the sector.

Professional, scientific & technical

6.11 The Professional, scientific and technical sector is important for Midlothian, with the area hosting a number of innovation centres and research parks – a benefit of its close proximity to a number of Higher Education Institutions in Edinburgh. The internationally recognised Midlothian Science Zone⁴⁸ is a world-leading centre for research in animal science and food security, and is the largest concentration of animal-related expertise in Europe.

6.12 This also includes Digital. Data Driven Innovation is a key theme of the Edinburgh and South East Scotland City Deal. To capitalise on the expertise within Midlothian and the proximity to Edinburgh, a key Digital Technologies for Scotland, Midlothian and the University of Edinburgh have invested in DDI to create the Newbattle Digital Centre for Excellence, which prepares young people with the data and digital skills for the future world of work, fostering digital inclusion and enabling young people to engage in a wider programme around data skills.

6.13 The Professional, scientific and technical sector is the second largest sector in terms of Midlothian's business base (390 businesses) and accounts for around 3,000 workers – making it more highly represented than nationally. However, there have been a number of changes in the funding environment which may impact on the sector.

6.14 The Brexit Deal allows the UK to participate in the 9th EU Framework Programme, Horizon Europe, as an associated country which runs from 2021 to 2027, giving UK based researchers access to the European Research Council (ERC), Marie Skłodowska-Curie Actions (MSCA), grant funding from the European Innovation Council (EIC), and the ability to participate in and lead consortia with EU and international partners. The TCA also allows the UK access to Euratom Research and Training, the fusion test facility ITER, the Copernicus Earth observation programme and the EU's Satellite Surveillance & Tracking (SST) services.⁴⁹

6.15 Given the scale and benefits of the Horizon Europe programme this is significant for research and innovation in Scotland and more widely in the UK⁵⁰, particularly since the UK has long benefitted

⁴³ <https://www.gov.scot/binaries/content/documents/govscot/publications/foi-eir-release/2017/09/foi-17-01830/documents/foi-17-01830-impact-brexite-healthcare-workforce-briefing-11-17-pdf/foi-17-01830-impact-brexite-healthcare-workforce-briefing-11-17-pdf/govscot%3Adocument/FOI-17-01830%2BImpact%2Bof%2BBrexit%2Bon%2BHealthcare%2Bworkforce%2B-%2Bbriefing%2B11%2BMay%2B17.pdf>

⁴⁴ Nuffield Trust (2020) Understanding the impact of Brexit on health in the UK

⁴⁵ Ibid.

⁴⁶ <https://www.gov.scot/news/nhs-scotland-recruitment-boost/>

⁴⁷ <https://www.nursinginpractice.com/latest-news/overseas-nurses-will-not-plug-scotlands-staff-shortages-says-rcn/>

⁴⁸ <https://midlothiansciencezone.com/>

⁴⁹ <https://royalsociety.org/topics-policy/projects/brexit-uk-science/access-to-research-funding/>

⁵⁰ Ibid.

from winning a considerable proportion of research and innovation framework funding across previous EU programming periods. The UK received 12.1% (more than €7 billion) of the Horizon 2020 funding; by comparison, the country's average contribution to the overall EU budget is around 11.4% of the total.⁵¹ However, following the Brexit vote, it is estimated that the UK missed out on around €1.5 billion of funding, having previously been the joint-most successful nation in terms of winning European research grants alongside Germany.⁵² Additionally, it is understood that disputes over Northern Ireland Protocol and EU's legal action means the European Commission has not yet signed off the association of the UK to Horizon Europe. There is also some uncertainty regarding the extent to which UKRI will match any grants cancelled as a result of this situation.⁵³

6.16 Prior to leaving the EU there was significant concern from scientists over the mobility of scientists, with a large proportion of scientists moving between countries for work. Around a third of academic staff in British universities are from outside the UK, with 16% coming from EU countries. The Royal Society has previously argued that present visa arrangements were uncompetitive in an international market for science talent, and was also inhibiting co-operation.⁵⁴

6.17 As a result of Brexit, EU researchers and innovators who want to come and work in the UK will now need to navigate the visas and immigration system. Currently the upfront costs of work and study visas for researchers and innovators considering coming to the UK are up to six times higher than the average across leading science nations.⁵⁵

6.18 New research by the Resolution Foundation suggests that new barriers to trade with the EU are likely to have a notable impact upon regulated and professional services. For instance, the research estimates a 13% reduction in output in the other professional, scientific and technical activities sector by 2030 compared to the counterfactual of remaining in the EU. There are around 200 people employed and 65 businesses in the in other professional, scientific and technical activities sector in Midlothian, which could be impacted due to increased barriers to trade as a result of the new trade agreements.⁵⁶

Manufacturing

6.19 Manufacturing is at risk due to non-tariff barriers and integrated supply chains with the EU. Many manufacturers rely on 'just-in-time' delivery of parts or inputs, and they may therefore be experiencing disruptions to their supply chains caused by increased or uncertain processing times for goods at the border.

6.20 There are c.2,500 manufacturing jobs in Midlothian, accounting for 7.9% of total employment, and 165 businesses (7% of the business base) in Midlothian. However, it is possible that manufacturing activity will also take place across some other sectors, e.g. Professional, scientific and technical, given the presence and nature of life sciences companies in Midlothian.

6.21 Impacts are expected to vary across sub-sectors. For example, the Resolution Foundation suggests food manufacturers may benefit from new trade relationships due to a reduction in import competition from EU producers, with domestic opportunities expected to outweigh any lost market share overseas. In contrast output in the manufacturing sub-sectors such as manufacture of basic metals and

⁵¹ <https://www.nature.com/articles/d41586-020-03598-2>

⁵² <https://www.chemistryworld.com/news/uk-share-of-horizon-2020-funds-dropped-15bn-since-brexit-vote/4013901.article>

⁵³ <https://www.ukri.org/apply-for-funding/horizon-europe/>

⁵⁴ <https://royalsociety.org/-/media/policy/Publications/2019/international-visa-systems-explainer-july-2019.pdf>

⁵⁵ <https://royalsociety.org/blog/2021/02/what-does-the-uk-eu-deal-mean-for-science/>

⁵⁶ The Big Brexit: An assessment of the scale of change to come from Brexit, The Resolution Foundation Swati Dhingra, Emily Fry, Sophie Hale & Ningyuan Jia, June 2022

electrical equipment is expected to be 14% and 7% lower by 2030, respectively, compared the scenario where the UK remained inside the EU.⁵⁷

6.22 Midlothian is home to Roslin Innovation Centre and Pentlands Science Park, significant industrial estates for Veterinary, AgriTech and Life Sciences activity, as well as hosting a number of more traditional industrial estates such as Eldin, Edgefield Road, Hardengreen and Bilston Glen. Companies across these industrial estates, such as Danfoss, will be involved in importing and exporting to the EU, as well as other parts of the world.

6.23 Nearly a half of UK exports and imports of manufactured goods go to, and come from, the EU, and EU labour helps fill key skills gaps in the UK. In Scotland, 47% of exports in 2019 were to EU countries.⁵⁸ However, recent Scottish Government analysis indicates that that Scotland's trade in goods with the EU was lower in 2021 than it otherwise would have been under continued EU membership. The Trade and Cooperation Agreement (TCA) is found to have a statistically significant effect on imports from the EU, an effect which has persisted in each quarter of 2021. Estimates suggest that imports from the EU in 2021 were 18% to 25% lower than they otherwise would have been, and exports in the first quarter of 2021 were 9% to 14% lower than they otherwise would have been.⁵⁹

6.24 Whilst intelligence suggests that the negative impact of the COVID-19 pandemic and various lockdown restrictions is easing and businesses are starting to recover, the effects of disruption to the movement of goods into and out of the UK, as well as along global supply chains, continue to persist.

6.25 The Resolution Foundation Research suggests that a transition of UK firms towards a focus on the domestic market in response to Brexit is expected to result in the largest gains for the lower productivity sectors that were less internationally competitive and previously struggled to compete with EU imports. This therefore suggests that any new manufacturing opportunities in the sector as a result of Brexit are expected to be in lower productivity, lower-paid manufacturing sectors.⁶⁰

Construction

6.26 Construction accounts for a greater share of employment in Midlothian than in Scotland as a whole. It has a location quotient (LQ) of 1.55 meaning that construction employment is more concentrated than nationally in Midlothian. Construction also accounts for the largest proportion of the business base.

6.27 The Construction sector is facing challenges following Brexit and the COVID-19 pandemic. Global supply chains have been significantly disrupted because of these and other factors, affecting the supply of construction and other materials. The shortage of HGV drivers is also impacting on the timely availability of products. This disruption has placed upward pressure on costs within the building industry, with many construction costs (e.g. construction materials) having increased considerably over a relatively short period of time.

6.28 There is significant uncertainty regarding the actual and potential impact of both the COVID-19 pandemic and Brexit. This is placing ongoing inflationary pressure on costs in the construction sector, as well as in other sectors. More recently, the conflict in Ukraine is also negatively impacting on global markets and prices for commodities and goods. Further, Brexit has caused an uncertain investment environment, with a reduction in lenders' appetite to invest as a direct result of the ongoing uncertainty of Brexit.

⁵⁷ The Big Brexit: An assessment of the scale of change to come from Brexit, The Resolution Foundation Swati Dhingra, Emily Fry, Sophie Hale & Ningyuan Jia, June 2022

⁵⁸ <https://www.gov.scot/publications/export-statistics-scotland-2019/>

⁵⁹ <https://www.gov.scot/publications/state-economy-2022/>

⁶⁰ The Big Brexit: An assessment of the scale of change to come from Brexit, The Resolution Foundation Swati Dhingra, Emily Fry, Sophie Hale & Ningyuan Jia, June 2022

Education

6.29 Around 3,500 people work in the Education sector in Midlothian, accounting for 11% of employment. The sector is more highly represented than nationally – it has a location quotient (LQ) of 1.39, meaning that employment in the sector is more concentrated in Midlothian in comparison to Scotland as a whole. As such it is an important employment sector for the area.

6.30 During the COVID-19 pandemic, Scotland's education system was under pressure from staff absences arising from isolation rules, and periods of at home and remote learning – with significant focus on literacy, numeracy and wellbeing in school-level teaching and learning. Whilst schools and colleges have largely returned to in-class face-to-face teaching, university learning is still being delivered through a hybrid model.

6.31 As the country emerges from the COVID-19 pandemic, a series of different pressures is facing the education sector. There is already some evidence to suggest that the number of supply teachers in Scotland is decreasing, with a lack of supply work driving supply teachers to seek employment in other sectors or in some cases take (early) retirement. However, there is also evidence at the UK level that four factors are impacting on teacher numbers. Firstly, demographic factors meaning that there are comparatively lower numbers of graduates entering the sector than in previous years. Secondly, the drive by many companies (particularly larger corporate organisations) to address gender imbalances in their workforces is impacting on the number of women choosing to enter the education sector, which traditionally is more reliant on a female workforce. In addition, the increase of home-working and flexible employment opportunities may be more attractive than part-time and term-time administrative and support roles in education. Finally, education practitioners from the UK are in high demand internationally.

6.32 These factors have implications for an important employment sector for Midlothian, though conversely this may increase supply in other sectors experiencing a tight labour market.

7 Business impacts

Introduction

7.1 This section considers the impacts of Brexit and COVID-19 on businesses including in terms of impacts for exporting and importing firms, business investment and inward investment, in addition to looking at performance of Midlothian's businesses over recent years. Recruitment challenges as a result of Brexit have also had a significant impact upon businesses which is covered in Section 4.

Implications for trade and access to markets

7.2 Increased trade barriers and friction for companies importing and exporting as a result of leaving the single market and customs union at the start of 2021 has resulted in disruptions to both the import and export of goods between the UK and the EU, as well as issues around rules of origin.

7.3 While insights on the number of exporting/importing firms was not available at the local level, based on Annual Business Survey data at Great Britain level on number of exporters and/or importers by business size band and UK Business Counts data, it is estimated that around 350 firms in Midlothian could be exporters and/or importers of goods and/or services, many of which are likely to trade with the EU.

7.4 Notable regulatory, logistical and administrative barriers have arisen, which have been reported to particularly affect smaller businesses, while larger firms have found it easier to adjust and cushion themselves against barriers and disruptions to trade.⁶¹ Estimates suggest the additional costs of non-tariff barriers such as filling out import and export declarations range from £7.5 billion to £15 billion per year.⁶²

7.5 Additional costs of proving compliance for rules of origin requirements have in some instances outweighed the potential tariff savings from satisfying rules of origin, with research suggesting in the first seven months of 2021, tariffs were paid on around 30% of UK exports to the EU that could have benefitted from zero tariff entry under the TCA.⁶³

7.6 While the EU implemented customs checks for UK exports immediately in January 2021, the UK has further postponed introducing full customs checks on imports from the EU, which are now due to come into force at the end of 2023. Therefore, there is likely to be some additional challenges for exporters and importers as full customs processes are implemented next year.

7.7 New research published by the Resolution Foundation estimates that the introduction of the TCA results in a 10.8% increase in trade costs for exports to the EU and 11.0% increase for imports from the EU, and suggests this could increase further in the future.

7.8 Office for National Statistics (ONS) data on goods imports and exports suggests there was a 12% fall in exports to the EU in 2021 compared with 2018, while exports to non-EU27 fell by 6% over the same period. Similarly imports from the EU fell by 17% between 2018 and 2021, while imports from the rest of the world increased by around 13%. This data shows a slight recovery from the initial significant reduction in trade in January 2021 following the departure from the single market and customs

⁶¹ <https://committees.parliament.uk/committee/445/eu-goods-subcommittee/news/153116/trade-in-goods-significantly-harder-under-brexit-deal/>

⁶² <https://ukandeu.ac.uk/manufacturing-in-the-post-brexit-world/>

⁶³ Ayele, Y., Larbalestier, G. and Tamberi, N., 2021. Post Brexit: trade in good and services (II). UK Trade Policy Observatory Briefing Paper 63

union when UK goods exports to the EU fell by 40.7%, while imports of EU goods into the UK declined by 28.8%.⁶⁴

7.9 COVID-19 has contributed to some of the disruption in trade since 2020, impacting upon international demand and supply chains, including as a result of increased testing of lorry drivers to curb the alpha variant and supply bottlenecks as the global economic recovery ramped up.⁶⁵

7.10 The Centre for European Reform conducted analysis to isolate the impact of Brexit on trade and concluded that since the transition period ended, leaving the single market and customs union had reduced UK goods trade by 15.8% as of August 2021.⁶⁶

7.11 Recent research conducted by LSE aimed to isolate how Brexit has affected relative UK-EU trade. The research concludes that *“the TCA has increased the fixed costs of exporting to the EU, causing small exporters to exit small EU markets, but not (or at least not yet) severely hampering exports by large firms that drive aggregate export dynamics”*... *“Nevertheless, there was a sharp drop in the number of trade relationships between UK exporters and EU importers, which suggests that the introduction of the TCA caused many UK firms to stop exporting to the EU”*.

7.12 UK trade in services with the EU has fallen by more than services trade to the rest of the world compared to 2019 levels, which the Office of Budget Responsibility (OBR) suggests is reflective of the impact of COVID-19 on travel and transport sectors which accounted for a larger share proportion of EU services trade than non-EU prior to the onset of the COVID-19 pandemic. The analysis shows that UK service exports to the EU and non-EU countries has recovered to around 5% and 10% below 2019 levels, while imports of services from the EU are still down by over 30 per cent.⁶⁷

7.13 OBR suggests the greater fall in imports from the EU to the UK, in both goods and services, may be due the UK representing a relatively small market for individual EU exporters with the cost of additional paperwork outweighing the benefits.⁶⁸ In the long term OBR analysis suggests both imports and exports will be around 15% lower than had the UK remained an EU member.

7.14 Recent Business Insights and Conditions Survey (BICS) data for Scotland asked businesses if they have exported or imported goods or services in the last 12 months. The survey data suggests a downward trend in proportion of businesses exporting or importing in Scotland over the past couple of years. It is worth noting the sample size is relatively small, with an average there were 1,050 responses each round of the survey between June 2020 and the start of March 2022.

⁶⁴ <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/december2021>

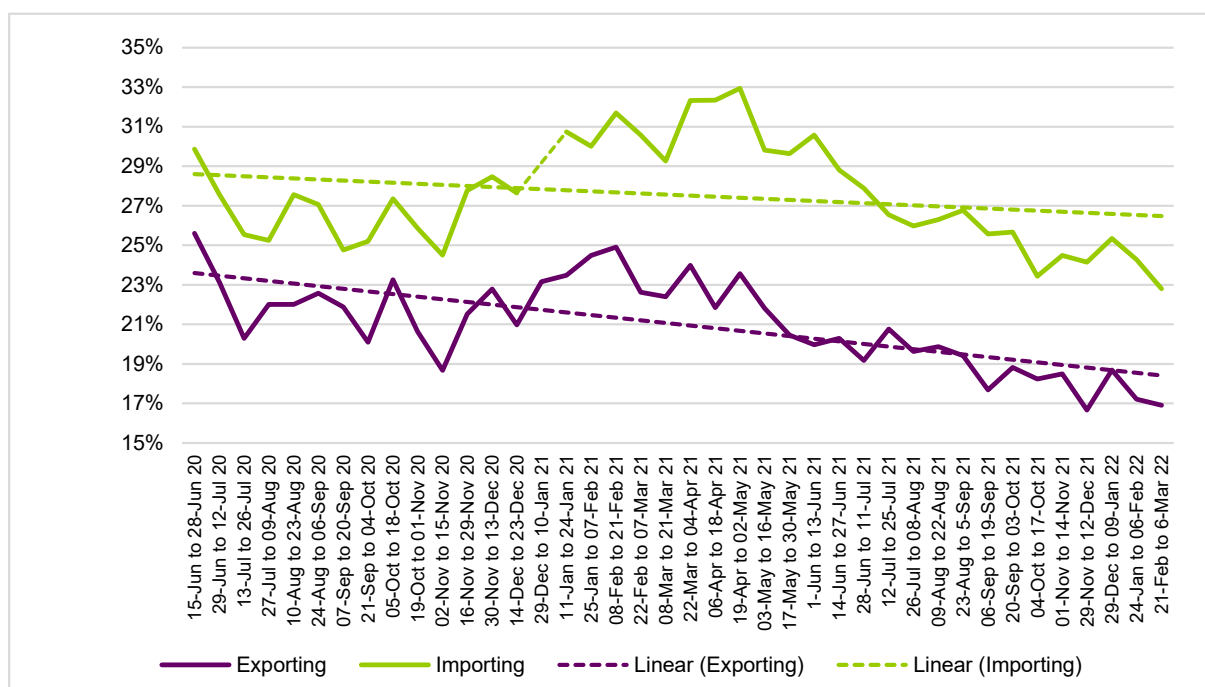
⁶⁵ <https://obr.uk/box/the-initial-impact-of-brexit-on-uk-trade-with-the-eu/>

⁶⁶ <https://obr.uk/box/the-initial-impact-of-brexit-on-uk-trade-with-the-eu/>

⁶⁷ <https://obr.uk/box/the-initial-impact-of-brexit-on-uk-trade-with-the-eu/>

⁶⁸ <https://obr.uk/box/the-initial-impact-of-brexit-on-uk-trade-with-the-eu/>

Figure 7.1. Respondents to BICS Survey Question: Has your business exported/imported goods or services in the last 12 months? June 2020 – March 2022



Source: Business Insights and Conditions Survey (BICS) 2022, N=1,050 on average

7.15 BICS reported that 65.6% of exporters and 72.2% of importers in Scotland faced challenges during late February early March 2022 – with the key challenges cited being additional paperwork (which can be directly linked to Brexit), change in transportation costs, and customs duties or levies in addition to disruption at the border. While the proportion of Scottish exporters experiencing challenges is broadly in line with the same period in 2021, the share of importers reporting challenges has risen by 13 percentage points. BICS results show that in Scotland, the end of the EU transition period combined with COVID-19 emerged as the most commonly reported factor causing challenges to trade.

Access to Markets

7.16 The UK has rolled over many of the EU's existing deals into mostly equivalent standalone agreements. In addition, it has reached free trade agreements with Australia and New Zealand and has applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). However, OBR analysis states that *“new trade deals with non-EU countries will not have a material impact, and any effect will be gradual”*. This reflects the fact that many of the deals replicate access the UK had previously as a member of the EU.

Implications for business investment

7.17 There is significant evidence showing that the uncertainty around Brexit following the referendum in 2016 and prior to the agreement of the TCA has suppressed business investment, including evidence from the Bank of England (BoE) and the National Bureau of Economic Research.

7.18 Given an agreement is now in place, BoE state *“the fall in Brexit-related uncertainty in 2021 should help to support investment”*.

7.19 Alongside Brexit related impacts, COVID-19 has had a negative impact upon business investment in 2020 and 2021. ONS data shows that business investment fell by 11.5% between 2019 and 2020, before increasing marginally by 0.8% between 2020 and 2021, leaving business investment

10.8% lower than 2019 pre-COVID-19 levels. Growth in business investment was driven by the transportation and storage and the information and communication industries.

7.20 Business survey results from the February 2022 DMP survey⁶⁹ suggest that looking forward in the medium-term businesses reported that they expect investment to be marginally higher than it would have been without Covid. BoE suggest that this could be due to reasons including businesses catching up on investment which was put on hold due to Covid and businesses investing more heavily in new digital technologies due to Covid.

Implications for FDI

7.21 Brexit is also anticipated to lead to a reduction in the attractiveness of Midlothian and Scotland as a place to invest and re-invest relative to other towns and regions in the EU. The UK's previous promotion of the UK as a base for European markets no longer applies. Foreign Direct Investment (FDI) declined in the years following the 2016 referendum in the UK. The uncertainty surrounding a no-deal Brexit before the EU-UK FTA was signed and the economic fallout from COVID-19 also led to a decline in FDI projects in the UK falling by 12% in 2020 from 2019, with a 13% fall in projects from Europe.

7.22 However, in contrast amid these challenges in 2020 Scotland saw growth of 5.9% in FDI projects, outperforming Europe and the rest of the UK. Edinburgh overtook Manchester as the leading recipient of FDI projects outside of London, which saw a significant uplift in the number of FDI projects against its ten year average.⁷⁰

7.23 The most significant negative impact of Brexit on FDI has been in sectors which are most integrated with Europe in regulation, and trade and customs arrangements, such as financial services and manufacturing. The manufacturing sub-sectors most negatively impacted in terms of FDI have been transportation, chemicals and plastics and electronics which have experienced sharp declines.

7.24 However FDI in the agri-food sector has increased consistently since the Brexit vote. The share of European agri-food projects in the UK rose from 14.6% in 2019 to 19.9% in 2020, in line with expectations that a need to meet new regulations on food and drink could drive investment in the sector.

7.25 In addition, COVID-19 has led to greater FDI in life sciences, with a 60% increase in the number of projects in 2020 in the UK, as well as transportation and logistics in the UK in 2020 which reflects, in part, the acceleration of the shift to online shopping during 2020.

7.26 In Scotland around 3% of businesses are owned outside of Scotland, and analysis shows that on average *"inward investment tends to pull Scotland's average wage upwards within and across sectors"*, with Scotland's inward investment plan stating that *"one of the most significant contributions that inward investment makes to Scotland is the creation of high-value jobs"*⁷¹. In the Lothians average wage and salary per head for foreign owned businesses was over 30% higher than for Scottish owned businesses.⁷² Given this evidence, it is important Midlothian remains an attractive location for inward investment to support and sustain the economic recovery, in light of potential for the UK to go into a recession during 2022.

Midlothian Business Performance

Business start-up rate, measured by the number of business births as a proportion of the business base, peaked at 13.8% in 2016, falling to 11.9% in 2017 coinciding with the aftermath of the EU referendum.

⁶⁹ This is a monthly survey of around 3,000 chief financial officers of small, medium and large firms in the UK

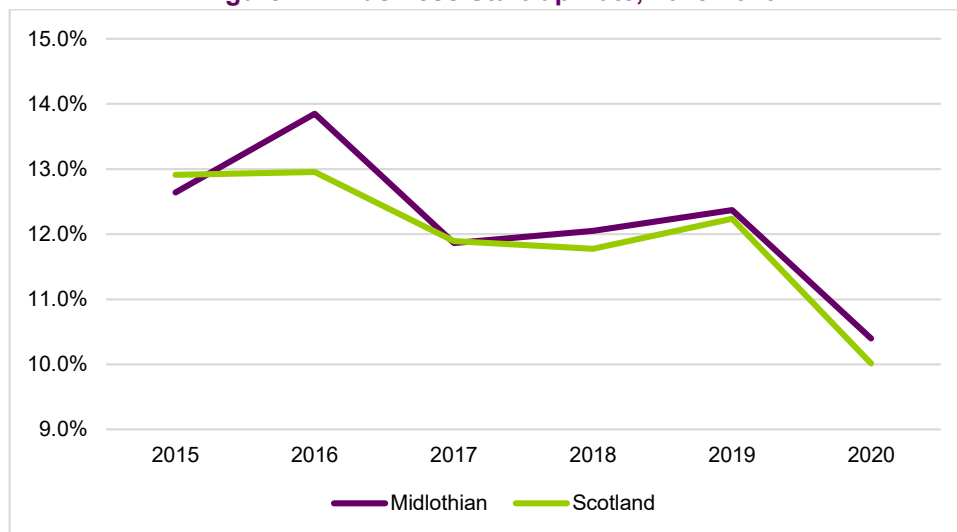
⁷⁰ EY, 2022

⁷¹ <https://www.gov.scot/publications/shaping-scotlands-economy-scotlands-inward-investment-plan/>

⁷² Office of the Chief Economic Adviser analysis using data from Scottish Annual Business Survey

The start-up rate declined sharply again in 2020 to 10.4%, broadly in line with the Scottish trend, coinciding with the onset of COVID-19 pandemic in the UK.

Figure 7.2. Business Start-up Rate, 2015-2020

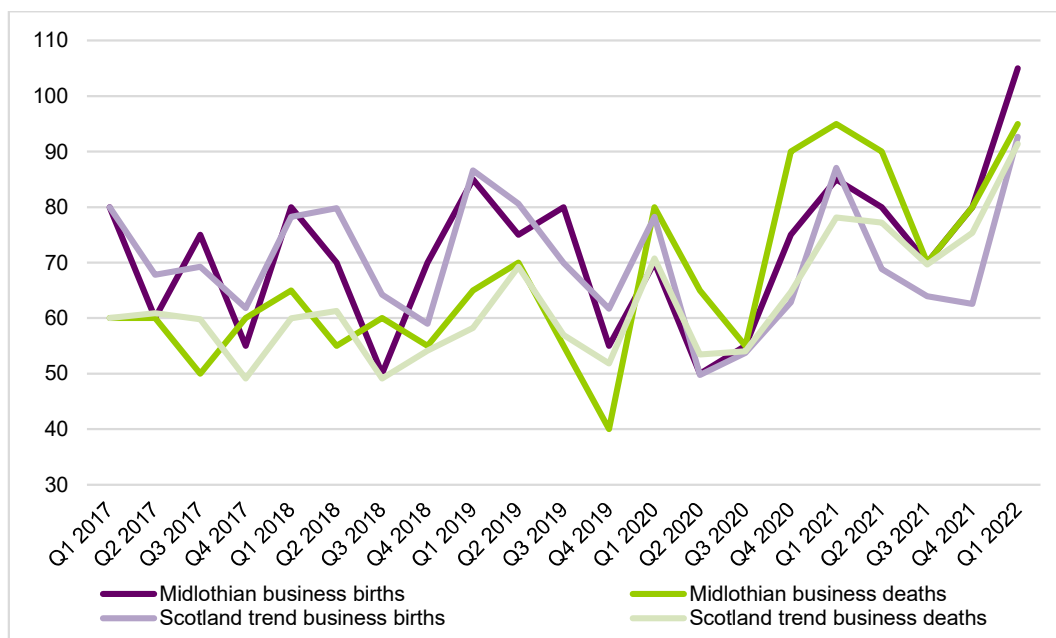


Source: ONS Business Demography and UK Business Counts

After the onset of COVID-19, business deaths rose above business starts and above the average pre-COVID-19 level and have remained above or equal to business starts to the end of 2021, peaking during 2021 representing a five year high.

However, Quarter 1 of 2022 presents a more positive picture for Midlothian with the highest number of business starts in any quarter over the past five years. While business deaths remain high compared to the pre-COVID-19 average, they fell below the number of starts.

Figure 7.3 Quarterly Business Births and Deaths, Q1 2017 – Q1 2022



Source: ONS Business Demography, 2022

8 The funding environment

Introduction

8.1 This section sets out a discussion of the changed funding environment for economic development investment in Midlothian.

EU funding

Structural Funds

8.2 The EU Structural and Investment Funds⁷³ are designed to promote smart, sustainable and inclusive growth, and deliver the European Union's Cohesion Policy. Under the EU's 2014-2020 budget, Scotland was allocated up to €944 million in Structural and Investment Funds, across the European Regional Development Fund (ERDF) and European Social Fund (ESF). This is in addition to the funds accessed through European Territorial Co-operation programmes that Scotland participated in – namely, Interreg NW Europe, Interreg North Sea Region, Interreg Northern Periphery, Interreg Atlantic Area, Interreg Special EU Programmes Body (covering parts of Scotland, Northern Ireland and Republic of Ireland) and Interreg Europe.

8.3 Whilst new funding has ceased and Scotland will not participate in the 2021-27 programme period following Brexit, investment from the 2014-20 EU Structural and Investment Funds programming period will continue to be spent until the end of 2023.

EU Framework Programme for research and innovation

Horizon 2020 and Horizon Europe

8.4 Horizon 2020 was the EU's 8th Framework Research and Innovation programme. It was the financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's global competitiveness. Horizon 2020 brought together the Framework Programme for Research and Technological Development with other instruments such as the Competitiveness and Innovation Programme, Intelligent Energy Europe, etc.

8.5 The UK received 12.1% (more than €7 billion) of the Horizon 2020 funding during the 2014-20 programme period. However, following the Brexit vote, it is estimated that the UK missed out on around €1.5 billion of funding.⁷⁴

8.6 Horizon Europe, the 9th EU Framework Programme, is the EU's key funding programme for research and innovation with a budget of €95.5 billion, a significant increase on Horizon 2020's c.€70 billion budget. It is designed to help tackle climate change, achieve the UN's Sustainable Development Goals and boosts the EU's competitiveness and growth.⁷⁵

8.7 An agreement is being put in place to enable the UK is able to participate in Horizon Europe, running from 2021 to 2027, which is key for supporting collaborative, transnational research and development, with a primary focus on science and technology. However, as discussed in Section 6,

⁷³ Principally the European Regional Development Fund (ERDF) and European Social Fund (ESF), but also the European Marine and Fisheries Fund (EMFF) and European Agricultural Fund for Rural Development (EAFRD) and the Territorial Cooperation funds (Interreg)

⁷⁴ <https://www.chemistryworld.com/news/uk-share-of-horizon-2020-funds-dropped-15bn-since-brexit-vote/4013901.article>

⁷⁵ https://ec.europa.eu/info/research-and-innovation/funding/funding-opportunities/funding-programmes-and-open-calls/horizon-europe_en

there is some uncertainty regarding the UK's access arising from disputes over Northern Ireland Protocol.

Other EU funding mechanisms

8.8 Other EU funding programmes that Scotland previously had access to include:

- **European Marine and Fisheries Fund:** The EMFF (now the European Marine, Fisheries and Aquaculture Fund; EMFAF) supports the adoption of sustainable fishing practices and helped coastal communities to diversify their economies⁷⁶;
- **Life programme:** EU's financial instrument supporting environmental and nature conservation projects throughout the EU. For the 2021 programme, it includes the Clean Energy Transition sub-programme⁷⁷;
- **Erasmus+:** the EU programme for Education, Training, Youth and Sport⁷⁸; and
- **The Connecting Europe Facility:** The Connecting Europe Facility (CEF)⁷⁹ is a pan-European instrument aimed at supporting the development of high-performing, sustainable and efficiently interconnected trans-European networks in the field of energy, digital/telecommunications and transport.

Replacement funding regimes

Shared Prosperity Fund

8.9 The UK Shared Prosperity Fund (UKSPF)⁸⁰ is a new three-year domestic fund running from 2022. The purpose of the UKSPF is to build pride in place and increase life chances across the UK. This will be achieved through three UKSPF priorities of:

- Communities and place – strengthening our social fabric and fostering a sense of local pride and belonging, and building resilient and safe neighbourhoods;
- Local business – creating jobs and boosting community cohesion, promoting networking and collaboration, and increasing private sector investment in growth-enhancing activities, and;
- People and skills – boosting core skills and supporting adults to progress in work, by targeting adults with no or low-level qualifications and skills in maths and upskilling the working population; supporting disadvantaged people to access the skills they need to progress in life and into work; supporting local areas to fund local skills needs and supplement local adult skills provision; and reducing levels of economic inactivity and moving those furthest from the labour market closer to employment.

8.10 It provides £2.6 billion of new funding for local investment by March 2025, with areas receiving an allocation from the UKSPF via a funding formula. In the first two financial years (2022/23 and 2023/24) the UKSPF will focus on communities and place and local business interventions to boost pride in place.

⁷⁶ https://ec.europa.eu/oceans-and-fisheries/funding/european-maritime-and-fisheries-fund-emff_en

⁷⁷ https://cinea.ec.europa.eu/programmes/life_en

⁷⁸ <https://erasmus-plus.ec.europa.eu/>

⁷⁹ https://cinea.ec.europa.eu/programmes/connecting-europe-facility_en

⁸⁰ <https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus>

8.11 Midlothian has received a UKSPF allocation of £2.94 million in core funding⁸¹, and an additional £635,000 through the Multiply adult numeracy programme.⁸²

Levelling Up Fund

8.12 The Levelling Up Fund is designed to invest in infrastructure that improves everyday life across the UK. The £4.8 billion fund is supporting town centre and high street regeneration, local transport projects, and cultural and heritage assets.⁸³

8.13 In Scotland, more than £100 million was awarded to five projects during Round 1, and Round 2 projects are due for submission in July 2022.⁸⁴ As in Round 1, Midlothian is a Priority 2 area for Round 2 funding.⁸⁵

Community Renewal Fund

8.14 The Community Renewal Fund (CRF) provides £220 million of funding to help places across the UK prepare for the introduction of the Shared Prosperity Fund. The CRF aims to support people and communities most in need across the UK to pilot programmes and new approaches and will invest in skills, community and place, local business, and supporting people into employment.⁸⁶

8.15 While Midlothian was not identified as a priority area under the CRF, any local authority could apply for CRF. However, Midlothian did not receive any funding under the CRF.

Community Ownership Fund

8.16 The UK government launched a new £150 million Community Ownership Fund (COF) in 2021, with an updated prospectus published in May 2022. The COF aims to ensure that communities across England, Scotland, Wales and Northern Ireland can support and continue benefiting from important local facilities, community assets and amenities. £150 million of funding is available over four years to 2025.⁸⁷

Determining the approach in a new funding regime

8.17 A clear difference in the approach to funding investment in economic development is in how funds are awarded. Whilst EU funding has always had a degree of competitive funding within a framework of allocation, domestic funds were typically more allocation-based. This model has changed, with a much more competitive funding regime in place. As a result, local authorities and public sector partners must be clear on identifying their strategic priorities, the rationale for these priorities, and the ways in which local priorities align with regional and national strategy.

⁸¹ <https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/ukspf-allocations>

⁸² <https://www.gov.uk/government/publications/multiply-funding-available-to-improve-numeracy-skills>

⁸³ <https://www.gov.uk/government/publications/levelling-up-fund-round-2-prospectus>

⁸⁴ <https://www.gov.uk/government/publications/levelling-up-fund-first-round-successful-bidders>

⁸⁵ <https://www.gov.uk/government/publications/levelling-up-fund-round-2-updates-to-the-index-of-priority-places>

⁸⁶ <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus/uk-community-renewal-fund-prospectus-2021-22>

⁸⁷ <https://www.gov.uk/government/publications/community-ownership-fund-prospectus>

9 Challenges and opportunities

Introduction

9.1 Following the analysis of socio-economic data relating to Midlothian set out in the preceding chapters, this chapter sets out a summary of challenges and opportunities facing the Midlothian economy, giving consideration to those likely in the short-term future, and also over the longer-term. It draws on the findings from consultations with key informants from Midlothian Council and strategic partners, and sets out challenges, opportunities and strategic considerations going forward.

Short-term challenges and threats

9.2 In summary, the short-term challenges and threats facing the Midlothian economy over the next 12-18 months or so are:

Macro-economic and trade-related

- Ongoing impacts arising from the COVID-19 pandemic and from Brexit. This includes the disruptions and delays at border checkpoints impacting on supply chains and on the import and export of goods, which in turn are negatively impacting on (and will continue to impact on) the cost of goods and services. There is also an additional challenge in disentangling the impacts of the COVID-19 pandemic from Brexit given their proximity to each other – at least at this moment in time.
- Rising inflation, and the subsequent pressure on business costs, construction costs, etc., and the effect that this will have both on the scale of economic activity, and how this cost is passed on to end consumers. This is likely to be exacerbated by the forecast recession over the next twelve months or so.
- Regarding inflation, one particular area of concern is the impact of inflation on hospitality and leisure – and the consequences this will have on businesses in terms of operating hours, footfall, change in consumer behaviour, etc. If current trends continue as forecast, it is anticipated that there will be a shrinkage in the hospitality and leisure business base.

Community and regeneration

- An increase in pressures from cost of living crisis, e.g. an increase in in-work poverty, increased incidence of fuel poverty, greater proportion of families at risk of poverty and homelessness, etc. This will increase the pressure on public and third sector services.

Business and sectoral

- Increasing business costs – and energy costs in particular. This can impact negatively on operating margins, potentially making businesses unviable. Though a lot of attention has been paid to domestic energy price caps in recent months, it is worth noting that no such caps exist for commercial and industrial customers. Further, where businesses are over-reliant on a single source of fuel, this exposes them to greater risk of price rises and price volatility.
- Midlothian has a shortage of business premises. This contrasts with a relatively healthy supply of employment land. The Council is trying to increase its own portfolio of premises, and is also working with partners such as Buccleuch Estates to increase provision. For commercial premises in particular, there is a question of whether there is a need for more retail and leisure space, or better space tailored to the changing needs of town centres.

Labour and skills

- There are skills shortages across a number of sectors, including in Health and Social Care where existing workforce challenges which have been accelerated by both COVID-19 and Brexit. Skills shortages also exist in sectors that employ (or have previously employed) a large proportion and number of EU citizens including: Primary food production, Hospitality, Transport, Manufacturing, Business administration, Retail, Professional, scientific and technical, and Construction. These sectors have been impacted by return migration.
- As a result of skills shortages and a tight labour market, there is a high degree of competition for skills, and thus churn in the labour market. Attraction and retention of workers is increasingly challenging for some businesses. This has also been influenced by a change in the perceived attractiveness of sectors and roles following the COVID-19 pandemic – for example, there is evidence of acute shortages in accommodation and food services, with many employees choosing to leave or not return to the sector post-pandemic.
- There is some evidence to suggest that Brexit has had a considerable impact in terms of talent attraction and retention within the foundational economy – that is, those sectors that provide essential goods and services, and underpin the wider economy and society as a whole.

Demographic

- Midlothian is an outlier in Scotland in terms of its population growth. This is partly due to Midlothian's proximity to Edinburgh, and its lower cost of living in comparative terms, resulting in a displacement of population from there. However, this demographic trend is placing pressure on infrastructure, services and communities, which are struggling to keep pace with the population growth of the local authority area.

Funding environment

- At least over the short term, there is uncertainty around access to research and innovation funding, not least through Horizon Europe or replacement UK Government funding. Whilst research funding of this nature has always meant short- or fixed-term contracts for those working in the HE sector or for Research and Technology organisations (RTOs), the increased uncertainty around funding is serving to deter entrants to the sector, and encourage researchers to pursue research contracts and funding elsewhere, e.g. Europe.

Medium- to long-term challenges and threats

9.3 Looking beyond 2022 and 2023, anticipated challenges and threats to economic performance and realising the potential of economic opportunities are as follows:

Macro-economic and trade-related

- It is anticipated that there will be associated costs and sectoral impacts of further divergence from EU regulations, and as a consequence of this, the perceived and actual isolation from global markets. This will potentially put Scottish and UK businesses at a disadvantage for not having the same access and benefits as comparator firms in the EU.
- A permanent shift to flexible, remote and home working has resulted in reduced footfall in town centres. As a consequence of not having a critical mass of people in one location during business hours, less money is being spent in businesses based in town centres.
- The changing nature of town centres, and changing nature of businesses is a big challenge. Patterns of consumption are changing, therefore service needs within town centres are also changing. This has been accelerated by the pandemic, as well as by trends in online shopping and eCommerce. Also, business functions are changing – enterprises no longer fall neatly into categories, e.g. SIC codes, or land use classification. As a result, there is a question of how to

reclassify and repackage town centres, as well as areas of employment land to fit changing need.

Community, regeneration and infrastructure

- There are pockets of deprivation in Midlothian. There is also a mismatch in some areas between the affluence of the population, and the prosperity of places (e.g. Dalkeith; Newtongrange). There is at least a perception that there is a commuter effect: people live in Midlothian, but don't necessarily spend in Midlothian. The challenge here is to attract and retain as much spend within the local economy as possible, to help build community wealth.
- There is a notable difference between Midlothian's open spaces and countryside, and the urban fabric in the area. There is some evidence of investment in physical fabric of Midlothian's urban areas, but there is a perceived need to further improve the quality of the built environment, and attract people into the town centres – including ensuring the transport infrastructure is conducive to attracting people to Midlothian's towns. If the ambition is to attract more businesses into Midlothian, businesses will want to provide a high amenity environment for their staff, and use quality of life as an attractor.
- Midlothian's transport infrastructure is a constraining factor on the local economy. The majority of transport routes in Midlothian run North-South, with congestion an issue on arterial routes to/from Edinburgh.

Business and sectoral

- There is a demonstrable need for ongoing business support provision, targeted at key business challenges and responsive to the needs of enterprises in an increasingly uncertain economic environment.
- There may be a reduction in business rates and retail employment arising from the fall in the demand for commercial space following a shift to more flexible modes of remote- and home-working and the acceleration of online shopping.
- Digitalisation and automation are changing the way we work. Routine tasks are increasingly automated, and workers are being freed up and redeployed to work on more value-added tasks. However, there is still a challenge in encouraging businesses to see the value of adopting digital ways of working. Businesses will need to be supported to undergo the digital transition and to achieve greater efficiencies.

Labour and skills

- Ongoing skills shortages, particularly in the Health and Care Sector. With the ongoing challenge of recruitment and staff retention in the NHS and wider care sector, there is a need to continually recruit domestically and internationally in order to provide the workforce demand exacerbated by Brexit. This includes for community-based children and adult health and social care services.

Public resources

- For Midlothian Council there is a longer term challenge in terms of resource availability to support economic development activity. There is recognition that the public purse is increasingly constrained. However, this restricts the Council's ability to pro-actively follow-up on all economic development opportunities, or to develop an investment proposition for Midlothian.

Opportunities

9.4 In tackling some of the challenges and threats outlined above, there are a number of place-based and sectoral opportunities that can be exploited to develop Midlothian economy, both in the short term and over the longer term. These are as follows:

- Midlothian remains the fastest growing authority in Scotland in terms of population. This is attractive to employers in terms of skills supply, but there is a need to ensure talent retention to maximise this.
- In spite of impacts of Brexit, Scotland continues to be seen as an attractive location for inward investment, and Midlothian's location in close proximity to Edinburgh, and as part of the Edinburgh and South East Scotland City Region is increasingly advantageous for attracting inward investment.
- Midlothian is arguably starting from a point of relative strength in terms of economic recovery. It has been relatively resilient in terms of the COVID-19 pandemic's impact: this is partly because of broad employment across sectors, and not being overly dependent on those sectors highly impacted by the pandemic. Also, its strong growth over last 15 years or so in terms of economic output and GVA offers potential for future growth.
- There are economic opportunities in 'onshoring', which will help to redress imbalances exposed by the COVID-19 pandemic and by Brexit, and to reduce to reliance on overseas suppliers and long global supply chains.
- The permanent move toward flexible home-working and remote working in at least some sectors of the economy opens up wider employment opportunities for Midlothian residents. It also contributes to reducing congestion and emissions as fewer people will commute. There is also the potential to support local economies and smaller town centres as people switch their consumption patterns in line with their work patterns. This in turn contributes to the creation of 20-minute neighbourhoods, enables a better work life balance, and enhances productivity and well-being.
- There is an opportunity not just in providing more business space, which the Council is currently working on, but also in making better use of existing buildings and spaces as part of responding to the changing nature of towns and urban fabric. Considering actions such as change of use class for employment land, and also repurposing (previously high-density) office space, to provide more lower density office accommodation in line with changing business (and employee) expectations for working environments, will potentially keep buildings occupied rather than vacant premises. This in turn will contribute to maintaining the vitality of town centres and urban areas.
- Infrastructure improvements, such as the proposed A701/A702 relief road, will help to unlock new development land for enterprise, residential and leisure developments. They will also help to enable environmental improvements, such as the creation of sustainable travel corridors, and the preservation of woodland and green spaces.
- The transition to a net zero carbon economy offers new opportunities in green jobs and clean growth. In the immediate term, this may be in renewable energy (not just offshore wind but also including low carbon energy and heating from waste plants), and those industries at the vanguard of the energy transition. However, low carbon energy other opportunities may arise, such as through potential to use former coalfields to develop geothermal heat network, carbon capture and sequestration. There is also anticipated to be an increase in demand for building retrofit not just to reduce carbon emissions, but to mitigate against climate change.
- Community wealth building is a key opportunity for Midlothian. With increased focus on community wealth building in Scotland and building socio-economic resilience, there is clear scope for the Council to support growth of social enterprises, build fair employment

opportunities, foster shared ownership of the local economy and explore the potential for socially just use of land and property.

- There is an opportunity to (re-)establish local food markets – thereby shortening food supply chains and reducing the dependency on imported produce. This will build food security and resilience, and contribute to increased market opportunities for local producers. Aligned to this, there is an opportunity in developing local physical markets – not just as outlets for local produce, but to re-orient town centres and meet demands from changing consumer patterns.
- Council procurement offers an important opportunity to support local economic development in Midlothian. The Council is already localising tender opportunities where possible, alongside programme of upskilling the local business base in supplier development procurement. Further breaking down procurement contracts to incentivise local suppliers to bid across all council services can help to develop more local business opportunities, and also contribute to community wealth building – with progressive procurement to support local employment and keep wealth within communities one of the five core principles. Engaging other anchor institutions to do likewise (e.g. NHS) will also be necessary. However, this will require development of local supply chains to ensure that they can respond to tender opportunities. There is also a need for the Council to support procurement approaches at a regional level, and support the development of supply chains beyond initial successes in health products, services, construction.
- Developments such as Edinburgh International Arena and Destination Hillend offer significant opportunities to both Midlothian and the wider city region in terms of the culture offer. However, there is a perception that Midlothian's existing culture, leisure and outdoor assets are under-utilised, and overshadowed by the offer from other areas, not least Edinburgh itself. Maximising the leisure offer that Midlothian has, and capitalising on new developments, is critical to changing the perception of Midlothian and its town centres.

Strategic considerations

9.5 In pursuing the opportunities outlined above, there are a number of strategic considerations for the Council:

- The Council's positive, proactive decision-making with regard to economic development, and its flexibility in achieving solutions is recognised. The Council should give consideration to how best to continue this flexible, proactive approach in an increasingly uncertain economic climate.
- In pursuing new economic development opportunities, due cognisance should continue to be given to alignment with the Regional Prosperity Framework (particularly around the themes of rethinking our place, supporting enterprise, and anchor institutions), and the new National Strategy for Economic Transformation, as well as the forthcoming updated Scottish Enterprise Strategic Plan.
- Supporting the development and resilience of the foundational economy and sectors that underpin community wealth building will be critical to the Council's approach in this regard.
- To increase economic resilience, it will be important to influence businesses to modify their operations, 'nudge' to do things differently, and stimulate a culture of collaboration and co-opetition. There is a need to take advantage of a willingness to collaborate at the local level rather than directly competing, to help businesses realise mutual benefits.
- Managing the pivot from an allocation-based funding regime to one that is competitive – and also one where nominal allocations are short of previous funding levels – will require a change in mindset and approach within the Council and partner organisations.
- The Council's role in match-funding net zero projects (in conjunction with partners) to de-risk investment that stimulates clean growth should be examined. Taking the lead to de-risk

activities, and demonstrating leadership and creative thinking will help to encourage a wider shift in the private sector.

- Exploring opportunities to properly empower communities, boosting civic pride, self-esteem – softer outcomes, etc. will be necessary. This will ultimately enable communities to do what suits their needs. It will also contribute to reducing the burden on public sector for delivery – the Council should be positioned as steward of place, not the organisation with sole responsibility. This is an important principle of community wealth building.
- Effectively positioning Midlothian in relation to Edinburgh will be important. There must be recognition of the dynamics of relationship in terms of geographic proximity: the strategic position of being close to Edinburgh and being part of the wider Edinburgh offer, but in turn having a unique proposition for Midlothian. This will help in continuing to maximise the economic potential of a trend in businesses taking stock and giving up Edinburgh city centre premises and seeking commercial premises elsewhere – and businesses seeing Midlothian as supportive of growth.

10 Conclusion and strategic priorities

Introduction

10.1 Based on the discussion and analysis presented in the preceding chapters, this chapter sets out conclusions and strategic priorities for a refreshed economic strategy for Midlothian.

Concluding statement

10.2 Midlothian, along with the rest of Scotland and indeed the UK has been profoundly affected by the COVID-19 pandemic, and by Brexit. These events have caused macro-economic shocks that are likely to have an ongoing impact upon Midlothian's economy, not just in the short term but into the medium- and longer-term future – there is a consensus that the full impacts are still to materialise over the next few years.

10.3 Coupled with the cost of living crisis, increasing energy costs, rising inflation and a forecast recession, the economic outlook is one of significant uncertainty, and much more challenging conditions for many businesses in both the service and industrial economy are expected.

10.4 It is therefore imperative that businesses are supported to navigate the ongoing economic disruption and uncertainty, whilst at the same time ensuring that ambitions for net zero, climate emergency and community wealth building can be realised.

10.5 It is important to note that whilst the scale and immediacy of the challenges is significant, Midlothian is well-placed to safeguard against many of the impacts. Midlothian benefits from a comparatively strong economy, and a growing population. Nevertheless, the Council and partners will need to respond quickly and effectively to ensure ongoing economic resilience and long-term prosperity.

10.6 The key priorities in achieving this are set out below.

Strategic priorities

Supporting business and employment growth: There is an ongoing need to ensure a proactive approach to economic development and the provision of business support. Continuing the Council's responsive, flexible approach to delivering solutions tailored to Midlothian's socio-economic context is key to this and could be extended to include innovative approaches to applying land use classes or making use of simplified planning zones to support business growth. Extending this proactive approach to collaborative working and relationships with strategic partners in the public and private sector should also be a part of this – ongoing engagement and conversations, rather than a more reactive mode of ad-hoc or project-based working.

Provision of business premises: Though the Council are already taking steps to increase the provision of fit-for-purpose business premises, more needs to be done to meet the demand from a variety of sectors, and ensure that Midlothian continues to be an attractive location for business growth and investment.

Re-imagining and regenerating town centres: There is an increasing need to revitalise Midlothian's town centres by responding to changing employment, retail and leisure trends, and recognising the different needs that must be met. The function of town and city centres is fundamentally changing, and this must be reflected in the activity that the Council supports and facilitates in these areas. Again, simplified planning zones or flexibility in consideration of land use classes will help in this regard.

Infrastructure enhancements: The acceleration of growth and reduction of carbon emissions through infrastructure upgrades is a stated priority for Midlothian in the Regional Prosperity Framework. This is an important element of ensuring that Midlothian is an attractive location for both businesses and employees. Improving multimodal interconnectivity between Midlothian's towns – particularly across more East-West routes – will also contribute to improving the vibrancy and accessibility of town centres.

Building resilience and community wealth: Midlothian Council should continue to pursue its community wealth building efforts, as well as continue activity to develop local supply chains. Taking a partnership approach to working with communities and businesses in supporting fair work, community ownership of key assets and using land and property for common good will help to generate and retain wealth within the local area. This in turn will help to increase resilience and insulate Midlothian from future economic shocks.

Skills and employability: There is a need to ensure the skills system is aligned to support progression towards employment in emerging sectors, including the green economy, and sectors at the forefront of the response to the climate emergency. In addition, there is also a need to support those who have been disproportionately affected by the COVID-19 pandemic (particularly young people) to secure sustainable employment. Edinburgh and South East Scotland City Region partners are already undertaking range of research into regional skills issues, such as cross-cutting skills and the demand for the skills necessary for tackling the climate emergency. Midlothian Council should maximise the learning from these studies, taking forward any recommendations, and deploy regional resources (e.g. through the IRES Programme) to best effect within local circumstances.

Supporting the transition to net zero: The transition to a fully net-zero economy by 2045 is ambitious. Within the scope of activity designed to tackle the climate emergency, there are significant economic opportunities. Many of these lie within renewable energy, but also in environmental services such as carbon sequestration or ecosystem restoration. Job and business creation can also be supported in projects delivering new zero carbon homes, maintaining and retrofitting existing homes, or sustainable transport. Midlothian Council should seek ways to support this transition.

Inward investment and developing Midlothian's proposition: A key priority for economic development in Midlothian should be through raising the profile of the area. Midlothian Council should develop an investment proposition for Midlothian. This could take the form of a prospectus that details a proposition to encourage businesses and people to invest, live, work and learn in the area, identifies key assets and development objectives and values, and establishes an inward investment protocol in line with the approach taken by Scottish Enterprise and Scottish Development International.

Operating in a different funding regime: Recognising the fundamentally changed funding landscape Scotland is now faced with, Midlothian Council should commit sufficient resources to preparing for and responding to competitive funding calls through mechanisms such as the Shared Prosperity Fund and Levelling Up Fund, to offset the increased uncertainty around funding for local economic development.

Tackling inequality: There is a need to tackle social and health inequalities, which act as a constraint to growth and influence quality of life and deprivation among communities. This is particularly important at a time when economic conditions and the rising cost of living are anticipated to place even more pressure on disadvantaged communities. Key interventions and actions will include:

- Action to ensure young people are able to gain the qualifications, skills and capabilities to take up training and employment opportunities;
- Ensuring targeted support is in place for those with physical and mental health issues to assist people back into employment and training;
- Support for those who need multiple interventions before they are ready to take up training and employment opportunities; and

- Maximising the local impact of regional initiatives such as the IRES Programme in tackling inequality.

In addition, the physical regeneration of deprived areas can play an important part in raising aspirations and increasing community confidence. The council have an important role to play in reducing social and health inequalities.