

# OVERVIEW AND SCRUTINY COMMISSION

## Agenda Item 7

Brighton & Hove City Council

**Subject:** Potential Effects of the Recession on Business

**Date of Meeting:** 21 April 2009

**Report of:** Director of Cultural and Enterprise

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**Wards Affected:** All

### FOR GENERAL RELEASE

#### 1. SUMMARY AND POLICY CONTEXT:

- 1.1 The minutes of the meeting of 20<sup>th</sup> January 2009 resolved: That officers be asked to report back to the Commission on the potential effects of the recession on performance to include consideration of voluntary, statutory and business sectors.
- 1.2 This report highlights the effects of the recession on business and the council's response to the recession for business at this time.

#### 2. RECOMMENDATIONS:

- 2.1 Receive this report and note the activity currently being undertaken by the Council in support of business and in response to the recession.

#### 3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The UK officially entered a recession following a 2<sup>nd</sup> quarter of negative growth at the end of 2008. The factors leading up to this occurrence are well chronicled and predictions over the likely depth and duration of the recession vary widely.
- 3.2 The key impacts nationally, as well as the declining output and GDP, have been a reduction in house prices, increasing unemployment, reduced interest rates, reducing inflation and increasing home repossessions.
- 3.3 Businesses have been affected significantly as consumer spending has declined resulting in cost reduction for many businesses and in some cases business closure. Many of the most notable closures in recent months have occurred on the High Street with businesses such as Woolworth, Zavvi and Principles but there have also been many other areas of business activity seriously affected including construction and manufacturing.

- 3.4 In the local area the impacts of the recession are obviously being felt. The major consequences for business are as follows:
- 3.4.1 Multiple retailers: local branches of multiple retailers that have ceased to trade have resulted in closures on our high street. Brighton & Hove branches of Woolworth and Zavvi have closed.
  - 3.4.2 Other business closures: Other retail vacancies are clearly evident in most parts of the City including within the Lanes and North Laine as some businesses have closed shops or ceased to trade. A number of licensed premises including restaurants have also ceased trading. Detailed studies of retail vacancy rates in Hove show a marginal increase in January 2009 over September 2008 but the majority of streets are still well below national averages of between 7% (Experian) and 10% (Office for National Statistics).
  - 3.4.3 Unemployment: Claimant counts in the City have risen. January 2009 figures show that in one year unemployment has grown by 39% to 6,147 claimants. As bad as this appears, it is worth noting that in the South East the increase over the same period is 76% and in Great Britain overall it is up by 54%. The City has therefore fared better than its regional and national counterparts. In the business services sector it has been announced in May 2009 that Legal & General will be making 560 job cuts across the UK, which will have an impact at their City Park offices.
- 3.5 The Council reacted quickly to the early affects of the recession by implementing a number of actions as follows:
- 3.5.1 The formation of an Economy Task Force to work with the Council in developing a coherent and joined up approach in responding to the recession and developing actions to mitigate the effects of the recession on local people and local business. Participants in the Task Force include The Council, SEEDA, Federation of Small Businesses, Business Link, Chamber of Commerce, Business Forum & Economic Partnership, Job Centre Plus and more recently the Business Community Partnership have been invited. The Task Force has been meeting monthly since November 2008.
  - 3.5.2 The creation of the 'Be Local Buy Local' campaign. This innovative campaign launched in December 2008 with the intention of getting local people to think more concertedly about spending their money with local businesses and keeping the benefits of that spend within the local economy. We aimed to get 100 businesses and 1000 residents actively signed up to and supporting the campaign. The green 'Be Local Buy Local' stickers are increasingly obvious in the windows of businesses and residents. To date 170 local businesses have signed up to the campaign.
  - 3.5.3 Establishing with the Chamber of Commerce and Business Link a series of sector workshops and business support clinics for local businesses to seek and get advice from professionals including accountants, solicitors and banks to help them deal with and survive the recession. These are currently being run and marketed under the name 'Business Lifebelt', and have provided intensive

support to 200 businesses in addition to attracting 800 attendees to a major business support show.

- 3.5.4 The Council has written to the regional managers of the major high street banks urging them to provide support to local businesses and to try to ensure that any business that can survive the recession is given every opportunity by their banks to do so.
- 3.5.5 The Council has also offered local businesses who are struggling with their cash flow the opportunity to pay their business rates in 12 instalments rather than 10. Additionally the council has identified approximately 1000 local businesses that may be eligible for Small Business Rates Relief and aren't claiming. Despite substantial marketing efforts to reach these businesses and regular mailings, many still weren't applying. The service therefore assigned a number of staff to visit these businesses over a concerted period to help business complete the applications. Due to this campaign, the number of local businesses now receiving small business rate relief has risen to over 3,000, claiming nearly £2 million.
- 3.5.6 The Council has also committed to paying invoices from small business in the City within 10 days.
- 3.5.7 The Council has offered to support the cash flow of small businesses who may be tenants of the Council by offering monthly rents as appropriate.
- 3.6 The Economy Task Force will continue to help shape activity to respond to the continually changing situation and opportunities for supporting activity through 2009/10 have been considered as part of Cabinet decisions regarding the use of LABGI (Local Authority Business Growth Incentive) funds.
  - 3.6.1 As agreed by Cabinet, there are a number of programmes and projects that will greatly enhance business success in the city and have an impact on both jobs and income. The Tourism marketing plans, including a small sum to establish the new Greeter Scheme which will be linked to successful models in Europe and the United States, will add to the effectiveness of the tourism economy, targeting longer staying and higher spending visitors. Funding is proposed to match fund the Festivals Clusters development initiated by the South East of England Development Agency (SEEDA) to support the significant Festivals offer in the region, one of its unique selling points. Other projects will have an impact on the city centre environment such as the scheme to put artwork up in vacated and boarded up premises which has had such success in mitigating the negative impact of empty premises, particularly in key locations.
  - 3.6.2 There will also be an allocation of funding for additional specific Recession Relief Measures to be directed by the Economy Task Force over the next few months. This may include measures such as the establishment of a Hardship Fund for local businesses to apply to which will enable the local authority to give rate relief under certain criteria, 75% of which can then be

claimed back from Government. It may also include funding for the enhancement of Advice services in the city facing particular strain in the current climate or the development of Credit Unions. There is, additionally, the proposed continuation of support to businesses through the work of the Chamber of Commerce for example, which aims to reach well over a thousand businesses in 2009 and other business targeted Economy Task Force initiated schemes which have been so successful to date. The number of businesses that will be directly helped across the whole funding programme will be at least two thousand.

- 3.7 Though the recession is clearly difficult for many businesses in the City, the economic climate does present some opportunities for local business and we are doing everything possible to capitalise on these opportunities. This includes exchange rate differences, which have improved the ability for the City's businesses to export with our products and services now 20%-30% cheaper than a year ago for foreign buyers. This not only helps us attract more foreign buyers for our products but as a destination attracts foreign visitors and makes foreign travel for UK residents more expensive. We are already seeing more short-break takers switching trips to places like Brighton & Hove from European short-break destinations like Prague, Paris and Madrid.
- 3.8 On the positive side also, measures of footfall in the City have continued to remain strong and are still up on 2008. Whether these shoppers and visitors are spending as much in the City is difficult to answer but the traffic at least compares favourably against a pattern of declining footfall in retail areas across the UK. The week commencing 23<sup>rd</sup> February for example showed a year on year growth of 4.2% against a national pattern of 5.9% decline.
- 3.9 The City has a strong conference and events calendar for the year, significantly better than in 2008 with many new, returning and growing events that will help attract visitors to the City and the associated spend.
- 3.10 The current economic climate is also good for those businesses whose interest charges have dropped in line with the bank's base rate, although lending conditions are still incredibly tight for businesses wishing to obtain new finance (start-up businesses are worst-hit,)
- 3.11 Finally many tenants are finding the economic climate, increasing retail vacancies and flexible terms from some landlords is helping them to negotiate better deals from their own landlords. Requests for moving to monthly rather than quarterly payments of rent, as initiated by the Council is also spreading to other landlords and tenants undertaking rent reviews probably have a stronger bargaining position than a year ago when demand for retail and other commercial units remained strong.

#### **4. CONSULTATION**

- 4.1 Consultation with businesses and business support organisations has been a central plank of the Council's recession relief activity.

## 5. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

5.1 The actions taken by the council to provide additional months to pay business rates, and to pay rents monthly instead of quarterly affects the council's cash flows and can reduce the council's ability to generate interest. However the impact of these changes is not significant given the very low interest rates currently available and the financial implications of these measures has been taken into account in the financing costs budget. In terms of the activity described in the report funded through LABGI funds: The LABGI funding is one-off funding received as an unringfenced grant. The £149,000 is a reallocation of previously awarded LABGI grant and the £414,000 has been received in March 2009. The allocation of these resources to support the local economy was agreed at Cabinet on 23<sup>rd</sup> April 2009.

5.2 The impact of recession on businesses can also impact on the finances or performance of the council. In particular struggling businesses may affect collection performance in relation to business rates while the council's commercial rent income may also be affected if replacement tenants cannot be found quickly when businesses fail. There are also likely to be pressures on parking and permit income. These factors were considering in setting the 2009/2010 budget and resulted in higher level of contingency being set aside within the budget (£0.75 million) than in previous years.

*Finance Officer Consulted: Nigel Manvell*

*Date: 26 May 2009*

### Legal Implications:

5.3 This is an update report which reviews action taken to date and ongoing activity and there are no legal implications which were not previously considered at the time decisions were made e.g. in relation to the exercise of economic development and well being powers which the council has opted to exercise.

*Lawyer Consulted: Bob Bruce*

*Date: 20.05.09*

### Equalities Implications:

5.4 The programmes and actions described in the report are designed to increase employment opportunities and the success of local businesses. This will have a positive impact on those who face barriers to employment.

### Sustainability Implications:

5.5 In terms of environmental sustainability, there are no specific adverse implications. Those projects and programmes described in the report that are

funded by LABGI funding have been subject to criteria that address their funding base, favouring those with a wider funding base to increase their sustainability.

Crime & Disorder Implications:

5.6 By supporting activity that is designed to increase employment opportunities and the success of local businesses, there are no adverse crime and disorder implications. The LABGI funded proposal to decorate empty premises with artwork is also specifically designed to discourage anti-social behaviour around empty premises.

Risk and Opportunity Management Implications:

5.7 In terms of the LABGI funded recession relief work described in the report, The LABGI criteria were developed to minimise the risk of selecting projects with a less favourable chance of success. The criteria are designed to select projects with maximum impact and sustainability.

Officers in the Economic Development Team have developed a monitoring process that will be used in the administration of this funding and there will be ongoing contact with organisations managing the activity.

Corporate / Citywide Implications:

5.8 All of the activity described in the report has a citywide impact, either directly or indirectly.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Brighton and Hove Economic Trends – data from Business Forum

**Documents In Members' Rooms**

1. None

**Background Documents**

1. None

## Appendix 1 – Brighton & Hove Economic Trends based on Economic Partnership information

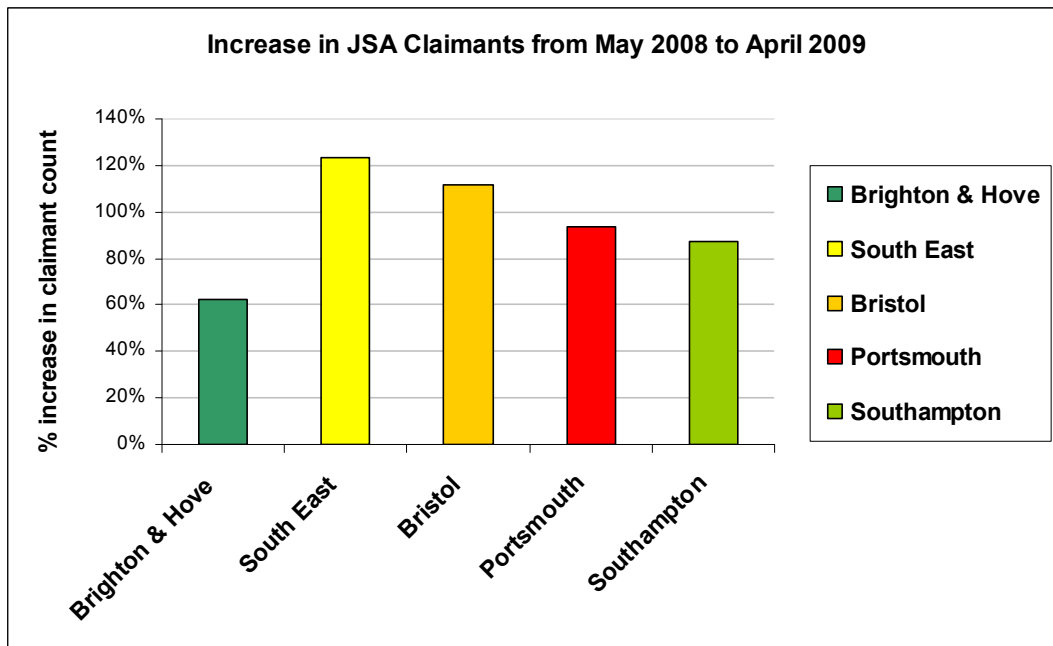
1. The UK is officially in recession, with Gross Domestic Product 1.9% down in the first quarter of 2009. Oxford Economics estimate the UK economy to contract by 4.1% in 2009 and grow by 0.1% in 2010. Oxford Economics also predict that Brighton & Hove will be more resilient to the recession than the UK average, with a contraction of just 1.8% in 2009 and growth of 0.3% in 2010.
2. In common with the rest of the UK, construction companies in the city have suffered badly. Local company Integra collapsed in October with the loss of 40 permanent jobs and many more sub-contractors and Adenstar – a company with a turnover of £4m - reported at the end of 2008 that it had only £400,000 of contracts in the pipeline for 2009.
3. Brighton's varied retail offer makes an important contribution to the "sense of place" that makes the city distinctive and vibrant. While the independent retail sector is probably more vulnerable in the longer term, it is national chains like Woolworths, The Pier, Envy, Zavvi, USC and Roseby's that have gone into administration and shed in the region of 240 jobs (full time equivalent).
4. So far employment in Brighton & Hove is holding up well especially compared to locations like Milton Keynes, Dartford, Witney and Southampton which saw the largest number of notified redundancies out of all towns in the South East in quarter 4 of 2008 <sup>1</sup>. Latest unemployment data (as of May 2009) show that this trend has continued, with Brighton & Hove experiencing a relatively low percentage increase in Job Seekers Allowance claimants over the past year (see Fig. 1 overleaf). However, with just under 25,000 people on unemployment benefits of one kind or another in Brighton & Hove, it is worth noting that the city entered recession with a higher level of unemployment than any of the towns listed above or in Fig. 1.
5. A recent [Centre for Cities report](#) <sup>2</sup> comparing the likely impact of the recession on three cities including Brighton & Hove estimated that job losses would be in the region of 2,400 if the recession is short and 7,400 if it is long. The report also suggested that most of the losses would be from the **retail** and **hospitality** sectors.
6. These sectors rely to varying degrees upon visitors to the city centre and footfall numbers are holding up very well compared to both last year and the national benchmark with over 15 million shoppers recorded in the prime pitch in 2008 (please see Fig. 2 overleaf).
7. Retail vacancy rates in the city centre declined from 5.75% in March 2008 to 4.7% in October.

### Fig 1 – Unemployment Trends

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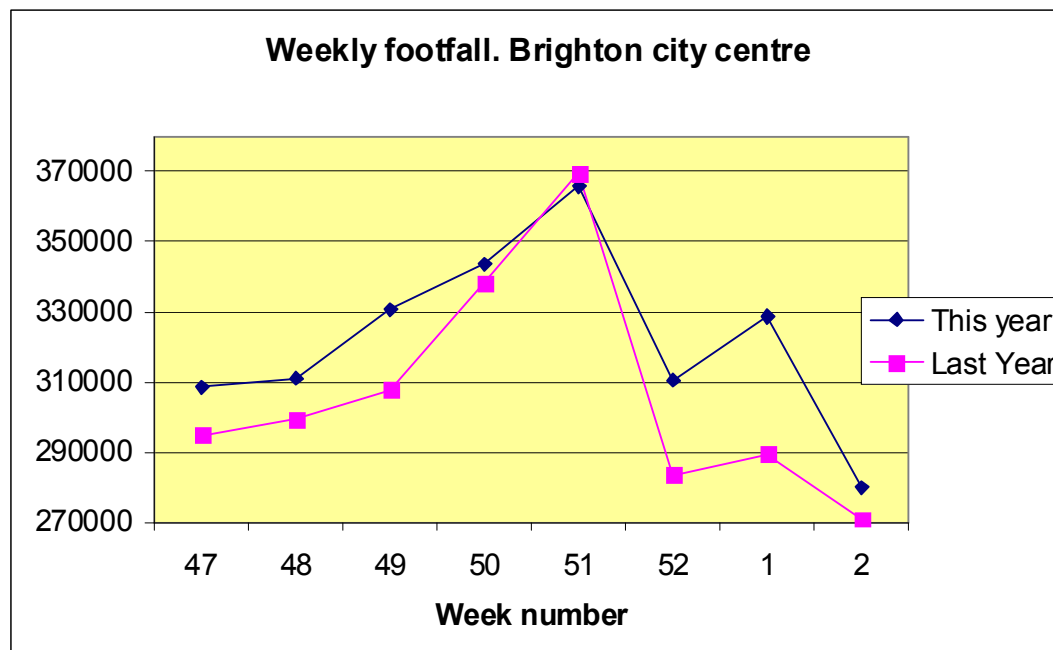
<sup>1</sup> Source. SEEDA from Department for Business, Enterprise and Regulatory Reform figures

<sup>2</sup> Into Recession. Centre for Cities. 2009



Graph showing % increase in the number of people claiming Job Seekers Allowance in the 12 months from May 2008 to April 2009 (latest data as of 26 May 2009).

**Fig 2 – Footfall Trends**



Graph showing footfall in the city centre prime pitch between 17.11.08 and 11.01.09  
An increase of 5% over the same period in 2007