
CREDIT CRUNCH AND ECONOMIC DOWNTURN

Responsible Cabinet Member – Councillor John Williams, Leader

Responsible Director – Ada Burns, Chief Executive

SUMMARY REPORT

Purpose of the Report

1. This report outlines the impacts observed to date on the Council, the residents and the economy of Darlington from the global financial crisis and resultant economic downturn. It describes the arrangements the Council is making to respond to these challenging circumstances and proposes regular reporting to Cabinet on progress and further developments.

Summary

2. The crisis affecting the global banking system in recent months has impacted at every level of governance, civil and economic life in this country – and abroad. It has prompted an economic slowdown with the Bank of England now advising that Britain is facing recession, but unable at this stage to advise on the possible length or severity of the problems.
3. At the same time and over the last year the country has experienced significant increases in the price of fuel, food and energy, and although there are now signs of falling inflation, nevertheless the national and local economy has already been adversely affected.
4. Local Authorities across the country are reporting significant unanticipated financial pressures, with those with deposits in Icelandic banks particularly affected. Darlington although it did not have funds in Iceland, and enjoys high performance ratings for its financial management, is not immune from the impact of the global situation.
5. Recent reports have already been made to Cabinet on some of the implications of the economic environment, including the measures necessary to manage our revenue and capital budgets, and in November a review of our Treasury Management Investment Strategies. The outcome of a review of borrowing is reported for consideration elsewhere on today's Cabinet agenda.
6. At the same time Cabinet Members and Officers have been working with partners to explore responses to the wider impact of the downturn, and this report describes what has been done to date.

7. The Council is facing the most challenging set of economic circumstances in over a decade, both in terms of its own financial health, but also in terms of the likely impacts on the citizens we serve and the local economy we work to promote. It is therefore important to coordinate and report both on our intelligence gathering and on the steps necessary to protect Darlington from the worst impacts of the recession. A group chaired by the Chief Executive has been set up to gather information and co-ordinate policy responses. Regular reports will be brought to Cabinet, with further reports to the Darlington Partnership.
8. Notwithstanding the real cause for concern it is important to note that there are signs that the work of the Council and its partners over many years gives grounds for optimism about our resilience to the current situation. It will be important for the Council to step up its community leadership role to support business and other partners through difficult times and to prepare for opportunities to renew our period of economic growth.

Recommendations

9. Cabinet are asked to:
 - (a) Approve the arrangements being made to monitor and report on the economic downturn;
 - (b) Agree that within available resources efforts continue to provide support to residents and local businesses and that these are reported to Cabinet;
 - (c) Note the information available to date on the impact of the economic downturn on the Council, the Borough's residents, and its economy.

Reasons

10. The recommendations are supported by the following reasons :-
 - (a) To make an effective contribution to the collective response to the credit crunch and economic downturn;
 - (b) To ensure all key stakeholders are kept aware of developments.

Ada Burns
Chief Executive

Background Papers

No background papers were used in the preparation of this report.

John Bosson: Ext 2016

S17 Crime and Disorder	There is evidence that poor economic conditions can fuel an increase in crime
Health and Well Being	This report does not directly address the health and well-being agenda
Sustainability	The proposals arising from this process will be implemented in accordance with agreed sustainability principles
Diversity	The proposals arising from this process will be implemented in accordance with our diversity duties and objectives
Wards Affected	All wards are being affected and will be subject to consideration as part of this process
Groups Affected	All people are affected by the downturn although it can be expected that those on low incomes and employed in small businesses will be particularly vulnerable
Budget and Policy Framework	This report does not recommend any change to the Budget or Policy Framework
Key Decision	This is not a key decision
Urgent Decision	This is not an urgent decision
One Darlington: Perfectly Placed	The development of a co-ordinated response by the Council and its partners to the credit crunch and economic downturn will contribute directly to the implementation of the Sustainable Community Strategy

MAIN REPORT

Information and Analysis

1. For ease of reference this report is divided into three elements (but in no order of priority) :
 - (a) Firstly the impact on the local economy and the steps taken in response.
 - (b) Second, the impact on the residents of Darlington and the steps taken in response;
and
 - (c) Thirdly the impact on the Council's finances and the steps taken in response.

Impact on the local economy and the steps taken in response

2. The squeeze on availability of credit and the dramatic rise in oil, and food prices have both hit global economic growth. As a consequence Darlington, the region and the UK is now facing a more challenging economic environment. For business, the impact of the credit crunch is making it more difficult to raise funds to support investment and the rise in commodity prices is hitting balance sheets. Rising input costs – particularly energy – are squeezing profit margins and forcing up the prices firms have to pass on to their customers.
3. While the local economy has held up relatively well over the past year in the face of the credit crunch, there are increasing signs that the business environment is getting much more difficult. There has been a marked change in business confidence over the past few months, for example funding for new ventures – especially for smaller businesses – is harder to secure and businesses are reporting outputs and new orders are falling at a fast rate.
4. Between July 2007 and July 2008 the number of people claiming Jobseekers Allowance in the region has risen by around 2,000. We must face up to the fact that there are now clear signs the slowdown is hitting jobs locally. Since the turn of the year we have seen claimant unemployment increase by 3,900 in the region and we can anticipate further rises. Announcements have already been made by Cummins, Glaxo and other local employers.
5. However, this comes at a time when economic activity rates (a measure of the proportion of working age population in jobs) in Darlington have moved from below the national average in 2002 to above the national average in 2007. Gross Value Added (GVA) per head of population (a measure of prosperity) in Darlington is the highest in the region and is higher than the average of all other regions without London. Average wage levels in Darlington moved from being the lowest in the region and sub-region in 2000 to being above the regional average in 2007 (increasing by 42% in this period compared with a national increase of 27% and a regional increase of 22%).
6. The impact on Darlington companies appears to be variable, both within sectors and across sectors, with some feeling they continue to have good prospects but others beginning to feel the impact. Businesses at a recent discussion held by Alan Milburn MP emphasised this variation, and also felt that Darlington may be better placed in the forthcoming recession than it was in previous slowdowns and better placed than other areas. This is because of the current structure of the economy, with a smaller proportion of jobs in manufacturing for example, and the relative strength of the economy, due to the growth in employment in Darlington in the last six years. In the retail sector, regular discussions are held with businesses on current trading at the Town Centre Board, and again some businesses still report positively, with others less so. The presence of growing public sector employment will be particular benefit to the economy at this time, with the Student Loans Company and the Investigating & Safeguarding Agency recruiting in significant numbers.

7. The credit crunch is having a particular impact on development schemes, since obtaining funding for development is more difficult. This is significant because the recent economic successes in Darlington have been built on a ready supply of good quality office accommodation, built speculatively, and a ready supply of available sites. In regeneration schemes across the region, a strong housing market has been an important component in achieving mixed-use regeneration schemes. Despite these issues the developers associated with key Darlington development projects all remain committed to finding ways to continue to make these schemes happen, and officers are in active discussions about schemes with developers, funders and One NorthEast to explore creative solutions for moving schemes forward. Given the long lead-in times for development, it is particularly important to be working hard on development schemes during a recession, so that what can happen continues to progress and so that schemes are 'teed up' and ready to go once the economy improves.

Actions – Business Engagement

8. The Business Engagement Strategy was developed by the Council to promote new ways of working and sharing of corporate intelligence across the Council in respect of strategic companies and sectors within Darlington. A significant element of the Strategy has been the creation of a dedicated Business Engagement Team within the Chief Executive's Department.
9. The key objectives of business engagement are to assist companies to stay and grow in Darlington, thereby achieving sustainable economic development, and encourage businesses to support the corporate objectives of the Council and Darlington Partnership (i.e. to show corporate social responsibility by engaging in the life of the Borough).
10. The Business Engagement Team works closely with other business support agencies and directly with local businesses to achieve a thriving economy in Darlington, promoting the town as a key business location. The Team offers a wide range of business services with the principal objectives of creating and safeguarding jobs in Darlington; stimulating business opportunities; attracting new investment from outside of the Borough and helping new businesses to set up and existing businesses to expand. The Team acts as a conduit for businesses looking to engage with the Council, providing named points of contact to assist the smooth transition of enquiries made by businesses.
11. A dedicated team of business advisers are on hand to offer support and advice to established businesses and individuals considering a move in to self-employment, through the provision of 1 to 1 sessions; mentoring and 'aftercare' visits. The team can provide advice on a range of subjects including developing a fledgling business idea; business planning; ICT; marketing; expansion of existing businesses; trading with the public sector; moving to new premises; identifying local sources of training; recruitment needs and sources of finance. Through signposting, the team can also provide linkages to other agencies that may be able to assist with elements such as improving productivity; new product development; energy efficiency and reducing a business' carbon footprint.
12. The Town Centre Management Team work in partnership with the private and voluntary sectors. The aim is to maintain and develop a vibrant town centre where businesses can thrive. Town Centre Management reports to a Town Centre Board which meets bi-monthly. Its members help to drive Darlington forward by providing a strategic direction. They also act as ambassadors for the town and oversee all Town Centre developments.

13. A new Business Information Guide has been produced recently and is being distributed to all businesses in Darlington. This signposts businesses to sources of help which will be particularly important during a recession. Over 1,500 businesses have been visited by the Business Engagement Team in the last two months, with enquiries from businesses as a result increasing from 6 per week to 25 per week.
14. Darlington Partnership, with Alan Milburn MP, has hosted a Business Summit, to listen to the views and needs of a representative cross-section of businesses.
15. The Business Engagement Strategy will enable the Council to keep close to businesses during the recession, to listen to issues, help where we can, determine appropriate economic development activity, and provide signposting to other sources of help.

Actions on Procurement

16. On procurement, Darlington Borough Council's non-pay spend for 2007/08 was in the region of £120million. Of this £25.5million was spent with approximately 1,000 companies with a Darlington address, this represents 20% of the authority's spending. In addition we spent a further £9million with companies within the Tees Valley.
17. The authority is committed to supporting local businesses as much as possible whilst ensuring that we carry out any procurement exercise in compliance with all legal requirements. However we have to balance this against a background of expected savings and process efficiencies.
18. The EU Procurement Directives stipulate that any public sector tender that exceeds pre-defined thresholds must be advertised in the Official Journal of the European Union. For tenders that fall below those thresholds local authorities are allowed to set their own limits for advertising tenders, Darlington's limit is £75,000, this means that any contract value exceeds this limit must be advertised to ensure maximum transparency.
19. All tenders, regardless of value, are advertised on the Council's own website, they are also uploaded to www.supply2.gov.uk. This is a website developed by Central Government and Business Link to give maximum coverage to all contracting opportunities below the EU thresholds. All tenders are open and are available for any company to bid for. For contracts below the tendering threshold a number of quotes are sought by officers, and they are expected to include a number of local suppliers in that exercise.
20. When putting contracts out to tender officers are expected to consider how they package the contracts i.e. if they can break the requirements down into lots on the basis of location or product type e.g. an overarching contract for the purchase of ICT could be broken down into equipment, software and installation therefore allowing more companies to bid for the work. The Council has recently carried out a tender for supplies to the authority's store and for direct delivery to site; the majority of the lots were won by Darlington-based companies.
21. We are currently in the process of carrying out a tender for the provision of Agency Staff. We also have a number of tenders in the pipeline including contracts for Adult Social Care and Construction Subcontractors. The intention is to set up frameworks that will allow the requirements of the service to be awarded to a number of approved contractors on the framework. Companies will be awarded the work on a spot basis taking into account specialism, availability and cost.

Action – Meet the Buyer Events

22. We have held a number of ‘Meet the Buyer’ events over recent years, some of which were exclusively for Darlington Companies. At the last event, in July 2008, the format was opened up to include representatives from the wider public sector in order that businesses were able to get a flavour for the procurement practices of a broader cross section of the public sector within the North East region. In addition the Council, through a legacy fund from BAT, has assisted a number of Darlington businesses to become e-enabled and therefore made it easier for them to bid for other public sector work.

Action – Darlington Business Directory

23. The Council is presently in the process of developing a new online Darlington Business Directory, which should be live on the Council website within the next 6-8 weeks' time. This is all part of our aim of trying to support local businesses and encourage trade between them.

Action – Vacant Sites and Premises Register

24. The Vacant Sites & Premises Register, maintained by the Business Engagement Team, lists available industrial and commercial property in the Darlington area, providing a reference guide for potential developers and businesses. The Register is a useful source of information for new start businesses seeking incubation space, and for existing businesses looking for office, commercial and industrial properties. The Register also contains information on available development land. Local estate agents can also use the Register to promote new development land and premises.

Action – Town Centre Traders’ Association

25. A new Town Centre Traders’ Association has recently been developed. It provides benefits to all town centre businesses that join the scheme, through joint working and shared resources. Since letters went out in June, businesses have signed up on virtually a daily basis. Businesses pay an annual subscription fee, and this income is re-invested into the town centre. It is primarily used in marketing and promotion, but the members, through the nominated Board, are encouraged to submit suggestions on workable projects. These projects will be driven by the Town Centre Management team under the guidance of the Association’s Board.

Action – CABLE ‘outreach’ surgeries

26. The Business Engagement Team has been holding walk-in/ drop-in sessions at the CABLE offices at 108 Whitby Way, Branksome. The morning sessions, held on the second Tuesday of every month, provide advice on starting your own business – where to go; who to contact; what steps need to be taken, and advice on employability and training; who to contact and what funding might be available. The sessions provide an opportunity for local people to explore their potential in a relaxed, community setting. This is a Pilot Initiative which will be rolled out to other areas if successful using Children’s Centres for example, as possible venues for rolling out this initiative on a wider basis.

Action – Business Link response

27. Business Link recently announced a programme to support businesses during the current economic downturn. An unspecified amount of funding available through NEEIC (North East of England Investment Centre) is being targeted to help sustain businesses by mentoring and developing their financial management skills. A series of Initial health checks on businesses, to be delivered by Business Link in Partnership with local authorities and other agencies is underway. Business needs that are identified in the health checks will inform a series of workshops to be held in 2009. Meanwhile, issues affecting businesses can be passed on to Business Link to enable them to develop their support programmes.

Action – Payment of Invoices

28. The Council is examining the scope and financial implications of paying invoices for goods and services provided by local businesses more quickly and this will be reported back in subsequent reports.

Impact on the residents of Darlington and the steps taken in response

29. The impact of the Credit Crunch on Darlington residents has been most noticeable in terms of significant increases in rent arrears for Council tenants and Housing Benefit applications in general. Rent arrears currently stand at £367,955 compared to £285,628 at the same period last year, representing a 29% increase. New Housing Benefit applications have also increased, particularly in recent months. During the last four months, for example, the Council received 2,567 new claims compared to 2,195 for the same period last year, representing a 17% increase.
30. For other areas of activity such as Council Tax collection and homelessness enquiries there does not appear to be any major differences but this is likely to change as more people become affected by the current economic climate or find that they can no longer cope so the position requires careful monitoring.
31. The Council wants to help Darlington residents as much as possible with any financial problems they may have and has introduced a number of initiatives including those set out below.

Actions

32. The Council's Welfare Rights Team help residents claim all the benefits they are entitled to, guiding people through complex paperwork and pointing them towards other organisations that can offer support. Housing Services recently appointed an additional Welfare Rights Officer to work exclusively with Council tenants and in the past six months has attracted around £100,000 in benefits.
33. Housing Services now employ two Debt Recovery Officers to replace the private bailiffs used previously. This gives us an opportunity to ensure people with outstanding debts from previous tenancies receive the same support and benefit advice as current tenants as part of the recovery process.
34. Housing Services have introduced a Reward and Recognition Scheme which provides incentives for tenants to keep a clear rent account by offering various levels of discounts at a range of local and national shops.

35. The Housing Benefits Service is looking at ways of targeting Discretionary Housing Payments (DHP) to those most in need. Claimants could have their Housing or Council Tax benefit payments topped up for a temporary period to help them improve their position. Examples of areas we are targeting are people who need help to return to work and Council Tax claimants who traditionally have low levels of awareness of DHP.
36. Some private tenants who were receiving Housing Benefit for a home they rented before April 2008 could be better off receiving Local Housing Allowance which was introduced this year. Resources have therefore been set aside to examine all current claims and identify those people who would benefit and give them the opportunity to transfer on to the new scheme. Some people have been up to £25 better off so it could make a significant difference too many people.
37. The Council works alongside a number of organisations committed to supporting residents. The Citizens Advice Bureau (CAB) provides specialist services relating to welfare benefits and employment and money advice to those eligible for legal help. Age Concern also offers a wealth of advice and information including checks to ensure people are getting the right amount of benefits. A partnership comprising the Council's Welfare Rights Team, Darlington CAB and Age Concern has recently been awarded £479k over a four year period from the Big Lottery Bid to increase general advice to our residents and to employ an Employment Specialist to provide support on employment issues such as redundancy. CAB have also been successful in recruiting significantly more volunteers than usual to help them cope with an increased workload as those seeking advice now often have more complex issues to resolve.
38. It is anticipated that as the cost of living continues to rise and fewer people can make their income cover their outgoings they will find themselves struggling to pay their rents or mortgages. Whilst the Council in partnership with other housing organisations can offer a variety of housing options there can be a problem accessing privately rented accommodation due to an inability to pay for a bond. The Council together with Darlington PCT and the 700 Club have therefore agreed to fund a new scheme called Bridge to Home which will be delivered by the 700 Club. This should be operational by February 2009 and will work with landlords and potential tenants to act as a letting agent, helping with the bond required, managing the properties and supporting individuals to maintain their tenancy.
39. A Fuel Poverty Action Group has been established with representatives from the Council, PCT and Third Sector to address issues of fuel poverty and affordable warmth. The group has had some success already in terms of awareness raising and better joint working. However it is currently exploring funding opportunities to provide a full time Advisor to maximise the resources available for energy efficiency measures and provide advice and support to those most in need. The December issue of the Town Crier has a feature giving practical advice and contact details for residents.

Impact on the Council's finances and the steps taken in response

40. The credit crunch and economic downturn are having a significant detrimental effect on the Council's own finances. Any actions that the Council is able to take to help residents and the local economy must be balanced against the need to safeguard the Council's own financial position, to be able to continue to deliver essential and valued services.

41. The biggest single impact to date has been the inability to sell approximately £10m of surplus land. The current MTFP, approved in February 2008, includes the planned use of £3.8m of capital receipts from 2007-11 to reduce the cost of the Council's historic borrowing. Consequently, the current inability to realise the planned sales potentially increases the Council's revenue budget by £1m per annum. This should be a temporary problem, but it is very difficult at present to predict how long the current economic conditions will persist.
42. Several revenue income sources have also been affected as the public change their use of services. Reductions have so far been experienced in parking, land charges, highways, leisure services and recycling. These are projected to add a pressure of approximately £0.5m this year. There remains a risk that these and other income sources could be further reduced if the downturn is significantly deeper than currently anticipated.
43. Council Tax provides £38m of the Council's annual revenue income and is, therefore, critical to funding essential services. Collection of Council Tax has so far remained good. An improvement in the timeliness of collection was targeted in 2008-09 and performance to date indicates that this is being achieved. There is, however, a risk that if the local economy suffers a worsened or prolonged downturn that residents may experience increasing difficulties, leading to poorer collection. It is important that residents are aware that Council Tax is statutory and that serious penalties are imposed for non-payment. It is equally essential that benefit entitlement take-up is maximised through the concerted efforts of the Council's own employees and other agencies, and this is explored later in this report.
44. Non-domestic rates or business rates are paid into a national pool, which is subsequently redistributed to all local authorities. Collection performance does not, therefore, directly affect the Council's finances in the same way that Council Tax does. The Council does, however, have a statutory duty to use its best endeavours to achieve timely collection of all business rates due. Failure to do so can result in direct financial penalties to the Council. The timeliness of collection also impacts directly on the Council's cash-flow and consequently on the financing-costs budget. The downturn may impact on collection of business rates. The Council's work to help the local economy through the downturn is described elsewhere in this report.
45. Expenditure on fuel, energy and food has increased significantly in recent months. These increases are currently projected to add a pressure of around £0.5m to this year's revenue budget.
46. The market for recycled materials has collapsed in recent weeks as a consequence of the global slow down. News reports have shown how the decline in the Chinese economy has resulted in falling demand for paper and cardboard from the UK. In terms of local impact a few months ago, the Council was receiving £80 a ton for recycled plastics, there is now no sale value in the material. The current year impact in terms of lost income is predicted to be £45,000.

Actions

47. In response to the overall worsening financial position, Cabinet reviewed the current capital programme and agreed in November to postpone a number of schemes worth £1.723m. Officers are continuing to make savings in the current year where possible, though there are limits to what can be achieved in the very short term. Some care is also needed to avoid knee-jerk reductions in spending or increases in charges that might have unintended detrimental impacts on service users. Officers will, however, bring forward actions to deliver savings that would, in other years, have been implemented as part of the following years budget review.
48. In accordance with latest Treasury guidance the Council will be looking to cut the time taken to pay invoices to Darlington's small businesses from 30 days to 10 days to help small firms improve cash flow.
49. The Council's budget management process has been externally evaluated under the Use of Resources assessment as being very effective. Budgets for each service are risk assessed to help prioritise management input to monitoring and control. The current financial and economic environment heightens the importance of the risk assessments being kept under review. The Council follows a Reserves Policy to maintain a prudent level of balances that is sufficient to meet short-term unforeseen expenditure. The minimum level of balances is reviewed annually using a risk assessment. It is probable that the minimum level to be recommended to Council in February 2009 will be increased.
50. The Council has for many years operated a rolling five year medium term financial plan (MTFP), which it reviews annually. The review during 2008-09 and development of the 2009-13 Plan are critical to the ability of the Council to maintain services and make effective contribution to the wider Sustainable Community Strategy (SCS). There will undoubtedly be tough decisions to make involving prioritisation of demands on limited and reduced resources, and impacts on services are likely.
51. A large number of public bodies have been hit by the breakdown of the Icelandic banking system, by having investments frozen, with potential loss of principal and interest. Internal procedures, management action and adherence to the Prudential Code helped the Council to avoid being in that position. Cabinet reviewed the Council's Treasury Management Investment Strategy in November to formalise and further strengthen some elements of procedures and further reduce risk. The revised Strategy may reduce the Council's investment income. Recent and forecast future reductions in interest rates will reduce interest earned. Officers are exploring possibilities to mitigate this through the Council's long-term borrowing strategy.

Conclusions

52. There can be no doubt that an economic downturn is now upon us. Gloom on the money markets has been transformed into harsher borrowing conditions for business, rising unemployment and tougher times for ordinary people. The growth we have witnessed over the last decade has dropped with direct consequences for the local authority and the community it serves.

53. At a time of economic downturn, localism and devolution become more, not less important. Local authorities are at the centre of helping people, businesses and other groups through tough economic times ahead. When things go wrong, councils step in, both to help kick start the economy and to provide a safety net for people in need. Darlington's own financial management record, the work done to create a buoyant economy and the strength of its partnerships will all help to see the borough through difficult circumstances.
54. It is clear that the slowdown is going to hit different places in different ways. Our response to the downturn must be tailored to local circumstances. The information set out above provides an introductory snapshot of the situation in Darlington, current impacts and responses. The Chief Executive has established a new officers working group to develop further appropriate responses and to co-ordinate efforts across the Council and partners. It is intended that regular progress reports for Cabinet will be produced setting out the practical measures being put in place and under development to address the emerging issues.