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**ECONOMIC DOWNTURN UPDATE**

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**Responsible Cabinet Member - Councillor John Williams, Leader**

**Responsible Director - Ada Burns, Chief Executive**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To inform Cabinet Members of the latest economic downturn intelligence, assess the impact of the effects being felt here in Darlington and review initiatives underway or proposed in response to the emerging situation.

**Summary**

2. After a period of consistent growth between 1992 and 2008, the economy is expected to contract by well over 1% in 2009, with some experts now forecasting around 3%. Opinions are divided on when recovery will start, although 'not before 2010' is the current stock phrase. If the past is any guide, a recession, is likely to lead to an increased demand for council services and higher numbers of benefit claimants.
3. In response to the economic downturn and recession the Council has taken a pro-active approach across a range of issues to address the effects being felt. The range of practical steps taken or planned covers the following matters:
4. Initiatives underway
  - (a) A range of housing projects;
  - (b) Co-ordinated advice and guidance;
  - (c) Credit Union development;
  - (d) Tackling fuel poverty;
  - (e) Business support.
5. Initiatives planned
  - (a) Free School Meals take-up campaign;
  - (b) Review with LSP partners;
  - (c) Development of a Financial Inclusion Strategy.

## **Recommendation**

6. It is recommended that Cabinet:-

- (a) Approve the range of initiatives underway and planned as part of the Council's response to the economic downturn and recession.
- (b) Continue to work with strategic partners to identify what more can be done to mitigate the impacts of the economic downturn.
- (c) That the report be referred to the Darlington Partnership Board, for consideration at its meeting scheduled to be held on 11th March, 2009.

## **Reasons**

7. The recommendations are supported by the following reasons :-

- (a) To make an effective contribution to the collective response to the economic downturn and recession.
- (b) To ensure all key stakeholders are kept aware of developments.

**Ada Burns**  
**Chief Executive**

## **Background Papers**

Report: Crunch Time? The impact of the economic downturn on local government finances. (Audit Commission – 19 December 2008).

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 recession will contribute directly to the implementation of the Sustainable Community Strategy

## MAIN REPORT

### Information and Analysis

8. The UK is now universally accepted to be in recession. The International Monetary Fund recently reduced its UK growth forecast for this year from 1.7% to -0.1%. The Confederation of British Industry has also reported that confidence amongst British manufacturers has fallen to its lowest point since 1980, and has predicted a rise in unemployment by almost half a million to 2.12 million by the end of 2009. In short, the UK economy is shrinking; manufacturing output is falling, unemployment growing, consumer spending reducing, and the housing market in the midst of a sharp correction. The Bank of England's primary concern has now shifted from inflation to a sharp and prolonged slowdown in domestic demand, reducing interest rates to less than 2%. Indeed the Government and the Bank of England have highlighted that the UK could enter a period of deflation which would have seriously adverse consequences.
9. After a period of consistent growth between 1992 and 2008, the economy is expected to contract by well over 1% in 2009, with some experts now forecasting around 3%. Opinions are divided on when recovery will start, although 'not before 2010' is the current stock phrase. If the past is any guide, a recession, is likely to lead to an increased demand for council services and higher numbers of benefit claimants.

### Challenges Facing Local Councils

10. The Audit Commission's report of 19 December 2008, *Crunch Time? The impact of the economic downturn on local government finances* reflects back a survey of senior local government officials and highlights the following anticipated key challenges:-
  - (a) **Reduced development activity** – this was already in evidence and is likely to worsen, meaning less income for the council and reduced economic activity in the area. It could mean lower capital receipts as land deals falter and Right to Buy sales stall. Almost certainly, it will mean lower S.106 income and potentially fewer affordable homes.
  - (b) **Higher numbers of benefit claimants** – with unemployment already at 1.9m in January 2009 and continuing to rise; claims for Housing and Council Tax Benefit are likely to increase. Although benefit payments are broadly met by government grant, more claims mean higher administration costs for councils.
  - (c) **Increases in council tax and rent arrears** – similarly, rising unemployment is likely to increase the incidence of Council Tax and rent arrears, including rent arrears for commercial properties, which may also show a higher vacancy rate. In addition to the loss of income, councils will incur additional costs pursuing arrears.
  - (d) **Increased statutory homelessness** – another effect of rising unemployment, coupled with falling house prices, is an increase in people losing their homes. Some will be eligible for council help under homelessness legislation. Increased applications for assistance will increase both the demands on staff and the need for temporary accommodation, at the same time as the level of new affordable homes delivered through S.106 is falling.

- (e) **Increased demand for social care** – financial hardship may lead to more family breakdowns, with children taken into care, an increased demand for residential care for elderly people and more drug and alcohol abuse.

11. The Audit Commission identified a further threat to councils – the risks to contractors and suppliers who supply many front line services, such as elderly care and school meals. Contractors will be experiencing financial pressures, which may result in higher costs for renewed contracts or, in extreme cases bankruptcy. Pro-active risk management will be required to mitigate the risks emerging around contracted services.

### Local Position

12. The following tabulation provides an overall summary of the latest data on performance indicators relevant to measuring the effects of the economic downturn and recession upon the Council and community of Darlington.

<b>Indicator</b>	<b>Performance</b>
Unemployment	Claimant numbers up from 1856 in July 2008 to 2559 in December 2008, a 27% increase.
Business Rate Arrears	Debts over 2 months old – 434 cases accounting for £723,800 and rising.
Housing and Council Tax Benefit Claims	The number of new claims received April to Dec 2008 (5376) compared to the same period the previous year (4774) shows an increase of 13%.
Council Tax Arrears	Debts over two months old – 5,683 cases accounting for £1,702,900. Broadly stable to date.
Council Rent Arrears	Rent arrears currently stand at £381,627 compared to £307,401 at the 2007/08 year end, a 24% increase.
Housing Option Enquiries	The numbers seen in January so far this year are similar to January lat year however there is a larger proportion citing economic reasons as their reason for seeking advice (41% compared to 20% for the same period last year).
Homelessness Applications	A 12% increase in all housing options enquiries (including homelessness applications) in December 2008 compared to the same period last year.

13. Ongoing monitoring of the above basket of indicators has now commenced to allow for regular updates, consider emerging trends and to make comparison with earlier periods. Periodic updates will be presented to Cabinet for reference.

## **Local Responses**

14. In response to the economic downturn and recession the Council has taken a pro-active approach across a range of issues to address the effects being felt. The range of practical steps taken or planned covers the following matters:-
15. Initiatives underway
  - (a) A range of housing projects;
  - (b) Co-ordinated advice and guidance;
  - (c) Credit Union development;
  - (d) Tackling fuel poverty;
  - (e) Business support.
16. Initiatives planned
  - (a) Free School Meals take-up campaign;
  - (b) Review with LSP partners;
  - (c) Development of a Financial Inclusion Strategy.

## **Housing Projects**

17. A cross-government package of new measures and reforms to provide real help to families at risk of repossession has been introduced.
  18. The measures are the next steps in a wide range of support the Government and councils are putting in place to make sure that hard working people who suffer a loss of income through no fault of their own have the option to stay in their homes, and that repossession is always a last resort.
  19. The measures include:-
    - (a) Agreement with major lenders to wait at least three months before initiating repossession proceedings, in order to explore all other alternatives. The Government has also welcomed the commitment by lenders to look at all possible options to prevent repossession, such as reducing payments and mortgage rescue schemes.
    - (b) Bringing forward the Government's £200 million Mortgage Rescue Scheme to start early in a number of local authority areas. More than 60 councils throughout England (including Darlington) are 'fast tracking' the set up of the Mortgage Rescue Scheme and started taking applications from the beginning of December. The scheme will help up to 6,000 of the most vulnerable households avoid the trauma of repossession over the next two years.
    - (c) Enhancing the Mortgage Rescue Scheme to cover vulnerable families at risk of repossession because of additional loans secured on their home. Often families are more likely to default on these loans because of higher interest rates.
  20. Although welcomed as valuable additions to the range of options available for those facing housing problems these measures do not offer a panacea. Strict limitations on the funding
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and eligibility criteria will restrict their use locally to a relatively small number of households. We will need to continue to innovate and act with partners to offer a full range of housing options.

#### Tees Valley Credit Crunch Task Force

21. The Tees Valley local authorities and Registered Social Landlords (RSLs) have set up a Credit Crunch Task Force with ONE and the Homes and Community Agency to assess the implications of the economic downturn for the sub-region and to develop a policy response. The main activities of the group to date have been:
  - (a) to ascertain housing starts, completions and clearances in order to fully get up to speed with what is happening on the ground;
  - (b) to identify the sites most at risk as a result of the credit crunch;
  - (c) and to develop ideas to maintain regeneration and planning objectives for each individual site during the downturn.
  
22. The policy response focuses on developing four particular measures:-
  - (a) establishing an RSL consortium to consider partnership working with house builders to ensure that regeneration sites are not mothballed;
  - (b) the development of a Flexible Tenure product to offer a staircase from social rent to ownership in order to assist those who cannot buy now (because of mortgage availability) to occupy a new house on a regeneration site and gradually buy into the house as economic conditions improve;
  - (c) to establish the Tees Valley sub-regional eligibility criteria for the Government's new Mortgage Rescue Scheme; and
  - (d) to prepare a report submitted to the Homes and Community Agency setting out the Tees Valley response to the economic downturn.

#### Tees Valley Growth Point

23. The Tees Valley has been chosen by the Government as a second round Growth Point and has now submitted a programme of development detailing the city region's plans and ambitions for growth, including a trajectory for housing delivery and the infrastructure needed to achieve it. The Growth Point may provide some significant policy challenges to meet demanding Government targets on new house building. Pressure is likely to arise to support sites in more prosperous locations which will be attractive to the development industry. This process needs to be carefully managed so that it does not have a negative impact on regeneration sites.

#### Mortgage Rescue Scheme

24. Mortgage rescue is the name given to a new Government financed service to help the most vulnerable families who are experiencing mortgage distress.

25. Under the £200 million Mortgage Rescue Scheme, eligible home owners will be offered either a shared equity option, enabling monthly mortgage payments to be reduced, or the option to sell their house to a housing association and remain in the property as a tenant paying subsidised rent.
26. Mortgage rescue operates by debt agencies, local government and Registered Social Landlords all combining forces. The aim is to help households who would qualify for homelessness assistance if they were about to be re-possessed.

### **Co-ordinated Advice and Guidance**

27. The National Homelessness Advice Service (NHAS), a partnership between Citizens Advice and Shelter, has developed a model for joint working between local authorities and independent advice agencies on the prevention of homelessness.
28. Darlington Borough Council has signed up to this model of joint working with the Citizens Advice Bureau and local housing charity First Stop Darlington, setting out ways in which they will work together to resolve people's housing issues.
29. Under the terms of the agreement the agencies will provide early advice, assistance and support to those at risk of homelessness, pre-crisis intervention for those at imminent risk of becoming homeless, as well as advice and support for those who are homeless. The agreement also covers how the Council and its partners will work together to prevent recurring homelessness by helping people secure sustainable accommodation.
30. Darlington has been commended nationally for achieving the first NHAS Joint Working Agreement in England.

### **Credit Union Development**

31. The global 'Credit Crunch' has highlighted that more and more national and international financial institutions have been prepared to operate in high risk markets. To the financial institutions the risk taken has been to extend credit to people who cannot afford to re-pay the debt. In many cases the risk has been mitigated by the fact that if the debt cannot be re-paid, then some of the debt can be recovered through seizing control of assets. For the borrowers, the risk is of loss of almost everything.
32. The need for local access to financial support, advice and guidance has never been greater. As national and international institutions concentrate their activities on safer, less personal markets and internet based activity, gaps are appearing at neighbourhood level. The Post Office's national decision to close a significant number of neighbourhood-based sub-post office, purely on economic grounds, has further highlighted that corporate social responsibility is too often not the primary consideration for business.
33. Credit Unions represent an ethical approach to finance by providing access to reliable and effective financial services to people most in need of the services at times and locations that meet their needs.
34. Currently there are four credit unions in Darlington, which covers certain geographical areas. It is planned to create one credit union for the whole of Darlington meaning that anyone living or working in Darlington could be a member. A project is underway to merge the existing four credit unions into one. The Council is supporting this process.



## **Tackling Fuel Poverty**

35. A multi-agency Health and Energy Affordability Team (HEAT) has been created locally to address the issues of fuel poverty.
36. Initial findings are that existing information routes are not consistently accessed, and in particular there is a gap between support for energy efficiency measures (with or without grant support) and addressing fuel debt/income maximisation. It has been decided that as a priority this gap needed to be joined up and if possible on the ground action initiated for the winter of 2008/09, particularly in the light of fuel costs and the prevailing weather. Thereafter, the group will take a strategic view of the breadth of the topic, seek external views, source up to date baseline information relevant to Darlington, seek information on existing operational plans of relevant agencies, determine performance objectives, and produce a medium term plan.
37. The first objective is to create operational capacity. The group has been fortunate to be able to factor in matching finance from both NHS Darlington and Darlington Housing Division which will support around 15 months of activity through to March 2010. It is hoped to appoint an adviser to be in post by 1 March 2009 at latest, with responsibilities which recognise the breadth of the subject, the need for immediate ameliorative action, the requirement to heighten awareness of the issues and the desirability of creating an informed strategy with “SMART” objectives.

## **Business Support**

38. Darlington Borough Council is proactively taking on a leadership and co-ordinating role, working with regional and local partners to put measures in place that may help mitigate some of the effects of the economic downturn and be prepared for when the economy improves in the future.
39. 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.
40. A new Business Information Guide has been produced recently and is being personally 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 recent months, with enquiries from businesses as a result increasing from 6 per week to 25 per week.
41. We are working closely with Business Link to help businesses survive the economic slowdown. Business Link has a team of expert advisers who can deliver free health checks to help local businesses identify issues and opportunities to see them through a difficult economic climate. From January 2009 a series of workshops will be held to look at practical steps to address the challenges presented by the changing economy. There will also be free fact sheets available about topics such as chasing payment.

42. At a regional level, One North East has made an additional £10m available, to bolster firms' growth plans, create and protect jobs, cut energy bills and extend a scheme to help companies experiencing tax and credit difficulties. Details can again be accessed through Business Link - North East.
43. More than 500 businesses across the North East (including 25 in Darlington) have delayed paying more than £11 million of tax after contacting HMRC's Business Payment Support Service in the last six weeks.
44. The new service, announced at the Pre Budget Report in November, gives businesses the opportunity to pay all their HMRC taxes, including PAYE, National Insurance Contributions and VAT through payment timetables which they can afford.
45. To enable us to better understand business needs and to keep in touch with key issues during these difficult economic conditions the Council is meeting with key local businesses on a regular basis to help us to develop solutions, where possible, and provide ongoing support.

### **Free School Meals Take-Up Campaign**

46. Free school meals take-up currently operates at only around 17.6%. As the take up of adult means tested benefits increases so the numbers of children and families becoming eligible for free school meals increases. In direct response to the growing numbers of those becoming eligible a take up campaign is to be developed locally led by the Children's Services Department as a quick win opportunity.

### **Review with LSP Partners**

47. With the agreement of partners, the LSP Board meeting in March 2009 has been dedicated to a consideration of the economic downturn and recession.
48. Each sector will provide an overview of how circumstances are affecting their operations and activities with a view to identifying cross cutting issues, potential further responses and joint working opportunities. The Delivery Plan for the SCS will be amended to reflect the agreed actions.

### **Development of a Financial Inclusion Strategy**

49. The Council's Economic Downturn Working Group has identified the need to develop a co-ordinated response to the many issues emerging and initiatives underway. Much good work is in train around credit union development, tackling child poverty, fuel poverty etc. as above but would benefit from being aligned into a comprehensive package of measures. Accordingly a proposal to urgently develop a Financial Inclusion Strategy is being worked up. Details of which will be presented to a forthcoming Cabinet meeting.

### **Conclusion**

50. The economic climate is obviously subject to rapid change at the moment, and it will be essential to keep a close watch on its on-going evolution. In particular, the implications for our major regeneration schemes need to be closely monitored. However, whilst an initial review reveals a range of problems and concerns over service pressures as the worst effects

are felt by the community outlined above, there is at present no reason to change the Council's basic approach and strategy for the regeneration of the borough. The underlying problems which the Sustainable Community Strategy addresses remain in place, and the strategy itself is fundamentally sound. The impact of current economic circumstances will certainly lengthen or postpone some (but by no means all) elements of the strategy. However, this is not a reason to fundamentally change the strategy itself. The Council will need to be ready to change details of implementation of schemes where this can be demonstrated to assist in maintaining the momentum of development without compromising fundamental Council objectives. This will be dealt with on a case by case basis, and referred to Cabinet where appropriate. Until and unless either government policy or economic fundamentals change dramatically, the present course should be maintained.

51. The following paragraphs set out actions the Council can take in response to the current economic climate. Obviously the Council cannot effect change in the wider economy, but it is far from being a casual observer and can seek to mitigate the impact on the borough and prepare the ground so that Darlington is poised to respond when the situation begins to improve. A number of specific actions are, therefore, proposed, these being:-
- (a) Continue to work with strategic partners to identify what can be done to mitigate the impacts of the economic downturn;
  - (b) use existing service area mechanisms to look at the issues around the economic downturn and associated implications in terms of service delivery and project implementation, and take this into account accordingly, including monitoring arrangements, undertaking risk assessments and reporting through budget and performance clinics as appropriate;
  - (c) review and consider re-negotiation of MAA/LAA targets affected by the economic downturn, the effects of which could not be predicted when they were set;
  - (d) continue to contribute to The Tees Valley Economic downturn Task Force;
  - (e) work with Tees Valley Living to develop the Growth Point Initiative and seek to obtain resources to help pump prime development sites;
  - (f) continue to work on master planning and major projects for key sites, so as to ensure the town is well placed to be able to remain competitive in the development market, particularly as the economic position improves, although each scheme needs to be subject to a economic risk assessment;
  - (g) be pragmatic in negotiations with developers and housing associations in respect of development schemes and proposals for changes in design, or the extension of affordable housing, but on the basis that there is no dilution of the overall ambition for a site/ scheme;
  - (h) monitor planning fee income and take actions accordingly to ensure the planning and building control services work within set budgets;
  - (i) continue to work with housing association partners to monitor and seek mitigation of any rise in homelessness applications, including appropriate application of recent Government initiatives;
  - (j) continue to contribute to the 'HEAT' fuel poverty initiative;

- (k) Review partnership experiences and potential further responses at the LSP Board in March 2009.
- (l) Commission development of a Financial Inclusion Strategy for the borough to co-ordinate activity and responses across service areas.

### **Outcome of Consultation**

- 52. Partners from across the LSP have been consulted over the context of this report and are supportive of the general approach, the initiatives underway and planned.