

WEST MIDLANDS REGIONAL ASSEMBLY

FULL ASSEMBLY MEETING

22 APRIL 2009

Economic Downturn

Report of the Chief Executive

1. Purpose

- 1.1 To update the Assembly on the current economic situation and the implications for local government.

2. Recommendation

- 2.1 For the Assembly to note the report and to discuss the implications on local government from the economic downturn.

3. Background

- 3.1 The economic downturn has formally moved into recession with the West Midlands being particularly badly hit. This is in large part due to the relatively high presence of automotive, construction and manufacturing businesses in the West Midlands compared to other regions.
- 3.2 While forecasts vary as to the depth and length of the recession, it is likely that it will have profound impacts around the region and require an extended recovery period.
- 3.3 In terms of the current situation, AWM's March Economic Update indicates that:
- In February the Purchasing Managers Index (PMI) reported that business activity is contracting in the West Midlands faster than any other UK region. After easing in the previous 2 months, the rate of decline accelerated slightly in February. Contractions are particularly sharp in the manufacturing sector.
 - The region's companies reported a substantial reduction in the level of new work received during February, the rate of reduction has accelerated with only the East Midlands reporting a faster rate of contraction.

- Regional unemployment rose by 29,000 people in the three months to January, representing 18% of the UK increase. The West Midlands' unemployment rate is now 7.9%, up 2.3 percentage points on a year ago.
- The region's claimant count rose by 15,700 between January and February (11% of the national increase). The greatest increases in the region were seen in Birmingham and Staffordshire.
- There were 14,790 redundancies notified between December and February – a 269% increase on a year earlier.
- The Land Registry reports that house prices in the West Midlands have fallen by 17.7% over the last year – this is the greatest drop of any of the UK regions.
- The contraction of new construction orders has been much sharper in the West Midlands – with Q4 orders down 53% on the previous year compared to an England average of -30%.

4. WMLGA Economic Downturn Survey - Findings

- 4.1 The WMLGA undertook a qualitative survey of all local authorities in early 2009 in order to understand how the economic downturn is impacting upon West Midlands' councils – both as organisations and on the communities they support.
- 4.2 The survey also sought to identify emerging 'best practice' initiatives that are being utilised to mitigate the impacts of the recession and highlight how local authorities might be considering the longer term impacts of the downturn and preparing for recovery.
- 4.3 A short summary report entitled 'Weathering the Storm and Preparing for Recovery' was published at the end of March and the key findings are summarised below:
 - Local authorities in the Region are having to manage a range of serious pressures on their budgets in tandem with rapidly increasing demand for council services.
 - While local authorities are doing all they can to mitigate the impacts of the recession, the situation is serious; councils are facing huge challenges both in the short term and in the future.
 - Key impacts councils are noticing within their communities:
 - Increasing redundancies, increasing unemployment and increasing levels of debt has led to a vast surge of people and businesses requesting local authority advice, guidance and benefit support;
 - Increased cases of homelessness, domestic violence and family breakdown;

- Major loss in consumer and business confidence;
 - New housing starts have declined dramatically resulting in very little new social and affordable housing;
 - Talk of town centres looking 'run down' as shop vacancies increase and regeneration projects are mothballed.
- Councils are supporting communities through the delivery of their core services. They are also utilising a series of new or expanded initiatives to help mitigate the impacts of the economic downturn.
 - Local authorities are using a range of mechanisms to raise awareness of council services within their local communities. For example: regular press releases, 'recession surgeries', 'keep it local' campaigns and dedicated credit crunch webpages on their websites.
 - Preparations for recovery are focused on maintaining long term strategies, delivering key infrastructure projects and working closely with key partners.
 - Councils across the Region are already beginning to explore opportunities for positive change arising from this seemingly disastrous economic situation.
 - The slowdown is going to hit different places in different ways and what our local authorities are already showing is that the response must be tailored to local circumstance.

5. Economic Downturn Event - addressing the impacts on our communities

- 5.1 On Monday 30th March the West Midlands Local Government Association (WMLGA), working through the 'Community Support Workstream' on behalf of the Regional Minister's Economic Task Force, hosted a successful event at the Lakeside Centre in Aston which focused on addressing the social impacts of the recession.
- 5.2 The event brought together local authorities, the third sector and wider partners to examine how the recession is impacting upon our communities, what's being done to support them and how this can be improved.

6. Financial Impact of the Recession on West Midlands Local Authorities

- 6.1 Information has been collated on the financial impact of the recession on West Midlands Councils. It has been gathered via desk-top/internet research using the recent budget setting reports approved by councils during February 2009 and 'quality assured' by local authority Chief Financial Officers.

6.2 Common themes for all councils:

- All council investment income strategies have been affected by historically low interest rates, the bank base rate currently at only 0.5%. However, after the Icelandic bank crisis, there is much less investment with financial institutions offering higher rates of return.

All councils are pursuing a more prudent treasury management policy and will only invest with UK institutions and the UK Government Debt Management Office. Although rates of return are much lower here, the emphasis is on the security and liquidity of council assets.

- Inflation rates are forecast to fall which should mean the cost of supplies and services for councils should fall.

Most council's have factored in the fall in inflation (CPI) in their Medium Term Financial Strategies and significant savings have been allocated to local priority areas.

- Most councils have assumed pay awards for 2009/10 of between 2% and 2.5%.
- More firms are experiencing financial uncertainties and the workforce is facing the prospect of redundancies, especially in vulnerable sectors such as construction, retail and financial services. Most council's acknowledge this will lead to greater demands on their services e.g. social care, homelessness and benefits.

Most council's have adopted Central Government policy of paying suppliers quickly, usually in 10 days rather than 30 days, in order to help with cash flow.

Councils are undertaking various initiatives alongside their partners to offer support and guidance to firms and workforces undergoing redundancies.

7. Regional Activity

- 7.1 West Midlands' councils are represented on the Regional Minister's West Midlands Council of Economic Advisors and West Midlands Task Force at Leader level by Cllrs Roger Philips (Herefordshire) and Ken Taylor (Coventry) with Mark Barrow (Newcastle under Lyme) as the Chief Executive lead.
- 7.2 Cllr Ken Taylor also represents the Region's councils on the national Regional Economic Council chaired by the Chancellor and Lord Mandelson.
- 7.3 Initially the West Midlands Task Force was supported by a number of workstreams covering areas such as business support, workforce

retention, infrastructure & procurement and redundancy and community support.

- 7.4 Each work stream developed a 'Quick Wins' action plan to move forward the immediate priorities. All of the actions identified in the Quick Wins action plans have been completed or are in progress.
- 7.5 However, following this initial activity the Task Force recognised the need to take a longer term, more strategic approach and therefore reviewed the operation and priorities at its meeting on Monday 23 March 2009.
- 7.6 Based on the intelligence gathered and the activity of the workstreams a number of key priorities have emerged which the Task Force has identified to take forward. These are:
- 1) Provide Support for strategically important vulnerable sectors and supporting strategically important companies;
 - 2) Providing support for vulnerable towns, communities and individuals;
 - 3) Creating and exploiting economic opportunities;
 - 4) Supporting the third sector and ensuring equality, diversity and economic inclusion.
- 7.7 The existing work stream structures have been revised to enable them to more effectively take forward the more strategic mid term response.
- 7.8 It is proposed that in future there will be two main workstreams:
- *'Support for Businesses' - to take forward priorities 1 and 3*
 - *'Support for Individuals and Communities' - to take forward priorities 2 and 4.*
- 7.9 These two groups will be supported by the 'Data and Intelligence' and 'Communications' groups
- 7.10 Local Government will continue to take a lead in these activities with Mark Barrow chairing the 'Support for Individuals and Communities' workstream.

8. Long-term impact

- 8.1 Thought needs to be given as to how the recession related activities are mainstreamed within wider regionally owned processes. The development of arrangements around the Single Integrated Regional Strategy (SIRS) may provide an opportunity for this.

8.2 The recession increases the importance of speeding-up the delivery of existing strategies. The new economic circumstances and likely constraints on public sector interventions may require a refocusing and prioritisation of interventions to ensure real impact such as through the Regional Funding Allocations process, and a reconsideration of the effectiveness of existing delivery mechanisms.

9. Government activity

9.1 In this context, Government needs to improve both the alignment of its recession related interventions and their clarity. It is unclear, for example how the schemes in a recently announced initiative to support PFI projects were identified and what relation they may have with regional regeneration priorities or priorities that the regional Economic Task Forces may have been developing.

9.2 Recent announcements relating to support for third sector organisations through the Government's Real Help Now initiative and through the Coalfield Regeneration Trust might also suggest a by-passing of regional and local authority prioritisation processes. Such an approach could jeopardise long-term sustainability in favour of short-term, knee jerk reactions.

9.3 This raises questions as to the extent to which the Government's economic structures, which includes the Task Force, are being effectively used to influence their activity.

9.4 Concerns have been raised that there is little feedback from government on the issues raised with them. There are also concerns that once initiatives have been announced, businesses and individuals are unsure who is eligible and how the support can be accessed.

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