

WIRRAL COUNCIL

CABINET - 19TH MARCH 2009

REPORT OF THE DEPUTY CHIEF EXECUTIVE/ DIRECTOR OF CORPORATE SERVICES

BUSINESS SUPPORT – RESPONSE TO THE CURRENT ECONOMIC CLIMATE

Executive Summary

1.1 This report outlines the impact of the current recession on Wirral's economy and identifies the steps taken by the Council to assist businesses affected by the current economic challenges, and builds upon the budget proposals identified at Cabinet on 23rd February 2009.

1.2 Cabinet is asked to:

- (i) Note the content of the report.
- (ii) Agree the proposals for the support mechanisms and programme interventions that are set out in this report, including the business support programme using the £50,000 identified within the budget resolution to support local companies during the current economic downturn in conjunction with £800,000 per year of Working Wirral funds.
- (iii) That the Deputy Chief Executive/ Director of Corporate Services presents a monthly update report to Cabinet on the state of the local economy.

2. Background and Context

2.1 The UK economy is now officially in the midst of a recession, ending the extraordinary boom of the last decade. Conditions have deteriorated rapidly amidst global financial turbulence, weakness in major export markets, a property market crash as well as a surge in food and energy prices.

2.2 The Bank of England Agents' last summary of business conditions (December 2008) reported shrinking demand; reduced retail sales; falls in output in manufacturing, construction and business services; a slowing of export orders; and an easing of input and output price inflation. The Bank of England is unable at this stage to advise on the possible length or severity of the problems.

2.3 Significant redundancies are being reported nationally on a weekly basis, with the car industry and its supply chain particularly badly affected. With daily reporting on the effects of the recession and successive Government responses, the challenge is to understand how Wirral's economy is being affected and respond in appropriate ways.

Wirral partners are aiming to take forward a co-ordinated and coherent response to the economic situation. This focuses on the following key elements:

- Monitoring and assessing the evidence
- Adapting current provision to meet emerging requirements
- Agreeing specific responses - eg to redundancies, increased unemployment, businesses
- Consultation with and support to local businesses

Labour market data

2.5 It is important to note the limitations of many official data sources. For example, data may not be available at the Wirral level or lower. Furthermore, much of the data has a significant time lag – thereby not accurately reflecting more recent worsening conditions. Notwithstanding that, the following is a summary of key indicators:

Employment rate: Latest data indicates that Wirral's overall Employment Rate has decreased by 2.1% points from its December 2007 position of 71.4% to 69.3% (Jun 08) which is significantly more than the regional and national decreases of 0.2 and 0.1 % points respectively. However the volatility of this survey based measure must be taken into account. The December 2007 figures showed an increase significantly higher than those both regionally and nationally.

Worklessness: High rates of worklessness and severe concentrations of deprivation continue to present a significant challenge. Rising unemployment has had a significant impact on worklessness rates within the Borough. Latest Jobseekers Allowance (JSA) claimant count data to January 2009 indicates a significant increase, with Wirral's rate now standing at 4.6%.

Table 1: Numbers claiming JSA Wirral

Oct-07	Jan-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
5,793	6,355	6,821	6,703	6,811	7,247	7,822	8,499

Source: NOMIS

Redundancies: Analysis of HR11 redundancy notifications provided by Jobcentre Plus has demonstrated a relatively high volume of redundancies in the borough: In 2007/08, 5 employers notified a total of 1051 redundancies (821 of these were attributable to job losses at Burtons). Analysis of HR1s from April 2008 to January 09 shows a further 20 employers notifying and additional 942 job losses.

Job Vacancies: Statistical information shows that the number of Wirral vacancies notified to Job Centre Plus (JCP) have reduced to January 09. Furthermore, anecdotal information from the Greater Merseyside Connexions Service suggests a 12% decrease in their vacancies from this time last year.

Table 2: Vacancies Notified to JCP (Wirral)

Oct 07	Jan 08	Aug 08	Sept 08	Oct 08	Nov 08	Dec 08	Jan 09
1,389	671	1,919	890	1,290	1,739	969	447

Source: NOMIS

Impact on local businesses

- 2.6 Recent examples include the announcement on 7 January 2009 of over 300 job losses by Tulip Foods in Bromborough. The food industry appears to be particularly impacted within the Travel to Work Area, with significant redundancies also announced in Ellesmere Port and Flintshire. Over capacity appears to be the major factor within this sector. Officers continue to work with local MP's and Tulip to investigate whether the situation can be resolved in a favourable manner for Wirral employment opportunities and the current employees.

General Motors' Vauxhall Plant in Ellesmere Port had an extended four week closure over Christmas to reduce productivity. GM employs about 5,500 people in the UK, with about 2,200 staff at Ellesmere Port, many of whom are Wirral residents. GM UK offered workers at the plant in Ellesmere Port the option of taking up to eight months leave between January 1 and September 1 2009, on 30 per cent pay. The company has been implementing shorter shifts, four-day weeks and pay cuts to avoid job losses. Discussions about cost-cutting at the plant are set to continue in the wake of the recent announcement by US parent General Motors to axe up to 47,000 workers around the world. Any job losses at Ellesmere Port will also have significant implications for local supply chains.

¹ Definition of HR1 notification: Employers are required by law to notify of a proposal to dismiss 20 or more employees as redundant at one establishment. Please note the final number of redundancies may be higher or lower than the number given.

2.8 Whilst the Council's Invest Wirral team continues to work with companies regarding expansion and investment plans, there are significantly more occurrences of them working with companies which are experiencing operating difficulties in the current economic climate. Invest Wirral is acting in a responsive manner in identifying and targeting such companies and is working much more closely with partner organisations to ensure a co-ordinated approach. The proposals outlined later in this report will build upon that co-ordinated approach and the package of support available.

Sectoral Impact:

2.9 Regional analysis suggests a particularly adverse impact on sectors as follows:

Construction / Housing

- All supply chains are being affected (from brick suppliers to estate agents)
- Repossessions have risen in Northwest above national averages
- Increase in rental market
- Empty properties due to access to finance

Manufacturing

- Jaguar, Vauxhall, Bentley – reduced shifts/ shorter weeks

Food Industry

- Over capacity is bringing consolidation and closure risk

Service/Finance

- Development related redundancies likely in early 2009 (such as planning, legal, surveyors)

Retail

- Some significant recent closures and job losses. Increasing concern over knock on effect to town centres, high streets and local businesses.

Additional evidence

Investment Inquiries

2.10 There has been a significant impact on inward investment enquiries, particular with on going negotiations. Many businesses are reviewing earlier decisions in light of the current circumstances and both access to credit and availability of premises remain major issues. Equally, the changed market conditions are

causing a review of decisions/need. For example, a manufacturing business that was close to investing in a new build facility at Bidston has decided to shelve the development, despite a number of incentives to bring them to the area. The reason for doing so quite simply revolves around the company's ability to now buy raw materials needed as part of its manufacturing process at a cheaper price than it can itself manufacture them for due to over supply and over capacity within the market.

Infrastructure Developments

2.11 Generally, in line with national trends, local developers are reporting difficulties in accessing finance which has resulted in speculative developments being put on hold. Many lenders are requiring already committed end users and fully pre let schemes before considering financial assistance. As well as impacting on the level of new development and ultimately job and wealth creation, this has also had an impact on the demand for ERDF funding which had been planned to part finance the initiatives. This is resulting in a significant level of potential under spend across the Liverpool City Region and causing great concern due to potential de-commitment of ERDF and the problem of reduced grant level intervention rates from 2010

Feedback from businesses

2.12 Businesses are indicating an overall reduction in demand for goods and services, with lower consumer demand cascading through supply chains. Cash and finance are the most urgent concerns. In relation to staffing, there is some evidence that businesses are reluctant to let skilled and committed staff go but are faced with reduced demand impacts. There is still evidence of skills disparities and it is interesting to note that there are hard to fill vacancies. Redundancies are acknowledged as the last resort.

2.13 There are still some growth markets and the issue is how companies can continue to grow within wider declining markets. Opportunities exist for some companies/sectors to take advantage of the economic situation. For example, some larger companies are considering outsourcing large aspects of their business processes. Within Wirral, there have been recent examples of local businesses winning contracts from larger companies to undertake outsourced production. This has been evident in some aspects of the pharmaceutical industry.

Wider Impact

Housing

2.14 There appears to be a significant collapse in sales and market confidence, apparently arising from the difficulties experienced by developers and individual householders accessing finance. Affordability still remains an issue,

- whilst property prices are reducing, the increase in required deposits for mortgages means if anything, the ability to access housing through purchase has worsened:
- 2.15 Anecdotally there are a number of investment landlords getting out of property with consequent terminations of tenancies for disposal with vacant possession; this coupled with a pattern of rising mortgage or debt repossession is increasing pressure on social housing through growing homelessness presentations.
 - 2.16 The current economic slowdown is having significant effects on key housing led regeneration schemes with demand falling sharply, causing caution among developers on land value offers.
 - 2.17 Key indications are that volumes of house sales are falling across the Borough as are prices; and an increase in the empty properties in the more vulnerable neighbourhoods. Data produced by Land Registry has demonstrated that Wirral has seen a 3.57% decrease in median house prices when comparing data over the last 12 months. Similarly house sales in Wirral for the same period have highlighted a decrease of 46% with this rising to as high as 62% in one of the Borough's most deprived areas.
 - 2.18 Recent figures from the Royal Institute of Chartered Surveyors indicate that two areas in Wirral rank amongst the top 10 worst towns for house sales in the UK, when comparing the length of time that properties are on the market. Hoylake is the third worst and West Kirby placed seventh.
 - 2.19 Latest statistics from the Ministry of Justice show that Mortgage possession claims in Birkenhead County Court were up by 16% in the first three quarters of 2008 compared with the first three quarters of 2007. Furthermore, they were up 35% in Q3 of 2008 compared with Q3 in 2007.
 - 2.20 Mortgage possession orders were up 51% in the first three quarters of 2008, and up 59% in Q3 of 2008 compared with Q3 of 2007.
 - 2.21 The Council is seeking to address the challenges in the housing market in a number of ways. It is working actively with Government, regional and sub-regional partners to address the very significant challenges which are currently being experienced. Specifically for Wirral it is continuing to progress its Housing Market Renewal Initiative, increasing the work of its Empty Property Strategy Team, taking part in the Government's Mortgage Rescue Scheme, restructuring its Re-housing Services to place a greater emphasis on preventing homelessness and working with its Registered Social Landlords to take forward a number of initiatives in relation to worklessness and financial inclusion.

Apprenticeships

- 2.22. Some anecdotal information on the impact of the downturn relates to in work training and apprenticeships. For example, the average cost of training for companies accessing Skillworks has decreased from around £7000 per intervention to £3500 per intervention as companies reduce their training plans / budgets.
- 2.23. We have also very recently gathered information from two of the Borough's large training providers to suggest that there has been an increase in apprentices losing their jobs. We are in discussion with the wider Work Based Learning Network to request some further detailed information on this front.
- 2.24. The underlying principle of responses is based on good economic intelligence and policy, with an understanding of business fundamentals and long term strengths. There is a need to maintain a long-term focus on skills, innovation and regeneration and it is important to keep a longer term strategy ready for when recovery starts.

National Policy Response

Pre-Budget Report / New Opportunities White Paper

- 2.25. Through the Autumn Pre-Budget Report (PBR), the government set out a number of immediate actions to help individuals and businesses most affected by the economic downturn. These actions are set in the context of a predicted range of major economic shocks which project that economic growth will slow to 3/4% in 2008 and potentially -3/4% in 2009; inflation will fall; and borrowing could peak at £118bn in 2009/10. The PBR outlined that the economic situation we face is a global issue and not confined to the UK, with global solutions required to solve many of the issues. The report suggests that all countries of the world, with the sole exception of China, will continue to face growing economic challenges.
- 2.26. To help stimulate the economy, the Government announced that VAT will be lowered from 17.5% to 15% and public investment will be accelerated rather than cut by bringing forward £3 billion worth of capital projects, including £535 million on energy efficiency, rail transport and adaptation measures.
- 2.27. To help individuals, income tax personal allowance increases will be made permanent, child benefit and pension payments will be brought forward from April to January, and increased mortgage support schemes will be provided for homeowners in difficulty.
- 2.28. To help the unemployed, the PBR announced an extra £1.3 billion of investment in personalised support for those seeking work. This includes

support for those newly out of work to up-skill into new areas of employment and £500 million for those out of work for over 6 months.

2.29 To support businesses through the downturn, the measures announced in the PBR largely focus on the short to medium term challenges they face. For SME's, the Government will work in conjunction with the Regional Development Agencies to:

- launch the Small Business Finance Scheme, a new temporary guarantee scheme to enable up to £1bn of Government supported bank lending,
- introduce a temporary guarantee scheme in conjunction with the Export Credits Guarantee Department to support a £1bn facility providing smaller exporters with better access to short-term working capital,
- make available a capital fund of £50m providing equity or quasi-equity to SME's who are overleveraged,
- introduce transition loan funds for viable SME's facing financial difficulties,
- offer a single portal service through Business Link to direct credit-worthy SME's who are experiencing problems to appropriate finance schemes.

2.30 To promote enterprise, £10m of risk capital has been earmarked for social enterprise; the Government will take forward the Department for Business Enterprise and Regulatory Reform (DBERR) and Her Majesty's Revenue and Custom (HMRC) led programme of regulatory reform to decrease the administrative burden; and research will be undertaken of current enterprise education in schools and colleges to bring forward new approaches.

2.31 DWP and DIUS have joined forces to announce a cash injection of £100m over the next three years to give much needed help to people who lose their jobs. The extra cash will be available for people who are currently facing redundancy and those looking for work to help them retrain and develop their skills so that they can quickly move back into sustainable employment, either in their existing sector or a brand new one. The additional money will come from the European Social Fund and funding from DIUS.

2.32 Skills Secretary John Denham also announced that small businesses will be the focus of £350 million of Government funds to help them train their staff via Train to Gain. The Government's approach will be reshaped and money will be available to deliver a new package of support to help small businesses get through the tougher economic climate by building the skills and expertise of their workers.

2.33 North West Regional Minister Beverley Hughes is leading the NW Regional Joint Economic Council, supporting the National Economic Council in

providing a new approach to co-ordinating economic policies across Government. The JEC has already called for evidence to better understand the impact of the current economic situation.

3. Actions Taken to Date

3.1 The Council currently operate a number of programmes of activity that have adapted to the current financial conditions. These include:

Key infrastructure projects

3.2 The Council recognises that it is essential to do everything possible to protect local businesses and jobs from the impact of the recession as well as continuing to play its part in stimulating the local economy. As agreed by Budget Council on 2nd March, the Council is planning a major £20M capital investment in new and modernised buildings over the next four years and over £25M of government money is also about to be spent on the building of a brand new secondary school. Contractors will be asked wherever possible to employ a high percentage of local labour and every opportunity will be taken to allow local businesses to showcase their wares through the Council's building programme.

The Council will also continue to support the delivery of several key economic infrastructure projects. In line with national policy, every effort is being made to focus and bring forward key infrastructure projects across the Borough to create employment opportunities and having a positive effect on the economy. Council officers continue to work with the private sector in accessing key external funding to support and where necessary, provide gap funding to key schemes and projects. There are a number of projects that developers are still actively progressing including Wirral Waters, New Brighton phase 2, the proposed foodstore in Birkenhead, the Europa Boulevard development, The Sail in West Kirby and Woodside,

Key infrastructure requirements

Officers are currently in the process of trying to identify the needs for Wirral in respect of power constraints and digital access. There are a number of constraints that could potentially prevent key sites and premises being brought to the market in the future due for employment use. Addressing these issues not will provide where necessary for the economic upturn.

Business Support

3.4 Wirral Council meet monthly with the Wirral Chamber of Commerce and Federation of Small Businesses to ensure that regular and accurate feedback is received on the issues facing small businesses locally, and this intelligence is being used to inform our responses to the current economic situation.

3.5 Providing enhanced business support: To complement existing business networking, every effort is being made to ensure companies can easily access the national support available. This includes:-

- Invest Wirral working with Business Link to ensure that information is cascaded through online business forums networks and Wirral Investment Network (WIN) which represents the Business and Professional Sector
- Setting up an online local business support/events calendar using a mixture of Working Wirral and European Regional Development Fund (ERDF) support which further promotes key support services.
- Seminar with NWDA in January regarding access to finance held at the Floral Pavillion.

3.6 Small Firms Rate Relief - this is being followed up with additional awareness promotion of the scheme for eligible businesses to pursue. In addition, the Government announced changes to the Ratings scheme for empty properties as part of the recession budget which come into force from April 2009 - these will of course also be promoted by the Revenues section.

Employment Support

3.7 Providing co-ordinated redundancy support - Key partners (Wirral Council, Jobcentre Plus and the Learning and Skills Council) co-ordinate activity through the Wirral Economic Development and Skills (WEDS) Partnership.

3.8 Working Wirral: The Council provides a number of commissioned activities and development services across the Borough to help improve local people's skills and employment prospects:

Partner activity

3.9 These measures complement work being undertaken by partners including:

- Jobcentre Plus (JCP) - In addition to their core services, JCP has brought down the eligibility for certain programmes from six months to day one to enable the newly unemployed to access their enhanced offer.
- The Learning and Skills Council (LSC) - the LSC works closely with JCP and to deliver an Integrated Employment and Skills programme across Greater Merseyside; and Train to Gain programme and the pre-employment has been subsequent enhanced in response to the situation.
- Business Link - is working with Council service areas to increase access to business support services.

- The Council is forming an action group of the main public sector agencies to co-ordinate collective responses to the current situation.
- 3.10 Strong partnership working at an operational level is being supported and developed by the WEDS partnership which is receiving regular updates on the downturn and partners share organisational intelligence and policy updates. Officers are also participating in Merseyside meetings to look at the effects of the recession, and agree some co-ordinated responses.
- 3.11 We are also in discussion with the Third Sector as to how they too can contribute to helping deal with the current economic situation.
4. New Interventions
- 4.1 In response to the economic downturn the Council agreed a specific set of interventions at Budget Council on 2nd March. This package included
- a) Measures to improve the cash flow of local businesses by targeting payment of invoices within 10 days for all creditors from small and medium sized enterprises employing fewer than 250 people. A report on this initiative is included elsewhere on this agenda.
 - b) The establishment of a grant fund of £50,000 for one year to give immediate support to previously successful micro businesses employing 10 or fewer employees who now face difficulties as a result of the credit crunch.
 - c) Proposals to use the Council's major capital programmes to assist the local economy. Contractors will be asked wherever possible to employ a high percentage of local labour.
 - d) The development of a construction employer integrator scheme to bring together information on all construction projects in Wirral. This will be the subject of a future report to Cabinet.
 - e) The investigation for the potential to establish a municipal bank either in conjunction either with other Merseyside authorities or separately, to assist local businesses with loans in a situation and could also serve the function of assisting domestic clients with mortgages where the supply has dried up and where it may be in the interests of the Authority to encourage the use of housing which may not be attractive to commercial lenders.
- 4.2 This report recommends a series of additional measures to help companies in the current economic climate. These measures are set out below.
- (i) BIG Support Grant: The Council is fully aware of the challenges that many businesses in our area are facing at the present time, and recognises the need for us to work collectively with our partners to minimise the adverse impacts of the economic downturn on businesses and their employees.

Access to capital and cash flow has been identified as a major problem. Wirral's business makeup is dominated by micro-businesses (those with fewer than ten employees) and a number of these have reported continued difficulty in speedy access to funds through current and indeed proposed arrangements.

Therefore a programme has been designed to specifically support (SME's 250 employees and less) with a specific focus on micro-businesses. This programme will utilise the £50,000 agreed by Budget Council on 2nd March 2009 to support local companies during the current economic downturn and £800,000 per year of Working Wirral funds. The fund will be available for a wide range of support, including grants support and helping companies to access other sources of finance. It is hoped that the availability of such financial support will encourage banks and other lending institutions to also invest in these businesses. A more detailed project outline is attached at Appendix B to this report.

- (ii) The "Think Big" Investment Fund currently supports existing and inward investing businesses on a range of big projects that will support employment growth and business expansion. Given the current situation, Officers have drafted a new set of criteria for the fund which will allow businesses to safeguard jobs within a new set of defined criteria which will allow businesses to access finance for other outcomes rather than just growth.

The capital grant will be offered to Wirral businesses which have viable project proposals to support the sustainability or growth of the company. Grants must be in line with EU State Aid limits which have recently been revised upwards. The "Think Big" Investment fund will operate accordingly and up to the maximums allowed under EU State Aid rules at the time of application. The draft criteria is set out in Appendix A of this report.

- (iii) BIG consultancy support. We are recommending the provision of consultancy support to assist with financial planning and the development of business plans which take account of current market conditions. It is proposed that businesses would receive up to three days consultancy free of charge.
- (iv) Additional support will be provided to businesses by the provision of three Business Advocate posts. These posts will be hosted within Business Link but will focus exclusively on supporting Wirral businesses. This element of the package will be funded from ERDF 4.2, as previously reported to Cabinet on 10th December 2008.
- (v) Business Conference - Wirral Council will host a seminar on the 25th and 26th of March which will focus on supporting business through difficult times. The main purpose of this event is to bring together public sector organisations with the private sector to outline the support services that are available. There will

also be drop in sessions which will discuss a variety of topics from information or advice on grants, funding, finance, staffing, health & safety, marketing, occupational health, legal rights and responsibilities. The event will include the North West Development Agency, Business Link North West and will include speakers from a number of other support agencies. We are working with the banking sector to use this event to promote dialogue between businesses and banks about how companies can maximise the prospect of obtaining bank finance in the current economic climate.

Apprenticeships

- 4.3. Further to the Budget resolution, Officers are exploring the options for the development of an apprenticeship programme for the borough, with access to all vocational areas.
- 4.4. Apprenticeships will support the council and its partners to continue tackling worklessness and skills issues by offering support within a structured apprentice programme. Any activity will add value to recent national announcements on supporting apprenticeships.
- 4.5. Details of a Construction Integrator scheme are currently being drawn up by officers, which will explore a variety of training and apprenticeship opportunities. A separate report setting out further details of this initiative will be brought to a future cabinet meeting.

5. Financial Implications

- 5.1. **BUSINESS SUPPORT:** Working Wirral will fund the total project cost will be £800,000 per annum over a two year period (up to 31st March 2011) and will be used to provide grant and consultancy support. The project will work in tandem with the ERDF 4.2 project that Cabinet agreed for Working Wirral funding in December (Item 18 Minute 305 refers) as match funding for the European resource. The ERDF 4.2 project will provide support for micro businesses via three Business Advocate posts which will be provided by a third party. The programme of activity will be supported by £50,000 which was made available within the budget proposals in Cabinet in February 09.

6. Staffing Implications

- 6.1. There are no staffing implications arising as a direct result of this report.

7. Equal Opportunities Information

- 7.1. All of the activity outlined in this report promotes equal opportunities..

8. Community Safety Implications

- 8.1. None as a result of this report

9. Local Agenda 21 Implications

9.1. None as a result of this report

10. Planning Implications

10.1 There are no planning implications arising as a direct result of this report

11. Anti-Poverty Implications

11.1 None as a result of this result

12. Human Rights Implications

12.1. None as a result of this result

13. Social Inclusion Implications

13.1 None as a result of this report

14. Local Member Support Implications

14.1. None as a direct result of this report

15. Background Papers

15.1 Background papers are available by contacting Alan Evans in the Economic Policy Team on 0151 691 8426.

RECOMMENDATIONS - That

- (i) The contents of the report be noted;
- (ii) The proposals for the support mechanisms and programme interventions that are set out in the report be agreed, specifically:
 - The changes proposed for the Think Big Investment Fund
 - A programme of Support for Small Businesses (£50k budget resolution and £800k Working Wirral)
- (iii) The Deputy Chief Executive/Director of Corporate Services presents a monthly update report to Cabinet on the state of the local economy

J. WILKIE

Deputy Chief Executive/ Director of Corporate Services