

POLICY & COORDINATION REVIEW COMMITTEE

ECONOMIC CHALLENGES

INTERIM REPORT

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Background to Review

The Review Committee began an assessment of how well the Sunderland economy is positioned to withstand the economic downturn half way through 2008. The first evidence was taken in October 2008 when both the immediate future and the longer term implications were very difficult to assess. At that time it was concluded that the likelihood of an economic downturn was “looking more and more certain”. By March 2009, when the Committee received its latest assessment the recession was clearly well underway.

Scope of the Review

To examine the impact on Sunderland of a slowdown in the national economy, and to consider the implications of such impacts on the City and the Council.

At this interim stage, the Committee has taken evidence in relation to Regeneration Projects and the Labour Market and these are the only areas covered by this report.

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Recommendations

1. The regeneration of the city centre must be pursued for Sunderland's economy to return to its recent growth.
2. The existing regeneration strategy should be re-visited to ensure that it prioritises individual projects in such a way as to achieve a steady progression of improvements.
3. The Working Neighbourhood Strategy should be pursued with robust operating and oversight procedures to ensure that the programme maintains momentum.

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Findings

1. Introduction

- 1.1 At the time of writing this interim report, Sunderland's economy has entered the recession along with the rest of the UK economy and many parts of the world. It entered the recession with a relatively tight labour market, but like many parts of the region, unemployment has risen rapidly. Few sectors are experiencing no adverse effects. The combination of factors that brought about the current economic conditions is such that the recession is likely to be more prolonged than previous downturns and 2009 will be particularly problematic with respect to job losses and business failures.

2. Regeneration Schemes

- 2.1 Regeneration projects can have the effect of stimulating demand for local services and labour (and the significance of this increases as private investment in the city reduces), and may improve business competitiveness in the short term as well as the prospects for economic growth in the medium to longer term.
- 2.2 Across the North East, a number of regeneration schemes are reporting difficulties in moving forward because private sector partners have been unable to fulfil their original commitment. Developers are displaying an unprecedented degree of caution, frequently compounded by a lack of liquidity among their financial backers.
- 2.3 The Committee was informed that all of the Council's planned capital investment and the arc's business plan will be assessed to determine which implementation timescales could be brought forward should funding be available, including resources specifically released to invest in infrastructure and environmental projects.
- 2.4 The house building sector has been particularly badly hit by the economic downturn. The pace of property development activity has slowed to reflect the drop in demand and anticipated financial return. Not only will this impact on those sectors that are associated with the housing market it will also have an impact on aspirations to improve housing choice in the city and increase the availability of affordable housing.

- 2.5 The Committee heard from the Chief Executive of the Sunderland arc about work that was ongoing to bring developers together. A joined up approach to regeneration between partners was more crucial than ever in the current economic climate. Public sector funded projects would not be as affected by the recession and the opportunities to continue attracting investment and interest in public projects was important as a springboard to capitalise when the economy recovered.
- 2.6 The Committee was informed that a significant number of key regeneration projects are ongoing or committed for the future. These include the BSF programme, the Sunnyside regeneration, Turbine Park and the Sunderland Strategic Transport Corridor.
- 2.7 However, as the Centre for Cities point out in their assessment of the challenges facing Sunderland “*Perhaps the most accurate way to describe the regeneration of Sunderland would be as unfinished business.*” The Vaux Brewery site has become almost symbolic of frustrated intentions in remaining vacant for almost a decade.
- 2.8 The Committee questioned the Chief Executive of Sunderland arc about progress on the Vaux site. Sunderland Retail Park had been identified as an alternative site for Tesco and, at the time of this evidence gathering session, negotiations were ongoing with Tesco with a view to the public sector acquiring the Vaux site. At the same time, the arc was continuing discussions with four developers in relation to the Vaux site. The Committee welcomed the identification of an alternative site for Tesco but also voiced the frustration being expressed by people in the City as to the lack of progress being made with the development of the Vaux site.
- 2.9 A draft Single Programme Investment Plan (SPIP) for 2009/2011 is currently being discussed with One Northeast. The SPIP will be the basis for developing an integrated approach to investing in physical renewal, encompassing housing and transport, as well as economic regeneration. The Plan will be kept under review as work proceeds on Sunderland’s Economic Master Plan and will be guided by it once it has been completed.

2.10 The Economic Master Plan will enable the Council and partners to direct investment in the context of the regional, national and international markets. An interim economic assessment is being produced which will provide the evidence to support strategic development and investment decisions in the city.

2.11 Phased major city-centre regeneration projects, pursued when economic conditions permit, must be the cornerstone of revitalisation and growth. This can be supported by smaller supporting investments with regeneration projects integrated with employment and business support programmes which shift physical regeneration to a wider economic level.

3. Labour Market

3.1 The North East is displaying a certain amount of resilience to recession in that unemployment is not rising more rapidly than elsewhere in the UK as it has done in previous recessions. Sunderland may not be as hard hit as other northern cities. Public sector employment makes up a high percentage of the total workforce (30.5%) which will probably have a cushioning effect.

3.2 Sunderland has suffered considerably in previous recessions, particularly with the contraction of manufacturing. The private sector elements of the economy in the front of the recession firing-line now – financial services, construction and retail – are not strongly represented in the city. The two key private sector employers, Nissan and the contact centre cluster, have already suffered job losses. Nissan is not seen as vulnerable to long term damage and is expected to rebuild its workforce when pressures ease.

3.3 Until the recession hit the global automotive sector in the closing months of 2008, the Nissan factory was expanding its output. Year-on-year production grew by 9.8% in 2008. At the end of 2008 Nissan had cut its workforce by about a fifth (1200 jobs) with an equivalent number being lost from its supply chain. It is important to recognise there are as many jobs in the supporting cluster of suppliers as in the company itself. These jobs are particularly vulnerable.

3.4 By February 2009, unemployment in Sunderland was already around 3,000 higher than at the same time last year. A further 3,000 job losses in Sunderland have

been predicted before the end of 2009¹. That said, the projections are significantly better than projections for many other cities. The local economy has built up a measure of internal strength over the past decade, and is in a relatively good condition to ride out the storm.

- 3.5 Demand for jobs has been outstripping supply for several years, but recently conditions have worsened sharply. As at January 2009, the number of Job Seekers outnumbered vacancies registered at JobCentres by 7-1. It should be noted however that JobCentre Plus (JCP) vacancies only account for around one-third of those in the market. The ratio of job seekers to all vacancies (including those being sought by people already in work) is probably closer to 2-1.
- 3.6 Over the medium to long term, the realisation of Sunderland's regeneration plans for the city centre provide a potentially powerful impetus for job creation. There is already a developer selected for a major city centre re-development at the Holmeside site. This will be a substantial development on a major strategic site which will increase the prosperity of the city centre and employment opportunities.
- 3.7 In the immediate future, the Committee was informed that the Council, working with JCP, is continuing to provide community based services that enable people to rejoin the labour market. The services, delivered under the banner of Job Linkage, are based on partnership between the Council, JCP and VCS.
- 3.8 The key initiative in this area is Sunderland's Working Neighbourhood Strategy (WNS). This programme is intended to deploy £30.1 million of WNF over a two year period to help 2,500 people into work and create 260 new businesses. By providing neighbourhood-based services and individualised plans the strategy will seek to move people from worklessness into the mainstream economy.
- 3.9 The project is ambitious and faces a number of challenges. Not least the challenges created by recession-driven increases in unemployment. It is therefore imperative that robust operating and oversight procedures are put in place and maintained to ensure that the programme achieves and maintains momentum in these difficult economic times.

¹ Based on a 2% fall in GDP Centre for Cities Outlook 2009

4. Conclusion

- 4.1 The deepening recession is at the forefront of concerns for all sectors and policy makers. There is still much uncertainty about how this will play out. What is clear is that councils are not recession-proof. Capital-led regeneration schemes could stall. There could be cost-pressures on benefits. Income streams will come under pressure as residents tighten their belts with leisure and entertainment spending being cut back. There will be a fall in income from planning fees and a fall in property and land values.
- 4.2 At regional and sub-regional level these impacts will be monitored. At local level, the Council will be the key partner for leading on how the area responds to these consequences. The Council has already developed clear plans with partners across the public, private and voluntary sectors to manage the impacts of these challenges on businesses and local communities.
- 4.3 It is proposed that the Committee continues to monitor the Council's response to the economic situation in 2009 and 2010. The Committee will continue to review Council (and partners) existing strategies and regeneration schemes to ensure they remain appropriate in the current economic downturn.

APPENDICES

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Membership & Operation of Review

Members:

2008-09

Councillor David Tate (Chairman)
Councillor Michael Mordey (Vice-Chairman)
Councillor Michael Arnott
Councillor Angela Cuthbert
Councillor David Forbes
Councillor Graham Hall
Councillor Robert Heron
Councillor John Scott
Councillor Peter Walker
Councillor John Walton
Councillor Denis Whalen
Councillor Tom Wright

Operation of the Committee:

The topic was chosen for review by the Committee on 19 June 2008 and the terms of reference were agreed on 18 September 2008. Evidence was taken at 4 meetings held on 16 October, 13 November, 11 December and 19 March.

Contributors to the review:

Vince Taylor, Head of Strategic Economic Development
David Hardy, Partnership Manager Job Centre Plus
Karen Alexander, Employment & Training Manager (Job Linkage)
David Walker, Chief Executive, Sunderland ARC

Background Papers

Cities Outlook	Centre for Cities 2009
Sunderland: The Challenges for the Future	Centre for Cities January 2009
Economic Conditions in Sunderland	P&C Report 18 September 2008
Sunderland ARC	P&C Presentation 13 November 2008
Sunderland Economic Overview	P&C Report 19 March 2009
Working Neighbourhoods Strategy	Cabinet 3 December 2008
Holmeside Triangle Site and Ongoing Leisure Uses in the Bridges	Cabinet 3 December 2008
Holmeside Triangle Site and Ongoing Leisure Uses in the Bridges	Cabinet 14 January 2009
Responding to the Global Economic Downturn	Cabinet 11 February 2009

Glossary

BSF	Building Schools for the Future
JCP	Job Centre Plus
VCS	Voluntary and Community Sector
WNS	Working Neighbourhood Strategy
WNF	Working Neighbourhood Fund
NRF	Neighbourhood Renewal Fund
SPIP	Single Programme Investment Plan
GDP	Gross Domestic Product (A measure of the value of goods and services produced in an economy each year)
GVA	Gross Value Added (GVA measures the contribution to the economy of each individual producer, industry or sector in the UK)

For further information about this review please contact

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