

# CHESHIRE EAST

## Cabinet

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**Date of meeting:** 3 February 2009

**Report of:** Martin Smith, Executive Office

**Title:** Cheshire East Council – Responding to the Recession

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### **1.0 Purpose of Report**

- 1.1 To identify the likely impact of the recession on both Cheshire East as an area and on the new Council and to start to develop a whole Council response.

### **2.0 Decision Required**

- 2.1 A clear view over how to take forward the recommendations made in section 9.

### **3.0 Legal Implications**

- 3.1 There are no specific legal implications related to the issues raised in this paper.

### **4.0 Risk Assessment**

- 4.1 The economic recession will have a serious effect on Cheshire East as an area and on the Council. The recession is likely to have a negative impact on levels of income and on expenditure in a considerable number of service areas.

### **5.0 The national picture**

- 5.1 The country is now in recession. Whilst academics and politicians cannot agree on the scale of the economic downturn, it is likely that Gross Domestic Product (GDP) will reduce by at least 2 per cent in 2009. Evidence from the recessions of 1979 – 82 and 1990 – 92 suggests that there are likely to be significant local variations from the average national performance and that these cannot be fully explained by local variations in the make-up of the economy or by recent economic performance.<sup>i</sup> This poses a particular challenge for Cheshire East, making the scale and the detailed impact of the recession is difficult to model.

- 5.2 Nationally it is projected that during 2009 unemployment will increase by at least 600,000, with the period between New Year and Easter being the worst for job losses since 1991. <sup>ii</sup> This would take national unemployment to approximately 2.5 million by the end of the year.

## 6.0 The Cheshire East Dimension

- 6.1 The latest (November 2008) data show a sharp rise in the number of people claiming Jobseeker's Allowance (JSA), both nationally and locally, with the increase being particularly severe in parts of Cheshire East.
- 6.2 Due of seasonal variations, it is difficult to interpret month-on-month changes in the JSA claimant count. However, during the twelve months to November 2008, the number of JSA claimants rose by 34.4% across the UK and by a similar proportion across North West England (34.7%). The increase in Crewe & Nantwich (36.1%) was only a little above the national and regional averages (see Table 1). However, claimant numbers rose far more substantially in Congleton (by 70.1%) and Macclesfield (68.9%).

**Table 1: Changes in the JSA (Jobseeker's Allowance) Claimant Count, 2007-8**

	November 2007	November 2008	November 2007	November 2008	November 2007 to November 2008
Area	Rate	Rate	Number of claimants	Number of claimants	% change in number of claimants
Chester	1.4	2.0	1,029	1,442	40.1
<b>Congleton</b>	<b>1.1</b>	<b>1.9</b>	<b>609</b>	<b>1,036</b>	<b>70.1</b>
<b>Crewe &amp; Nantwich</b>	<b>1.8</b>	<b>2.4</b>	<b>1,272</b>	<b>1,731</b>	<b>36.1</b>
Ellesmere Port & Neston	2.0	2.8	1,005	1,359	35.2
<b>Macclesfield</b>	<b>1.0</b>	<b>1.7</b>	<b>891</b>	<b>1,505</b>	<b>68.9</b>
Vale Royal	1.8	2.5	1,362	1,906	39.9
Warrington	1.6	2.7	1,993	3,244	62.8
<b>Cheshire East</b>	<b>1.3</b>	<b>2.0</b>	<b>2,772</b>	<b>4,272</b>	<b>54.1</b>
Cheshire West & Chester	1.7	2.4	3,396	4,707	38.6
Cheshire	1.5	2.2	6,168	8,979	45.6
Cheshire & Warrington	1.5	2.3	8,161	12,223	49.8
NW England	2.4	3.2	102,174	137,636	34.7
UK	2.1	2.8	785,759	1,056,145	34.4

Source: Claimant Count, ONS, NOMIS. Crown Copyright.

Note: Rates for 2008 were calculated using the mid-2007 resident working-age population.

- 6.3 Cheshire East contains 85 District Council Wards and 24 of these, spanning all three Districts, saw their claimant count rise by 100% or more (though generally from very low starting points). Across Cheshire East as a whole, there are now almost 4,300 JSA claimants, compared to only 2,800 one year ago.
- 6.4 The claimant unemployment rate (the proportion of working-age residents claiming JSA) is still significantly below the UK figure (2.8%) in Crewe & Nantwich (2.4%) and even lower in Congleton (1.9%) and Macclesfield (1.7%). Nevertheless, the change in JSA claimant numbers is a serious concern, and it should be noted that these figures are a significant underestimate of total unemployment, in that they exclude those who are actively seeking work but not claiming JSA.
- 6.5 The current economic downturn poses a much greater risk to some industries than others. In particular:
- The credit crunch, and the resulting mergers and acquisitions of financial institutions, will almost certainly lead to significant job losses in the Financial Services sector.
  - The weakness of the housing market, and the wider property market, will have a knock-on effect on the construction sector and also on businesses that supply household appliances, furniture and other durable goods.
  - Job losses, increased job insecurity and decreasing profit margins will also reduce consumer demand for cars and businesses' investment in commercial vehicles (as well as other capital goods), putting further pressure on the automotive sector. Furthermore, the scarcity of non-renewable energy is likely to place long-term pressure on energy prices, which again will affect transport-related industries.
- 6.6 A recent article by Regeneris Consulting<sup>iii</sup> argues that these three sector groups face a particularly strong threat. From discussions between the County Council, the Cheshire and Warrington Economic Alliance (CWEA) and the North West Development Agency (NWDA), it is known that CWEA partners share these, and Regeneris' concerns.
- 6.7 Table 2 shows the latest (2007) estimates of the numbers of employees working in these sectors, and their contribution to overall employment in Cheshire East. As the table indicates, these sectors, as a whole, account for an estimated 12.0% of all the employees within the Authority, which is only fractionally greater than the proportion at national (Great Britain) level (11.6%) or across the North West region (11.3%). Furthermore, this percentage varies only a little between the three pre-2009 Districts, ranging from 11.2% in Congleton to 12.6% in Crewe & Nantwich. This implies that the overall risk posed by the economic downturn is not significantly greater in Cheshire East than in

Great Britain as a whole. However, as was suggested in paragraph 5.1 above, modelling such trends is not an exact science.

**Table 2: Employees working in sectors that are particularly vulnerable in the current economic climate**

Local authority area(s)	Employees (000s)	Sector share (% of all employees)			
	Automotive, Consumer Durables/ Construction & Financial Services sectors	Automotive, Consumer Durables/ Construction & Financial Services sectors	Automotive sector	Consumer Durables and Construction sectors	Financial Services sector
Chester	12.6	18.3	*	*	13.7
<b>Congleton</b>	<b>3.5</b>	<b>11.2</b>	<b>*</b>	<b>8.1</b>	<b>*</b>
<b>Crewe &amp; Nantwich</b>	<b>7.1</b>	<b>12.6</b>	<b>*</b>	<b>3.7</b>	<b>*</b>
Ellesmere Port & Neston	5.9	18.9	*	9.4	*
<b>Macclesfield</b>	<b>9.6</b>	<b>12.0</b>	<b>*</b>	<b>*</b>	<b>7.3</b>
Vale Royal	5.6	11.3	*	6.9	*
Warrington	13.1	11.7	*	9.1	*
Cheshire	44.3	14.1	2.2	5.7	6.2
<b>Cheshire East</b>	<b>20.2</b>	<b>12.0</b>	<b>2.6</b>	<b>5.0</b>	<b>4.5</b>
Cheshire West & Chester	24.1	16.1	1.7	6.4	8.1
North West	342.3	11.3	0.8	6.3	4.2
Great Britain	3,093.5	11.6	0.8	6.0	4.8

Source: Annual Business Inquiry 2007 - Employee Analysis, ONS, NOMIS. Crown Copyright.

Notes: [1] An asterisk indicates that the figure has been suppressed, because it is confidential, or because it could be used to draw inferences about confidential data.

6.8 Within this diverse range of businesses, there are some individual sectors that make up a relatively high proportion of local jobs. Most notably:

- The Automotive sector employs 2.6% (or 4,400) of Cheshire East's workforce: a much greater share than in Great Britain (0.8%) or the North West (also 0.8%). For reasons of confidentiality, it is not possible to include equivalent figures, from the same data source, for each pre-2009 Cheshire East District. However, from other intelligence, it is known that Bentley, whose global headquarters is in Crewe, is one of the largest employers in Cheshire East.<sup>iv</sup>
- Of all the employees based in Congleton in 2007, 8.1% were working for Construction/ Consumer Durables businesses, compared to figures of only 6.0% for Great Britain and 6.3% for the North West.

- 7.3% of Macclesfield-based employees worked in the Financial Services sector, rather more than the proportion across Great Britain (4.8%) or the North West (4.2%). Macclesfield District contains the headquarters of the Cheshire Building Society, which has recently merged (with the Nationwide and the Derbyshire) and which is expected to shed a significant number of jobs as a result.<sup>v</sup>

## **7.0 The likely impact on the Council**

7.1 The evidence from previous recessions and a range of research undertaken over recent months suggests that the economic downturn will have a very significant impact on almost all areas of local authority activity. The Audit Commission<sup>vi</sup> have identified a range of issues that are already impacting on some local authorities, these include:

- Falls in income (car parking, planning and building control fees etc).
- Increases in demand for care for the elderly.
- Higher demand for state school places for children that were previously educated privately.
- Increases in homelessness.
- A sharp fall in the value of recyclable materials.
- A reduction in the amount of new social housing as a result of the overall slowdown in house building.

7.2 The Audit Commission also predict that as the recessions begins to bite and rates of unemployment increase, local authorities will see:

- Increasing demand for benefits and financial and other advice.
- An increasing demand for social housing as home repossessions increase.
- A further reduction in development.
- Increasing arrears in Council Tax payments.
- Decrease in capital receipts.
- More family breakdowns, leading to more children being looked after and more older people needing council funded care.
- Risks to contractors and suppliers.

7.3 The Improvement and Development Agency (I&DeA) <sup>vii</sup> have also identified a number of other areas where the economic slowdown could impact on Local Authorities; these areas include:

- Increased demand for support to voluntary organisations that in turn were facing increasing demands from the local community.
- Difficulties in achieving LAA targets.

7.4 The national economic position will also have a very significant impact on the Council's Treasury Management policy. In recent months the Bank of England has announced a series of cuts in the Bank's base rate that are unprecedented in scale. The Bank's base rate is a close proxy for the rate of interest earned by the Council on its cash balances. In January 2008 UK base rate stood at 5.25%. The latest forecasts suggest that the base rate will fall to 0.5% by April 2009 and will then remain at that level for over a year. Based on such forecasts the amount of interest the Council could expect to earn on any new cash investments will be around 10% of that it could have expected a year ago.

7.5 Very long term interest rates (for periods of over 20 years) have been only slightly affected by the recent reductions in the base rate; such rates currently stand at around 4%. The rate of interest payable on loans for periods shorter than 20 years has been affected to a greater degree and as such there is an opportunity to borrow for periods, say, of between 10 and 15 years, at historically low rates of interest. However, there is the potential that the increase in Government borrowing planned for the years ahead could lead to an increase in the cost of raising new long term loans for councils. Consequently, Cheshire East will be considering a range of options, including debt rescheduling or use of cash balances in lieu of raising new loans, as part of the Council's treasury management and capital investment planning in the next few months.

## **8.0 Local Solutions – helping people and businesses**

8.1 Cllr Margaret Eaton, Chairman of the Local Government Association, writing in the forward to the LGA publication "Global Slowdown: Local Solutions" <sup>viii</sup> said "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 when it hits rock bottom and to provide a safety net for people in need".

8.2 The LGA publication referred to above identifies what a number of local authorities are already doing to help local communities and businesses; this includes:

- Wakefield who are providing interest free loans for people who have missed mortgage payments and could lose their homes.
- Lancashire, where a campaign encouraging people to claim the benefits they are entitled to has led to an extra £800,000 being paid.
- Leeds, a Beacon Council for promoting financial inclusion who have run a range of anti debt initiatives.
- Monmouthshire, where Authorities are supporting Credit Unions.
- Derbyshire, where authorities are helping local businesses tender for council contracts.
- East Sussex, where small businesses are being offered specialist advice on how to survive the economic downturn.
- Westminster, who are considering a package of measures, including a freeze on Council tax until 2010.
- Kettering, who are piloting a new approach to housing advice.

## **9.0 Towards a strategy for Cheshire East Council**

- 9.1 It is clear that the economic downturn will have a very significant impact on both Cheshire East as an area and on the new Council. Of the examples provided in the paragraph above not all would be relevant to a Council such as Cheshire East. However, it is argued that the community would expect a new Council to have a clear view as to the contribution that it could make to supporting individuals, the wider community and businesses through what most commentators view as the most challenging economic conditions for a generation.
- 9.2 The economic downturn provides an excellent opportunity for Cheshire East Council to demonstrate community leadership and show that it can “make a difference” and is more than the sum of its component authorities.
- 9.3 It is recommended that:
- The Cabinet consider what proactive policies they may wish to develop over the coming months to enable Cheshire East as an area to better weather the economic recession.
  - As part of the Service Planning process all service areas review the likely impact of the recession on their own service and on their budget and that where appropriate they develop (with Member

approval where necessary) proactive policies that will assist individuals, communities and local businesses.

- The consequences of the economic downturn are discussed with the Cheshire East Local Strategic Partnership so that strategies to assist individuals, communities and local businesses can be developed at the LSP level.

***For further information:***

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***Background Documents:***

*Documents are available for inspection at:*

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## References:

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<sup>i</sup> Source: "From recession to recovery: the local dimension. Paper prepared by PACEC on behalf of the Local Government Association, November 2008.

<sup>ii</sup> Source: The Chartered Institute of Personnel and Development's annual report, December 2008.

<sup>iii</sup> "Crunch, recession and economic development"  
(<http://www.regeneris.co.uk/news.asp?ID=180>), Regeneris Consulting, 25<sup>th</sup> November 2008.

<sup>iv</sup> According to its website (as at 31<sup>st</sup> December 2008), Bentley employs about 4,000 people worldwide.

<sup>v</sup> The research for paragraphs 6.1 to 6.8 was undertaken by Nick Billington from the County Council's Environment Department and Andrew Pomfret from the County's R&I Unit.

<sup>vi</sup> Crunch time? The impact of the economic downturn on local government finances, Audit Commission, December 2008.

<sup>vii</sup> IDeA / LGA Survey of the Impact of the Economic Slowdown on Local Authorities 2008.

<sup>viii</sup> Global Slowdown: Local Solutions, Local Government Association, 2008.