

I refer to the agenda for the meeting of the Policy & Resources Committee to be held on Tuesday 31 March 2009 at 3pm and now attach report as undernoted which was not available on the day of issue.

Undernote

18. **Responding to the Economic Downturn**
Report by Corporate Director Improvement and Performance

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Report To:	Policy & Resources Committee	Date:	31 March 2009
Report By:	Corporate Director Improvement and Performance	Report No:	POL/18/09/PW
Contact Officer:	Paul Wallace	Contact No:	2700
Subject:	Responding to the Economic Downturn		

1.0 PURPOSE

- 1.1 The purpose of this Report is to outline for members the potential risks for the Council of the current economic downturn at a corporate and service level and suggest an approach to identify appropriate actions which can be taken to mitigate these risks.

2.0 SUMMARY

- 2.1 It is now clear that the current economic downturn will continue for at least the next two years, if not longer, and it is appropriate for the Council to consider how this will impact on the organisation at a corporate and service level.
- 2.2 Action has already been taken to mitigate the impact of the downturn on the local community and businesses through the 2009/2011 Budget (for example significant capital investment by the Council and partner agencies) and a report to Regeneration Committee in January 2009 which contained a package of additional support measures for local businesses.
- 2.3 The Council has also ensured that the need for an effective, co-ordinated response to the economic downturn has, through the Inverclyde Alliance, been suitably reflected in the new Single Outcome Agreement (SOA) submitted to the Scottish Government for agreement.
- 2.4 The latest projections for public sector expenditure from the Treasury, as well as various academic institutions and think tanks, outline a scenario where resources continue to decline in real terms for the next 5-10 years at the same time as demand for services continues to increase year on year driven by demographic change, policy pressures and fallout from the downturn itself.
- 2.5 This scenario is likely to have a significant negative impact on the Council – in effect although the economic downturn itself may only last for 2-3 years the cost of the various actions taken by the UK Government will impact on the resources available to the Council for the foreseeable future.
- 2.6 Although the Council has agreed a two year Budget for 2009/2011 there is a significant risk that the worsening economic situation, and a real decline in public expenditure as outlined above, will mean that the current planning assumption outlined in the Financial Strategy of an annual funding gap of around £4m from 2011/2012 will have to be revised.
- 2.7 The economic situation will have a negative impact on income streams such as Council Tax, NDR, Commercial/Industrial Rents and income from Planning Fees, increased costs at a corporate and service level and reduce the ability of the Council to dispose of assets.
- 2.8 There has already been an impact in some service areas with an increase in demand, e.g. Economic & Social Regeneration and Money Matters, with declining demand in other areas.

- 2.9 However, the Council also needs to look beyond the immediate impact of the economic situation and consider the likely impact in the medium term on services such as Education or Social Care where, in addition to changes in demand driven by demographic change and policy pressures, there is likely to be an increase in demand for mental health and addiction services.
- 2.10 The Council will also need to consider in the context of the Financial Strategy how it will manage what may be perceived as 'positive' impacts of the economic downturn such as a reduction in inflationary pressures or changing expectations with regard to pay settlements.
- 2.11 In addition consideration will need to be given to how the Council can maximise external funding from sources such as the Town Centre Regeneration Fund or the various Lottery Funds to supplement existing resources and support the delivery of the agreed outcomes.
- 2.12 It is essential that the Council considers in detail how this scenario will impact on the organisation at a corporate and service level and this report sets out a number of actions that could be initiated immediately to help mitigate the worst effects of the economic downturn on the Council.
- 2.13 It is proposed that an action plan is prepared by the Working Group established as part of the 2009/2011 Budget to consider the implications of the economic downturn for the Council for consideration by the next Policy and Resources Committee in May.
- 2.14 This action plan would focus on maintaining key investment programmes and services in the medium term, reviewing governance frameworks, policies and delivery arrangements where appropriate and ensuring the Council is able to effectively manage through the economic downturn and prepare for the recovery.
- 2.15 Work will need to be undertaken at a corporate level, in terms of reviewing the Financial Strategy and related matters, and at a service level to identify the full implications for the organisation and to ensure these are appropriately reflected in the action plan.
- 2.16 These actions would be in addition to the extensive activity detailed later in this Report being undertaken by Economic & Social Regeneration on an ongoing basis to support local businesses.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee agree as follows:
 - a. to note the potential risks for the Council of the current economic downturn at a corporate and service level;
 - b. to note the action already undertaken through the 2009/2011 Budget and as a result of the report to Regeneration Committee in January 2009;
 - c. to agree that an action plan is prepared for the next Committee focusing on maintaining key investment programmes and services in the medium term, reviewing governance frameworks, policies and delivery arrangements where appropriate and ensuring the Council is able to effectively manage through the economic downturn and prepare for the recovery;
 - d. to note the extensive ongoing activity by Economic and Social Regeneration outlined in 4.17 to support local businesses; and
 - e. that this report is remitted to the next meeting of the Inverclyde Alliance Board.

Paul Wallace
Corporate Director
Improvement and Performance

4.0 BACKGROUND

- 4.1 The background to the global economic downturn has been well documented in recent months - it is now considered likely that the downturn will continue for at least the next two years, if not longer, although it is still unclear how severe the overall impact will be on the economy.
- 4.2 The Council, like other businesses, households and individuals across Scotland, has suffered as a result of the economic downturn – information provided to members previously identified a number of areas where the Council had been negatively impacted including an increase of 58% in gas and electricity costs in 2008/2009, increased costs for fuel for vehicles and heating, a decrease in planning fee income and reducing interest on savings which could cost up to £1.5m.
- 4.3 Action has already been taken to mitigate the impact of the downturn on the local community and businesses through the 2009/2011 Budget (for example significant capital investment by the Council and partner agencies) and a report to Regeneration Committee in January 2009 which contained a package of additional support measures for local businesses.
- 4.4 The Council has also ensured that the need for an effective, co-ordinated response to the economic downturn has, through the Inverclyde Alliance, been suitably reflected in the new Single Outcome Agreement (SOA) submitted to the Scottish Government for agreement – it is proposed that this report is remitted to the Alliance Board for further discussion with partners.
- 4.5 It has also been recognised by the Council and other partners that there will be a need to revisit the planning assumptions which informed the SOA and other key strategic plans to ensure that the actions identified remain relevant and that indicators and targets included are still achievable.
- 4.6 The latest projections for public sector expenditure from the Treasury, as well as various academic institutions and think tanks, outline a scenario where resources continue to decline in real terms for the next 5-10 years at the same time as demand for services continues to increase year on year driven by demographic change, policy pressures and fallout from the downturn itself.
- 4.7 This scenario is likely to have a significant negative impact on the Council – in effect although the economic downturn itself may only last for 2-3 years the cost of actions taken by the UK Government will impact on the resources available to the Council for the foreseeable future.
- 4.8 Although the Council has agreed a two year Budget for 2009/2011 there is a significant risk that the worsening economic situation, and a real decline in public expenditure as outlined above, will mean that the current planning assumption outlined in the Financial Strategy of an annual funding gap of around £4m from 2011/2012 will have to be revised.
- 4.9 The economic situation will also have a negative impact on income streams such as Council Tax, NDR, Commercial/Industrial Rents and income from Planning Fees, increased costs at a corporate and service level and reduce the ability of the Council to dispose of assets.
- 4.10 There has already been an impact in some service areas with an increase in demand, e.g. Economic & Social Regeneration and Money Matters, with declining demand in other areas.
- 4.11 It is possible that Inverclyde will benefit to some extent from the strengthening and enhancing of activities currently being pursued by the Alliance to address longer term economic issues such as employability – there has been significant investment in this area in recent years and this may provide a solid platform for further development.
- 4.12 However, the Council needs to look beyond the immediate impact of the downturn and consider the likely impact in the medium term on services such as education or social care where, in addition to changes in demand driven by demographic change and policy pressures, there are likely to be increases in demand including; homelessness, mental health, addictions, child protection, debt counselling and financial advice, etc.

- 4.13 The Council will also need to consider in the context of the Financial Strategy how it will manage what may be perceived as 'positive' impacts of the economic downturn such as a reduction in inflationary pressures or changing expectations with regard to pay settlements.
- 4.14 In addition consideration will need to be given to how the Council can maximise external funding from sources such as the Town Centre Regeneration Fund or the various Lottery Funds to supplement existing resources and support the delivery of the agreed outcomes.
- 4.15 It is essential that the Council considers in detail how this scenario will impact on the organisation at a corporate and service level - this report sets out proposals to identify actions that could be initiated immediately to help mitigate the worst effects of the economic downturn on the Council.
- 4.16 It is proposed that an action plan is prepared by the Working Group established as part of the 2009/2011 Budget to consider the implications of the economic downturn for the Council for consideration by the next Policy and Resources Committee in May – this meeting will also be considering the revised Financial Strategy for the Council.
- 4.17 This action plan will focus on:
- a. maintaining key investment programmes and services in the medium term
 - b. reviewing governance frameworks, policies and delivery arrangements where appropriate
 - c. ensuring the Council is able to effectively manage through the downturn and prepare for the recovery
- 4.18 Work will need to be undertaken at a corporate level, in terms of reviewing the Financial Strategy and related matters, and at a service level to identify the full implications for the organisation and to ensure these are appropriately reflected in the action plan.
- 4.19 This would be in addition to activity being undertaken by Economic & Social Regeneration on an ongoing basis to support local businesses, residents and unemployed individuals:
- Higher profile signposting and advice through increased site visits and function attendance
 - Financial support by way of business grants and loans for capital expenditure; working capital; improvements to property; training support
 - Property support - identifying business property requirements and assisting with identifying suitable properties
 - Support for business start-ups via Business Gateway including increased marketing
 - Support via Fairer Scotland Fund and European Social Fund to raise the employability of those most disadvantaged and to prepare them to be 'job ready' to meet employers requirements c£6.2m worth of programmes
 - Partnership Action for Continuing Employment (PACE) - supported by national and local partners, offers a service to help individuals and businesses facing redundancy issues.
 - In partnership with Greenock Chamber of Commerce delivered a Credit Crunch Seminar for businesses to raise awareness of the support that the Business Store can provide.
 - Link businesses with Planning officers for early discussions to assist the planning process on property improvements
 - Rent abatement assistance to local companies within terms of the Council's Standing Orders
 - Businesses provided with information to tender for public sector contracts via Public Contracts Scotland portal and Inverclyde Construction Forum, as well as SPOC - single point of contact for construction vacancies
 - Training support for Third Sector organisations to understand and consider the social enterprise model in partnership with Social Enterprise Academy
 - Support for existing social enterprises to consider new market opportunities to diversify and increase their sustainability in partnership with CEIS.

5.0 IMPLICATIONS

- 5.1 There are no immediate HR, Legal or Equalities issues arising from this Report.
- 5.2 Any financial implications arising from the Report will be managed from within existing resources.

6.0 CONSULTATION

- 6.1 The CMT and members of the Working Group established as part of the 2009/2011 Budget to consider the implications of the economic downturn for the Council were consulted in the preparation of this report.