



APPENDIX 1

How the Development Committee & Department can respond to the challenges and chart a path across recession to recovery

March 2009



The context

This report has two purposes:

- 1. To contextualise the global financial crises and economic downturn for Belfast.**
- 2. To propose a framework for the council's response to the immediate economic crisis in light of our leadership and place making role.**

1. The current economic climate^{*}

International

- The prospects for the global economy have deteriorated significantly over the course of 2008 as the full impact of a prolonged financial crisis is felt around the world.
- Growth in the main economies has stagnated, with both the US and the Eurozone in recession
- Unemployment rates are rising as the pace of economic activity slows
- Central banks have cut interest rates aggressively and financial rescue packages, including bank recapitalisation programmes and guarantee schemes, have also been announced in a number of economies

Forecast

World growth will slow from 5.3% in 2007 to 3.7% in 2008 with the downturn led by weaker demand in advanced economies.

Despite the announcement of a number of initiatives from central banks and governments aimed at restoring order to financial markets and staving off recession, the outlook for the global economy is gloomy.

National (UK)

- The UK economy is officially in recession for the first time in nearly two decades
- The downturn has been led by a sharp correction in the services sector as the impact of the now prolonged credit crisis and turmoil on financial markets, as well as the downturn in the housing market are felt throughout the economy
- Business and consumer confidence have fallen sharply, hit by the rapid pace of weakening in economic activity
- Unemployment is rising as the pace of economic activity cools
- Consumer spending has slowed and is slowing further as household balance sheets need to be rebuilt and the savings rate needs to rise from historical lows

Forecast

On a GDP basis the UK's economy is set to grow by just 0.8% in 2008 before contracting by 1.0% in 2009. No meaningful recovery is expected to late 2010. Gordon Brown recently stated that the recession could last up to two years without urgent action.



^{*} Based on extracts from the First Trust Economic Review (Dec 08) and Oxford Economics Review (Dec 08) on the international, national and regional economic contexts.

Northern Ireland

- The conjunction of a collapsing housing market and the effects of the credit crunch have pushed the Northern Ireland (NI) economy into a downward spiral
- The service sector is already in recession but the manufacturing sector is holding its own
- Construction and retailing are the hardest hit sectors and further job losses are inevitable

Forecast

- NI's relative dependency on public expenditure will mean that the economy will be less severely affected than many other UK regions
- Cross-border shopping volumes are growing and will lessen the downturn in retailing
- Public spending, though under pressure will continue to support living standards in NI
- In the most optimistic scenario the economy may expand by 0.5% in 2009 and in a worst case scenario it may contract by up to 0.75%.
- Output in Northern Ireland is forecast to contract by 1.6% with 14,000 job losses (Oxford Economics)

According to the Ulster Bank Purchasing Managers Index, business activity in NI fell for 12 consecutive months in 2008 with declines in output, new business, backlogs of work and employment in the private sector economy. Their chief economist also predicts that NI is likely to have one of the lowest regional economic growth rates in 2009.

Unemployment in NI stood at 4.3% in Dec 08 which comprised an increase of 3100 people claiming benefits on the previous month. The Belfast unemployment rate was also 4.3% in December 08. The Ulster Bank Chief Economist predicts the rate will increase to 7% in NI later in 09 with more than 50,000 claiming benefits.

The Economic Research Institute of Northern Ireland are predicting that the NI private sector could contract by up to 10% as a result of the recession.

Invest NI report that land sales in 2008/09 are estimated to be at least 80% down on last year and that potential FDI projects in 09/10 will be down by 45%.

Belfast

According to the recent **Centre for Cities Outlook report***, Belfast will be among the worst hit cities in the UK, due to high numbers with no qualifications.

However, it is important to realise that, at a rough estimate, there are almost twice as many new jobs in the pipeline as redundancies notified at present. Over the last month GEM have indicated an increase of 900 jobs, Subway 400, the Fitzwilliam Hotel 100 as well as a further 1,000 jobs also signalled.

Again, on a positive note, economists also point out that the gains achieved in the Northern Ireland context over recent years should not be overlooked. These include at least 25 years of strong labour market growth especially in construction, and private and public services with up to 100,000 jobs created, a reversal of long term trends in net migration, a rapid escalation in personal wealth (though the house price correction will take this back significantly) and overall economic buoyancy.

Commentators differ over whether NI will suffer more or less from other UK regions as a result of the economic crisis. Views vary from NI being one of the least vulnerable regions in the UK because of its public sector strength to NI being affected most as a result of steeper house price declines and the end to the rapid expansion of the retail sector and large-scale property development which NI has been witness to since the mid 1990s.

Different sectors of the economy respond differently to a recession so it is unlikely that unemployment and business health will contract uniformly. Industries that are internationally competitive will be in less vulnerable situations such as computing and research and development. Industries such as health or education which do not experience cyclical demand will perform better while others such as financial services and construction are at higher risk. It is estimated that there are still around 11,000 vacancies in the labour market across NI.

Property/Construction

The Construction Employers Federation in NI estimate also that **10,000 jobs** have been lost since summer 08. It is estimated that up to **20,000 construction jobs** could be lost in 2009 unless action is taken. Given the immediate effect experienced by the construction industry, they have been one of the first sectors to organise and seek support from the NI Executive.

The construction sector has called on Government to immediately tackle the devastating losses they are currently facing by continuing or accelerating investment plans. They are seeking a speedier allocation of contracts via procurement methods which take less time to administer. The industry has called on the Northern Ireland Executive to develop a bespoke public works procurement procedure.

Retail

Along with construction, the retail sector has borne the brunt of recent redundancies (286 redundancies in Belfast in the period 1 December 2007 – 30 November 2008 out of a total of 2356 across Northern Ireland).

Verdict Consultants have indicated that 2009 stands to be one of the worst years on record as retail spending spirals downwards and profits rapidly contract. They are predicting that retail spending on the high street will shrink by more than 4%.

The collapse of Woolworths, Zavvi, Adams Childrenswear and others imminently have directly effected the NI economy with a large number of other multiples as well as independents predicting turbulent times ahead despite some encouraging trade data in some stores over the Christmas and early January.

* <http://www.centreforcities.org/outlook09>



Tourism

Reduced disposable income and deteriorating consumer confidence are certain for 2009 according to Tourism Ireland. More than 30 airlines have already collapsed in 2008 leading to less routes and fewer travel options for consumers. Reduced air access capacity is expected for the peak period from GB, USA and possibly also Europe.

Manufacturing

Whilst there have been a number of high-profile redundancies in recent months (Fintec, FG Wilson), none of the major manufacturing companies in Belfast have indicated that they plan to reduce their employee numbers. In early November 2008, Bombardier launched a recruitment drive for 200 additional personnel. The weak pound may provide some cushion for those manufacturing companies who are export-focused.

Financial Services

Despite the turmoil in the financial services sector, there has been no indication from the major investors in Belfast (HBoS, Citi) that their operations here will be affected. Although their parent company has indicated that it will shed jobs internationally, Citi remains committed to its new software development centre at the Northern Ireland Science Park which will create 200 additional jobs.

Environmental Industries

As part of his announcement on the investment strategy this year, Gordon Brown indicated that the environmental sector would be a significant source of employment growth in the coming years and committed to allocating additional resources to the sector. In Belfast, although the sector is small in scale, it has the potential for the significant future growth given the connections with Questor at QUB.

Public sector

Given the strength of the public sector in Northern Ireland, there will be a cushioning effect for the local economy.

Business services

Approximately 75,000 jobs exist in this sector in Northern Ireland. However, this is the most under-represented sector in NI. Thus the economic downturn should be less marked here than in the rest of the UK.

At a glance

The likely impact on Belfast & Northern Ireland?

Commentators are divided over the likely implications for Belfast and Northern Ireland. There are a number of things that will cushion us:

- ✓ A very large public sector (approx. **40% of all Belfast's jobs** are in the public sector)
- ✓ **Private sector infrastructure** still playing catch-up with other UK cities - **financial and business services** growing rapidly but still relatively small
- ✓ **Weak pound** is assisting our (mostly export focussed) manufacturing sector.
- ✓ The **stronger Euro** is encouraging **cross border retail** from shoppers in the Republic of Ireland and tourism for elsewhere in the Eurozone

However, other factors are worrying....

- ✗ 4.3% unemployed (one fifth **long term unemployed**) and predicted to rise to 7% in 2009
- ✗ There are also predictions that our **private sector could contract** by 10%
- ✗ **Construction sector** has lost **10,000 jobs** have since last summer. It's estimated that a further **20,000** could go this year
- ✗ Some of the highest **fuel & electricity costs** in UK (electricity up 35.5%; gas up 8%)
- ✗ **House prices** have fallen rapidly - down **17.8%** in 2008 - after an equally rapid boom
- ✓ (However, this may give access again to First Time Buyers)
- ✗ A quarter of our working population have **no formal qualifications**
- ✓ (This could give us the opportunity to finally do something of real significance about it)

2. So what can be done?

Several sectors, businesses and institutions have called on Central Government via the NI Executive to offer aid and support to Northern Ireland businesses, entrepreneurs, communities and individuals. Whilst the Executive does provide the potential for local resources to be directed to specific issues, its powers are limited as much of the problem is at the macro-economic level.

The Executive has been endeavouring to enlist the support of the banking sector to develop initiatives to support local industry business and customers. One of the issues is the extent to which interest rate cuts are passed onto the customers.

The Executive announced a **£70m economic aid package** in mid December which included

- **100,000** households will get £150 cut in electricity bills benefiting those receiving income support and pension credit
- **A one year freeze** of a planned rates increase for businesses will be followed by a rates relief scheme for small businesses
- Building projects worth **£115m**, including schools will be advanced to boost the construction sector and should go to tender by March
- **30m** investment in farms, school maintenance and roads
- **5m** investment to boost DSD Housing programme
- **10 day target** for public sector bodies to pay small businesses

CBI, FSB, NI Independent Retail Association and NI Manufacturing all welcomed the package to a greater or lesser extent.

The CBI state that the freezing of non-domestic rates for 09/10 will lead to savings of £8m for the business sector.

The mid December announcement of 10.8% reduction in electricity tariffs and a 22.1% fall in Phoenix Gas rates. However consumers will still be faced with 35.5% increase in electricity over the last year and with 8% increase on gas.

Invest NI have produced their response to the economic crises which comprises some new initiatives, new product offerings, tailoring existing support mechanisms and enhanced monitoring awareness and advice. Examples of support include a series of focussed practical seminars in key areas of financial and cash management, improving internal efficiencies, supply chain management and securing extra sales outside NI, free diagnostic support for 3 to 5 days and a £5m accelerated support fund.

A new website has been set up by the IOD – **www.nicrunchtalk.com** to encourage companies to seek advice and share practice on how to face the economic difficulties.

On the 6th February 2009 the **Strategic Planning and Resources Committee** agreed a number of over-arching actions across council to respond to the crisis. A future joint meeting of the Committee with the Development committee is planned for the future to look in further detail. This paper is part of that process.

What can Belfast City Council do?

- ▶▶ As the LGA has noted, localised decision-making and flexible local solutions will be important for finding a path out of this recession
- ▶▶ With a very young regional executive in Northern Ireland; the role of Belfast City Council as leader of the capital city will be crucial
- ▶▶ While the Executive has limited powers but does have some room to manoeuvre in mitigating the worst effects of the downturn
- ▶▶ The contribution of council can be described in three ways:

✓ As a **business entity** we can influence both our income and our expenditure (eg) reviewing our capital and revenue programmes to respond to the changing circumstances; keeping our rates low

✓ As a **service provider** we offer approximately 140 different services to the citizen. Many of these - if creatively adapted - can contribute directly to meeting the changing needs of the citizen

✓ But it is as **place shaper** that we have the greatest potential to contribute positively. We are best placed to **engage directly with the citizen** and to quickly respond with a **coherent package of services** that can address local need. Alleviating the effects by taking remedial action to support survival, recovery and future growth in the local economy

The role of the Development Department

So what can the Development Department do to impact on the current crisis?
Quite a lot!

The key is to use our current services to assist in keeping us buoyant and at the same time planning for our path towards recovery. The **chart** on the next page sets out the beginning of an integrated response across the Department.

Critical, and underlining everything, is the leadership role which the Development Committee and Department can play especially with its particular stakeholders. While there is no wish to play Pollyanna, the psychological aspects of the crisis shouldn't be underplayed. A strong and confident approach will help stabilise the situation.

Leadership

- Create a departmental task team to develop and direct actions assisted by a member advisory group
- Create and frame an effective response to the economic downturn
- Work with local partners to plan an integrated and comprehensive local response with the private, public and community sectors
- Work with strategic partners across the city to enhance the critical role of education
- Create a 'war partnership' with the tourism and retail sectors to maximise opportunities
- Invite the five Area Partnership Boards to joint talks on analysis and response to the downturn
- Commission work on addressing the issue of the number of citizens with no formal qualifications
- Continuously monitor the external environment, trends and implications

Community Services

- Continue financial aid to five advice consortia in receipt of BCC funds and consider increase
- Review revenue grant contributions for community managed & owned facilities and consider increase
- Review grant aid for youth work and consider increase
- Create a bigger and better children and young people's programme for the summer

Culture and Arts

- Implement 'Test Drive the Arts Initiative'
- Tailor training to arts organisations' current challenges
- Promote skills development for sustainability
- Explore new partnerships with NICVA, Vol Arts Ireland & Visual Arts Ireland for joint commissioning
- Promote shared services within arts organisations
- Continue Festivals Forum programme – research economic impact of festivals

Economic Development

- LED Plan to be refocused on unemployment alleviation and economic inactivity & helping existing businesses to grow
- New initiative on local procurement promotion
- Develop new supply chain initiatives to promote local companies
- Consider council apprenticeships through Fac Mgt/ Building Cont/ Parks/ other areas
- Agree to pay creditors inside 10 days
- Continue offering support and advice through Belfast Entrepreneurs Network (BEN)
- Continue with independent Retail Support Action Plan
- Refocus employability work to take account of recent or potential redundancies
- Push major suppliers for sponsorship/additional benefits for Council purchases
- Create Business Fora to focus on local actions

Cost-cutting / transformation

- Re-engineer services to take costs out and realign to front line
- Focus on financial diagnosis
- Embrace innovation and rethink delivery models
- Build new skills capabilities

Events

- Continue provision of free public events
- Continue preparation of three year corporate events strategy
- Analyse current events surveys to identify more customer focussed delivery mechanisms
- Scan event trends for market changes
- Identification new sources of funding
- Identification of new partners to assist in delivering events
- Maximise Tall Ships opportunity

Tourism

- Promote exchange rates apps to Eurozone
- Focus on 'Belfast for Free' promotion
- Develop 'Cheap & Chic' out of 'luxury' product
- Develop special discount travel offers between Dublin/Belfast
- Promote 'free space' in Belfast parks
- Workshops for tourism sector on managing through credit crunch
- Expand discount voucher promotion
- Special rates for returning conference delegates
- Continue HARTE skills programme for retail & hospitality
- Continue targeted marketing campaign in NI, GB, Rol
- Continue support of Translink/Chamber for special promotions
- Develop Evening Economy Group into Retail Focus Group



Development Department What can we do?



Estates/Property/Procurement

- Consider permitting tenants to pay monthly rather than quarterly
- Agree short term lettings
- Review service charges with a view to reduce level
- Continue investment plans for the Gasworks expansion
- Review procurement methodology to assist smaller companies to secure work and to speed up awards of contracts
- Consider spreading project work to support more contractors rather than just using one firm
- Continue multiple discount for Friday market traders and quarterly payers on Sat market
- Review market stall fees – no increase in current year?
- Promote Value for Money in markets
- Continue regular contact with market traders to consider new initiatives
- Continue regular contact with developers for intelligence on private sector investment plans

Waterfront/Ulster Hall

- Review product offer and pricing strategies for hire of facilities and ticket pricing
- Increase advertising and promotion in Rol
- Increase business destination marketing in Rol
- Increased conference and business trade advertising
- Strengthen local partnerships with Tourism sector

Planning and Regeneration

- Review current Arterial Routes programme and seek to build on what has been achieved
- Advocate for further transport infrastructure initiatives
- Complete the Belfast City Local Transport Strategy
- Increase and enhance working with local community to improve decision-making related to planning
- Lend support and encouragement to the completion of key city infrastructure projects

How can we best respond to the challenge?

- ✓ This is an opportunity for local government to demonstrate **effective leadership**
- ✓ **Decisive action** taken quickly
- ✓ Use our **convening authority** to work in partnership
- ✓ **Give confidence** to the private sector
- ✓ **Communicate effectively** - to re-assure the community and to act as an early warning system for emerging problems
- ✓ Don't lose sight of the **long term agenda**

Whilst the financial crisis is the worst that we have ever known it also offers an opportunity for local government to step up to the plate and to exercise leadership in order to help cities address the challenges of the recession. The city and its citizens are watching and waiting for leadership; we need to accept this challenge.

This means that bold decisions will need to be made and it will require confidence and determination to implement new policies and plans. Plans must be big and bold enough to impact.

It will require flexibility and in some respects a bit of risk taking. Our plans and approaches might not be perfect.. no plan is and not everything will work but failure to act could have a detrimental effect and deepen the crisis and the pain.

Thanks to the media we are watching the details of the recession unfolding before our eyes 24/7 at an unprecedented rate. We can no longer sit back and muse about what could or should be done. It requires the need to take decisive actions quickly.

Local government can also use its convening authority to bring key partners together to provide innovative solutions to localised problems. The opportunity to work in partnership has never been greater. It will be key to work with central govt to influence policy and resource allocation and working with the private sector will be key. The private sector has lost its confidence over the past number of months and local govt needs to play a role in working with the sector to restore confidence levels.

Communicate effectively – frame an effective response and regularly report on the impact the recession is having on the area and the steps you are taking to address that. Most importantly its about signposting services for vulnerable residents and struggling local businesses.

Don't lose sight of the bigger picture and the longer term agenda... the differing economic climate presents a new context in which to operate and will require a veering of our original course which will focus on a series of short term actions but we should lose our focus from the key projects that will require and deserve longer term recognition. We need to be ambitious and this will also help to prepare us for the upturn.

The recession wont last for ever and we need to focus on the other 'r' word... **'recovery'**.

