

REPORT TO: EXECUTIVE BOARD

DATE: 18th December 2008

REPORTING OFFICER: Strategic Director Corporate and Policy

SUBJECT: Economic Downturn

WARDS: Borough-wide

1. PURPOSE OF REPORT

To consider the implications of the economic downturn for Halton and for the Borough Council.

2. RECOMMENDED THAT:

- i. The Board considers how the Council can respond to the economic downturn.
- ii. A task-group of members and officers is established to co-ordinate a response.

3. BACKGROUND

The economic downturn started as a credit crunch in the banking sector which rapidly affected housing markets and is now beginning to affect the wider economy. Within the sub-region we have seen:

- Jaguar at Halewood and Vauxhall at Ellesmere Port cut production and reduce workforce
- The construction industry is suffering with David McLean going into receivership and Redrow closing its Halton office, with a loss of 70 jobs.

A number of major developments have been affected, with the ING scheme in Chester postponed and Kings Dock and Garden Festival sites in Liverpool affected by McLean's demise.

The downturn has had direct consequences for residents with increased unemployment and repossession of houses. Anecdotal evidence suggests that the newly unemployed are widely distributed across the Borough which has not always been the case in the past. It has been speculated that this may be the result of residents who commuted out of the Borough to the regional financial centres losing their jobs.

4. LOCAL ECONOMIC IMPACT TO DATE

Halton's economy has diversified considerably in the past 15-20 years and is no longer so vulnerable to potential problems with any one industry. It is relatively dynamic within the North West economies, ranked 5th for productivity within NW England. The chemical industry has shed hundreds of jobs since the 1980s recession as it becomes more automated, and therefore any impact this one industry may have would be far less than in the 1980s when unemployment locally reached 18%.

According to Oxford Economics Vulnerability Index (July 2008) Halton is one of the least vulnerable areas in the North West, whereas Chester and Macclesfield feature in the top ten most vulnerable districts in England. This is largely because of the impact on financial services, and the position may change as the recession bites in other sectors.

It is too early for the impact to have been fully felt in Halton, and there is a time lag before data is published for the relevant period. However, there is an emerging picture:

- Halton's unemployment rate is currently at 3.6% (October 2008) which is higher than the North West rate of 3.0%. Castlefields ward currently has the highest rate (6.2%).
- Halton's unemployment rate has had an increase of 0.7% from Oct 2007 to Oct 2008. The only ward to show a decrease in this time is Windmill Hill (-0.2%), although it still has the second highest rate in the Borough. The largest increase was in Mersey ward (+1.7%).
- Small scale redundancies from a business (1 this month, 2 next etc) can be very hard to pick up. As such, statistics tend to understate the true position as they pick up only the larger numbers. So far in 2008 the business development team has logged 466 redundancies which compares with 277 in 2007 and 162 in 2006.
- Property enquiries to the Economic Regeneration department have fallen by 35%. Conversions of these enquires into sales/lettings are down 25%
- Companies are increasingly enquiring about grant assistance as it becomes more difficult to gain bank finance.
- Although the average house prices in Halton have increased in the last quarter from £147,086 (Apr-Jun 08) to £157,123 (Jul-Sep 08), the number of sales has dropped from 399 to 273. For the same period in 2007 (Jul-Sep 07) sales numbered over 700.
- There is no current, up to date information on changes to housebuilding rates. However, discussions with housebuilders suggest, not surprisingly, that there has been a significant impact on building rates. On sites under construction, work has slowed, and in some cases sites have been mothballed. New sites with existing planning permission are not being started.
- Planning applications between January and November 2008 were 33%

down on the same period in 2007, and Building regulation applications suffered a 15% fall over the same period.

- There has been a 200% increase in mortgage repossessions (59 in October 2008 compared to 19 in October 2007)

Some more detail is included in the appendix, although the speed of change in the economy is largely outpacing the collection and reporting of statistical data.

5. IMPLICATIONS FOR COUNCIL SERVICES

A number of services have already experienced the impact of recession. Other effects will take longer to emerge. Some examples:

- The increase in mortgage repossessions has led to an increase in homelessness.
- The number of Council Tax Benefit and Housing Benefit claimants has increased.
- The number of people seeking benefits and debt advice from the Welfare Rights Service has increased. More people are visiting the Benefits Express, particularly to seek debt advice.
- The collection rate for Business rates has fallen, above and beyond any reduction due to the increase in the empty property rate.
- The number of reports of domestic violence has increased.
- Rental income from industrial, commercial and retail property is falling as a result of increased vacancy, increased arrears and lower rents achievable from new lettings.
- Reduced fee income from planning and building regulation applications, s38 inspections, local searches etc.
- Reduced income from s106 planning agreement contributions which reduces the capital available for infrastructure and other works.
- Reduced capital receipts from sales of council land as a result of deferring sale or lower values. This will limit the resources available for new capital schemes, with potential consequences for BSF, and the Castlefields centre, for example.
- It will be more difficult to reduce the number of our young people not in employment education and training if there are fewer job opportunities. Similarly, it will be more difficult to help those with learning disabilities or mental health problems to find work, as they require additional support.

Whilst not necessarily related to the recession, the rise in energy and fuel costs is having an added impact on Council costs and is also hitting residents and local businesses.

6. IMPLICATIONS FOR OTHER PUBLIC SERVICES

Other services in Halton will also be affected. Some possible effects are:

- An increase in acquisitive crime (thefts from cars are reported to have increased).
- A possible increase in demand for Mental Health Services (stress related).
- A possible increase in alcohol misuse creating more demand on the Health Service.
- Increased demands on the community and voluntary sector, e.g. the CAB

7. REGIONAL RESPONSE

The pre-budget report has set the context for a number of initiatives:

- A Joint Regional Economic Council has been established with representatives from government, agencies like the NWDA, local government and the private sector.
- 4NW (the successor to the Regional Assembly) and GONW have asked for capital projects to be identified which are held up only by lack of finance.
- 4NW and the IDeA are collecting examples of early responses by Local Authorities so that good practice is shared.
- The 2001-06 Objective 2 programme has been extended, initially by 6 months to June 2009, to allow more time for schemes to be completed.

8. RESONSES IN HALTON

(a) Help for the unemployed/potentially redundant

The Employment Learning and Skills Partnership has been allocated £5.8m of Working Neighbourhood Fund between April 2008 and March 2011. This will be used to support worklessness, enterprise and skills. The activity includes –

- Basic skills development
- Updating the Halton Employment Charter course (generic employability)
- Skills development of unemployed to meet the needs of businesses
- Finance and debt advice
- New apprenticeship programme
- Expansion of care leavers employment programme
- New neighbourhood employment officers (linked to neighbourhood management)
- Business start up programme
- New support to stop people falling out of work due to illness
- Waged training schemes
- Specialised courses e.g. inspiring women, childcare qualifications.

This programme was developed before the current recession, and as with all our activities, it will be necessary to consider whether additional activity will be required, and what implications that has for our current resource allocations.

(b) Help to businesses

The Council will pay invoices much more quickly to help business finances (the target for payment is now 10 days rather than 28).

Consideration could be given to the treatment of companies in arrears with business rates or rent, although any reduction in income as a result would have serious financial consequences for Council services.

(c) Help to stimulate the economy

The Council will continue to promote urban renewal schemes to provide work for the construction industry and will work with the government and its agencies to identify funding opportunities in the context of the commitments made in the pre-budget report.

Where the private sector's response has been to pull back from developments, the Council has put in place a coherent response to work with them to identify replacement and gap funding from sources such as the North West Development Agency, ERDF, the Homes and Community Agency (formerly English Partnerships) and the Council's own resources. This strategy has not been successful in every case, however, with developers such as Langtree (managed workspace on the Widnes Waterfront) not progressing developments for which they had acquired land.

Wherever possible the Council is progressing with its development commitments (3MG, Castlefields) and seeking new opportunities (the mid-Mersey Growth Point (GONW) and the Mersey Gateway Regeneration Strategy (HCA)). Additionally it is approaching the NWDA and HCA regeneration agencies to ensure that all applicable opportunities are seized, particularly new initiatives which might help to keep schemes moving forward

(e.g. sites purchase by HCA to ensure that new housing developments progress.)

(d) Help with housing

For those who are at risk of losing their homes, the Council has recently redesigned its Homelessness Service with an emphasis on early intervention and prevention.

Options are being explored to avoid repossession in cases of Council tax arrears by including reference to debt advice in arrears letters. This will be piloted with a limited number of cases in January to establish the likely increase in demand it will place upon the advice service.

Opportunities to increase the amount of affordable housing are being explored with Registered Social landlords and funding bodies. It is hoped to make use of the unsold stock belonging to housebuilders.

(e) Helping with debts and maximising income

Both the Council's Welfare Rights Service and voluntary sector agencies like CAB are under pressure from increased demand. There is an opportunity to review arrangements to ensure that best use is being made of current investment in these services. Steps have already been taken to increase the take-up of pension credits, income support, and council tax discounts by identifying potential claimants through housing and Council tax claims. This approach is also being used to identify families eligible for free school meals. There has been considerable interest from other local authorities in this approach.. The Take Up Team are pursuing a number of other initiatives to help families to take up their entitlements.

Initiatives introduced by other Council's include encouraging take-up of tax credits by Council employees (this could be extended to partners like the PCT)

(f) Help with keeping warm

Reduced incomes and increased heating costs present a real challenge especially to the elderly or families with very young children. There is an opportunity to review the pathways by which households obtain help and advice and to link services relating to energy efficiency, fire safety and benefit advice to ensure effective signposting.

Birmingham is investing in community programmes to increase insulation in homes which will also assist the local construction industry to keep working as large scale projects are shelved.

9 POWER TO ACT

Government ministers have recently taken the opportunity to remind Local Authorities of their power under the Local Government Act 2000 to do anything they consider likely to promote the economic, social and environmental well-being of their area unless explicitly prohibited elsewhere in legislation (the so called "Power of Wellbeing").

10 CONCLUSION

The recession is affecting Halton residents and businesses. The picture is still developing rapidly. Residents working in the regional financial centres probably felt the initial impact, but as the recession spreads down through the economy it is likely to have a more widespread impact. On the bright side, Halton is not thought to have one of the most vulnerable economies. Individual Council services are responding to the changing picture of need and demand, but a strategic overview of the Council's response is required, and it may become necessary to consider deploying resources differently to support our response. It is therefore recommended that a task group of senior members and officers is set up to consider the options, some of which are outlined in this report, with a view to reporting back to Executive Board early in the new year. This group may wish to consult with partner agencies as part of its deliberation.

11 POLICY IMPLICATIONS

The recession will have a direct impact on our ability to achieve many of the targets we had set for Halton.

12 OTHER IMPLICATIONS

The recession will have direct financial implications for the Council in reduced revenue and capital receipts. There will also be a need to review how it will affect the cost of services (particularly those which are demand led) and priorities for investment.

13 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

12.1 Healthy Halton

There is a direct relationship between affluence and health outcomes. Therefore the recession may have an adverse effect on health. There may be increased demand for service, for example, in relation to mental health.

12.2 Urban Renewal in Halton

The recession has slowed housebuilding and may affect regeneration

schemes such as Widnes Waterfront.

12.3 Children and Young People

There is likely to be an increase in child poverty and the stress of redundancy and unemployment may impact on families. Employment opportunities for young people will be reduced.

12.4 Employment, Learning and Skills

Increased unemployment and financial problems for employers will have significant impact on our objectives for employment, learning and skills.

12.5 Safer Halton

It is possible that certain types of crime will increase during the recession.

14 RISK ANALYSIS

The risks to Halton are that the recession will adversely affect local communities. The measures in this report are aimed mainly at mitigating this impact.

15 EQUALITY AND DIVERSITY

There is a danger that the gaps between the most deprived areas of Halton and the rest of the Borough will increase.

IMPACT OF THE ECONOMIC DOWNTURN

National Overview

- Its 16 years since the last recession in the early 1990s, which in turn was 8 years after the one before that in the mid 1980s
- Both these earlier recessions lasted 5 quarters (a recession is measured as negative growth for at least 2 consecutive quarters). However both took 14 quarters, i.e. three and a half years, before consumer spending patterns recovered to pre – recession levels.
- There have been 255 recessions worldwide since 1870. Two-thirds have lasted one year while 12% lasted 2 years or more.
- Consensus is that this recession will be deeper than first thought and longer lasting. The UK economy has the highest % in international trade than other top economies and therefore the recession here could last either shorter or longer because of this factor. It depends on how quickly other world economies recover. Falling oil and energy prices suggest this recession may be over sooner, but the global scale of this one suggest its far more complex this time.
- Unemployment peaked in both the 1986 and 1992 recessions at 10% of the workforce, but up to 70% of households were indirectly affected by being related to, or known to, an unemployed person.
- Unemployment and downward consumer sales figures have only just begun to work their way through.
- Economists believe London and the South East will be the areas most affected this time as they have shown the most volatile growth during the past decade or more. The financial sector in the City of London could lose 65,000 jobs, but these people commute to work from all over south east England. No one area will feel the full impact. North West regional finance centres, such as Chester and Liverpool, are equally vulnerable to job losses.
- The second sector most affected so far, is construction and property. Mortgage lending is down 50% in a year, but down 70% for new purchases. First time buyers are not yet gaining access to the housing market as cash-rich buy-to-let buyers are taking advantage of lower prices.
- Retailing will suffer as people refrain from spending – see later section.
- Manufacturing, especially in expensive goods like cars is being affected. The high oil prices in the summer of 2008 has affected demand for

smaller, more fuel-efficient vehicles, but it has taken the car industry, especially in the US a long time to realise their gas-guzzlers are no longer in demand. They face a difficult task in re tooling their factories to build smaller cars. Both mass car manufacturers on Merseyside are vulnerable, with perhaps the Ellesmere Port factory more so as its parent company, General Motors, is facing huge losses in the USA.

- The impact of the recession will exasperate already struggling or failing industries, e.g. beer sales in pubs. The problems Woolworths or MFI face are longer running than this recession, but are likely to mean their final demise from the High Street.
- Companies trim their budgets to save and advertising or media costs are among the first to go. Many firms try to keep staff on as long as possible so the effect can be a slow trickle on to the unemployment market unless the whole company goes under.
- The industries most likely to be initially affected by the credit crunch and squeeze on disposable incomes are financial services, real estate, other business services, construction and retail and other consumer related industries. Heading into 2009, the sectoral and thus geographic pattern of impact will change as the wider economy begins to slow.
- Outside of central London, a number of smaller centres show up as being particularly vulnerable. These include Chester, Bournemouth, Calderdale and Macclesfield. These tend to be relatively prosperous areas, all of which have high concentrations of jobs in banking and auxiliary services.

Consumer spending behaviour

- Recessions affect different people in different ways. There is some evidence from early focus group work that about a third of the national population are confident they can ride out the recession and don't intend to change their spending patterns, though some express a more cautious approach to business confidence and may think twice about that third short holiday break. Not surprisingly these people are the more affluent.
- About 38% admit to cutting back on purchases or to trading down. Sales figures for Aldi and Lidl are up whereas those for Waitrose or Sainsburys are down. Going out is reduced as there is a tendency to eat out less and stay at home more with a DVD rather than visit the cinema. Sales of pizza home deliveries are up, while some restaurants will feel the pinch.
- Another group – about 28% of the population, admit to significant cutting back. These are the lower income families who find their finances are significantly reduced. Halton will have more in these two

latter groups than the first due to the socio- economic characteristics of its population profile.

- Whereas overall expenditure on cultural and leisure activities is curtailed, this has been more in the eating out and pub visits categories than visits to cinemas.
- Demand on local health services will increase, particularly mental health, when stress over losing a job or house will increase dramatically. Fear of losing a job also increases stress levels and more people work longer hours to show their employer that if there are to be redundancies, they should be spared.
- Demand will increase significantly for benefit and debt advice. See a later section for the impact the Halton CAB has reported recently. Housing waiting lists will also increase significantly.
- Future tax rises may mean that these changes to consumer behaviour are long term as most people will have less disposable income available.

How Halton may be affected.

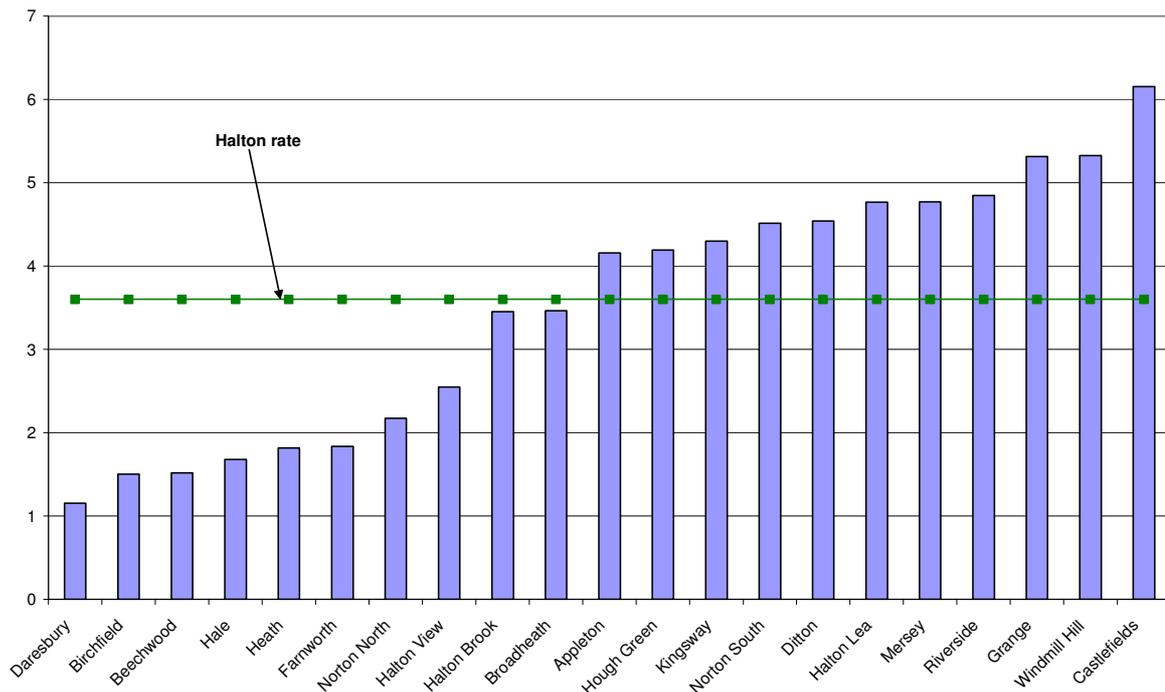
- According to Oxford Economics Vulnerability Index (July 2008) Halton is one of the least vulnerable areas in the North West:

| Local Authority | North West Vulnerability Rank |
|---------------------------|-------------------------------|
| Chester | 1 |
| Macclesfield | 2 |
| South Lakeland | 3 |
| Trafford | 4 |
| Sefton | 5 |
| Stockport | 6 |
| Vale Royal | 7 |
| Bolton | 8 |
| Manchester | 9 |
| Warrington | 10 |
| Eden | 11 |
| Carlisle | 12 |
| Congleton | 13 |
| Allerdale | 14 |
| Blackpool | 15 |
| Wigan | 16 |
| Ellesmere Port and Neston | 17 |
| West Lancashire | 18 |
| Salford | 19 |
| Liverpool | 20 |
| Chorley | 21 |
| Wyre | 22 |
| Oldham | 23 |
| Preston | 24 |
| Wirral | 25 |
| Hyndburn | 26 |
| Tameside | 27 |
| Rossendale | 28 |
| St Helens | 29 |
| Bury | 30 |
| South Ribble | 31 |
| Rochdale | 32 |
| Lancaster | 33 |
| Halton | 34 |
| Barrow-in-Furness | 35 |
| Burnley | 36 |
| Crewe and Nantwich | 37 |
| Ribble Valley | 38 |
| Knowsley | 39 |
| Pendle | 40 |
| Fylde | 41 |
| Blackburn with Darwen | 42 |
| Copeland | 43 |

- About a third of Halton's residents travel out of the Borough to work. They will be affected by the economies in these towns, such as Liverpool, Chester and Warrington. Both Chester and Ellesmere Port have 40% of their respective workforce engaged in vulnerable industries (finance or car manufacturing).

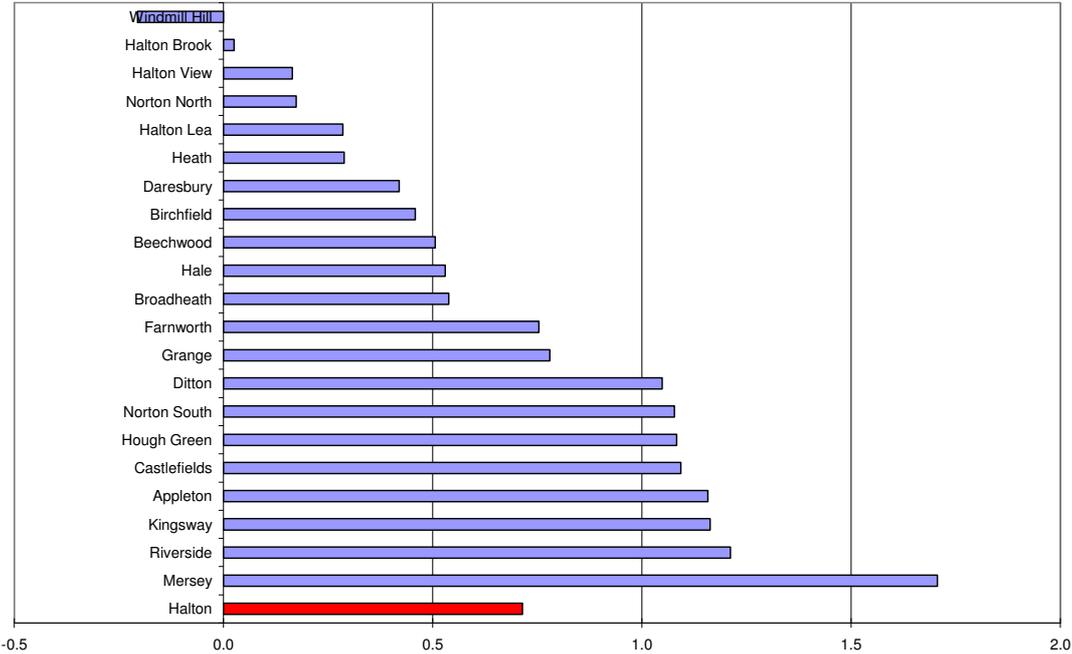
- The manufacturing corridor stretching from the Mersey to the Humber is thought to be vulnerable but not as much as the West Midlands. So far its been London and the South East most affected, with Crawley experiencing the highest % increase in unemployment. However this is more to do with its location close to Gatwick airport and the failure of holiday companies than its New Town status.
- Halton's economy has diversified considerably in the past 15-20 years and is no longer so vulnerable to potential problems with any one industry. It is relatively dynamic within the North West economies, ranked 5th for productivity within NW England. The chemical industry has shed hundreds of jobs since the 1980s recession as it becomes more automated, and therefore any impact this one industry may have would be far less than in the 1980s when unemployment locally reached 18%.
- Halton's unemployment rate is currently at 3.6% (October 2008) which is higher than the North West rate of 3.0%. Castlefields ward currently has the highest rate (6.2%) (see chart below).

Ward Unemployment Rates (%) Oct 08



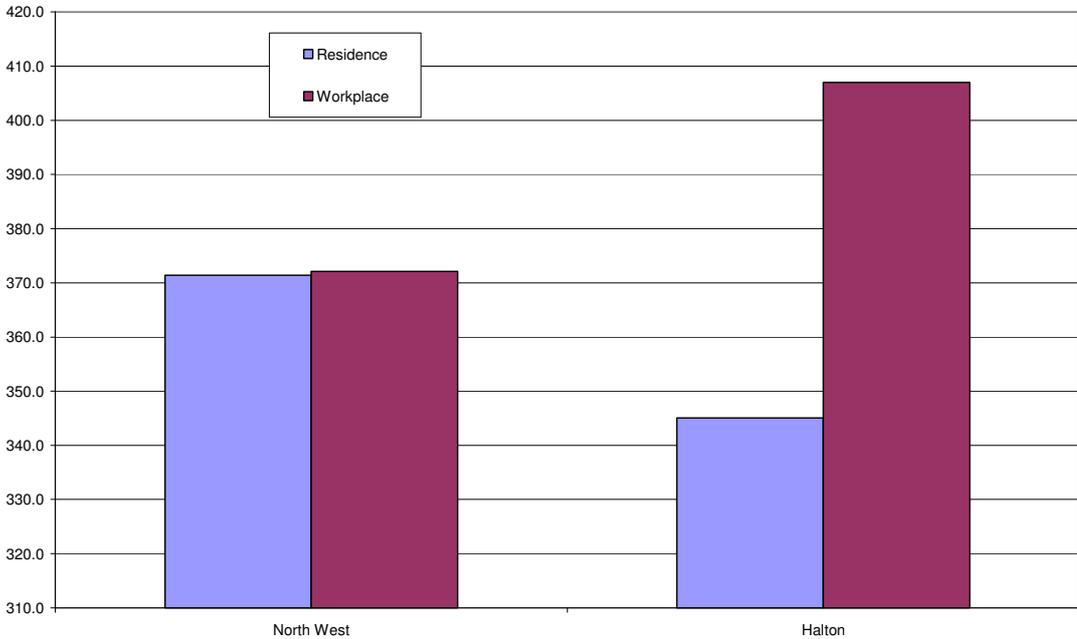
- Halton's unemployment rate has had an increase of 0.7% from Oct 2007 to Oct 2008. The only ward to show a decrease in this time is Windmill Hill (-0.2%), although it still has the second highest rate in the Borough. The largest increase was in Mersey ward (+1.7%).

Change in Unemployment Rates Oct 07 to Oct 08



- The latest Annual Survey of Hours and Earnings (ASHE) shows the continuing trend that people working in Halton earn more on average than those living in Halton.

2008 Median Earnings taken from the ASHE survey.



- Although the average house prices in Halton have increased in the last quarter from £147,086 (Apr-Jun 08) to £157,123 (Jul-Sep 08), the number of sales has dropped from 399 to 273. For the same period in 2007 (Jul-Sep 07) sales numbered over 700.

Volume of house sales in Halton

