

THE HIGHLAND COUNCIL

29 October 2009

Agenda Item	
Report No	

COUNCIL RESPONSE TO THE ECONOMIC DOWNTURN

Report by Director of Planning & Development

SUMMARY

This report provides commentary on the current economic situation before detailing progress with the implementation of the Council's Economic Downturn Action Plan.

The Action Plan is directly supportive of the Council's Single Outcome Agreement commitment to create "A competitive, sustainable and adaptable Highland economy".

1. Economic Update

1.1 The latest Bank of England Agents' Summary of Business Conditions, published in September 2009, is summarised below. It provides information on the state of business conditions from companies across all sectors of the UK economy between late July 2009 and late August 2009:

- Consumer spending had grown modestly.
- The pickup in housing market activity had continued.
- Investment intentions remain very weak, though somewhat less so than at the trough of the recession.
- The rate of contraction in export volumes had slowed.
- Extend of de-stocking continued to moderate with de-stocking cycle drawing to a close.
- More evidence that manufacturing and service sector output has stabilised but construction activity had continued to shrink.
- Small firms continue to encounter difficulties in securing bank funding.
- Employment intentions less negative than earlier in the year with some considering that cuts in staffing may be sufficient as long as demand conditions do not deteriorate.
- Per capita labour costs remained lower than same period last year. Annual inflation in material costs had eased further.
- Consumer goods and services price inflation remained low but positive.

1.2 The Scottish Government have advised that in August 2009 the Scottish economy contracted by 2.4% in the first quarter of 2009, a rate consistent to that of the UK and other advanced economies. This decline could further dip sharply in 2009 by between 2.9% and 4.1% with only modest growth expected in 2010. This matches closely the anticipated UK dip of 4% in 2009 and modest growth in 2010 of around 1%.

- 1.3 The Fraser of Allander Institute reported in their June 2009 economic commentary, that:

The recession in the UK economy may be over. The National Institute for Economic and Social Research in London called the end of the recession as occurring in March and is estimating small positive growth in April and May of this year. Due to lack of data the position in Scotland is much less clear. There is a clear danger of a 'false dawn', since it is not unknown for previous UK recessions to have one or two positive quarters of growth before growth turned negative again ... but the extent that a recovery may be emerging in the UK it is likely to be slow and protracted.

Scotland economy faces many challenges in successfully recovering from recession and establishing a favourable growth path. Analysis of structural change over the past decade reveals that Scotland became more of a service sector economy as manufacturing share and electronic production fell. The Scottish economy effectively turned inwards and relied more on financial services, construction, property related and business services and the public sector as manufacturing exports played a smaller part in the demand for Scottish goods and services. Because of this Scotland may have difficulty in adjusting to a situation of higher household savings and severe cutbacks in public spending and/or higher taxation, which will require the economy to become more export and private sector orientated over the medium to long term.

- 1.4 The Highlands and Islands Monthly Economic Report produced by MacKay Consultants, for September 2009, estimates that economic output in the region was -2.2% lower than the July 2008 estimate. Overall the region's economic performance has been a little above the national one but it is estimated that once economic growth returns the region's rate will mirror that if not slightly lag the Scottish and UK rates.
- 1.5 The number of people unemployed in Highland as measured by Jobseekers Allowance (JSA) in August 2009 was 2.8%, lower than the averages for both Scotland and Great Britain (4.2%). Unemployment in Highland is highly seasonal and was above the Scotland and Great Britain average around the millenium but has fallen steadily since then until beginning to rise in late 2008. Highland's seasonal unemployment makes short term interpretation difficult but the figures from late 2007 to date (July 2009) show that unemployment appears to be rising, but at a slower rate than in Scotland and Great Britain. The number of young people receiving JSA who are aged under 25 (ie aged 24 and below) generally follows the national pattern with 1.7% of young people in Highland receiving the benefit compared with 2.8% for Scotland overall and Great Britain 2.6%. As Members will appreciate the unemployment rate varies across Highland from 1.3% in Caol and Mallaig to 5.8% in Inverness Central.

2. Action Plan

- 2.1 The Council's approved Action Plan details actions across six headings:
- Housing
 - Capital Programme
 - Money Advice and Support to Individuals

- Employability and Support to Individuals
- Business Advice and Support
- Wider Economic Initiatives/Other Actions

2.2 Significant effort has been directed to deliver on the actions proposed. While a wide range of activity is underway across the Council, actions worth noting include:

Housing

- Investment of £3m brought forward for affordable housing (132 homes) with a further £2m investment to be considered by the Housing and Social Work Committee in November 2009.
- Work is ongoing to finalise innovative funding models to help individuals purchase their own home.
- A bid has been submitted to the Scottish Government for funding to help the Council and use of the Land Bank fund to build 51 houses for rent.
- Contracts have been let and work has commenced on site for Scotland's Housing Expo which will run in Inverness in August 2010.

Capital Programme

- The programme is on target to deliver c£70m of spend including £6m of accelerated spend brought forward from 2010/11.
- The Convention of the Highlands and Islands has discussed a proposal to align capital spend across the Community Planning partners in Highland to gain better value for money in the procurement and delivery of capital programmes across the public sector.

Money Advice and Support to Individuals

- A progress report on the development of a credit union for the Highlands will be provided to the Resources Committee in December 2009.
- Advice agencies funded by the Council reported 8113 contacts for general and welfare rights over Q1 2009/10. This is slightly lower than the equivalent period for 2008/09 although a new monitoring system introduced had an impact on the number of cases dealt with.
- The financial gain from closed cases dealt with by the advice network was £1.07m in Q1 2009/10 and £784k in Q2 2009/10.
- The number of debt cases presented to the Council's own team and the agency network was 292 in Q1 which was consistent with previous quarters with the debt level remaining high at over £5m for the quarter

Employability

- Council employability services to help people into work are being reviewed by a short life Member task group. This will focus on: the coverage and targeting of services; how they should be delivered; how they can be funded including with EU grant support; and how they can be better aligned with services delivered by other public bodies. The review will report to the Resources Committee in December 2009.
- An application for the Future Jobs Fund will be made by the end of October for the first phase of Council sponsored posts. A total of 60 posts will be available mainly in TECS (re-cycling and community works), ECS (sports centres and youth work) and Housing and Property Services in two 6 month tranches. The first posts will be available in February 2010. A further 30 posts are also under consideration for Future Jobs Funding in a second

round application creating 90 posts overall.

Business advice and support

- Business Gateway has had a successful launch with over 600 inquiries dealt with since the service began in April 2009. John Swinney, Cabinet Secretary for Finance and Sustainable Growth, officially launched the Business Gateway service in the Highlands and Islands on 25 September 2009 from the Council's Business Gateway office at Castle Street, Inverness.
- At the end of August 2009, 22 courses had been run on topics such as business start-up, marketing, and finance with 131 participants. 82 business start-ups have been assisted.
- The Highland Business Growth Fund has offered assistance to 12 companies across the area with low cost finance to the value of £370k. In excess of 66 jobs have been created by this funding.
- A new business start-up grant scheme was approved at PED using funds transferred from HIE for Business Gateway. A LEADER application to support this funding is currently under consideration and if approved should be operating early in 2010. In total the fund could provide £250k of support over the current and next financial years supporting 100 new businesses.
- The Small Business Bonus scheme is continuing to be marketed with 6418 businesses now benefiting from the scheme which represents 37.94 % of all business's in Highland or 47.56 of business's that are of a size that may qualify.
- Prompt payment is continuing to feature as a means of supporting companies. In Q1 54.4% of invoices were paid within 10 days, an increase of almost 6% on the last quarter of 2008/09. In Q2 this figure has improved further with 56.21% of invoices paid within 10 days.

Wider economic initiatives/other actions

- The Nigg Masterplan has now been submitted to Scottish Ministers together with a response to the Appropriate Assessment which has gone to Scottish Natural Heritage. It is intended to report the outcome to the PED Committee on the 18 November 2009 at which point the Council can adopt this as Supplementary Planning Guidance. In the meantime KBR are considering an in-house proposal to redevelop the site for offshore renewables.
- The Council is working with HIE and the Crown Estate on a Memorandum of Understanding to maximise local benefits from offshore renewables. A draft proposal will be discussed by the Highlands and Islands Conveners in November 2009.
- The Council was successful in securing £463k for the Dingwall Streetscape improvement project from the Town Centre Regeneration Fund. Further bids were submitted for Thurso, Wick, Nairn and Fort William by the Council as well as support for a bid from Tain. The results of the second round bids are expected shortly.
- The Vacant and Derelict Land Fund has allocated funds to a number of projects, notably in Wick where a contribution of £380k has matched Conservation Area Renewal Scheme funding of £297k enabling the Highland Housing Alliance to commence work on site at Larnach, Saltoun Street/Williamson Street in Pultneytown.
- The Highland LEADER Programme has since it was launched in December 2008, committed £2.36m towards 106 projects with an anticipated total

projects cost of £7.2m.

- The Highland Economic Forum at its October 2009 meeting agreed an Action Plan with lead organisations identified for the priority actions. Short-life working groups will now be established to progress these actions.

3. Resource Implications

- 3.1 There are no direct additional budgetary implications detailed in the Action Plan that can not be accommodated for in current or emerging Service budgets.

4. RECOMMENDATION

- 4.1 Council is recommended to note progress with the implementation of the Council's Economic Downturn Action Plan, particularly:

- Progress on a number of housing initiatives including acceleration of the affordable housing programme which will bring forward 132 new units and the Council's application to Scottish Government to build 51 new Council houses.
- Delivery of the Council's capital programme including £6m of accelerated spend.
- An application for Future Jobs Funding to secure 60 posts with the first 30 to commence in February 2010.
- The successful first 6 months of Business Gateway, including 82 new business starts and delivery through Highland Opportunity Limited of £370k of the Business Growth Fund securing 66 new jobs.
- The submission of the Nigg Masterplan and ongoing work with the Crown Estate to maximise the benefits from new offshore renewable energy projects for the area.

And that;

- The Council continues to review its action plan in the light of the likely impacts of reductions in public sector budgets across the area and consequent impacts on economic recovery.

Signature:

Designation: Director of Planning and Development

Date: 20 October 2009

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