

THE IMPACT OF THE RECESSION ON RURAL AREAS IN THE EAST OF ENGLAND

MAY 2009

Introduction

This briefing discusses the impacts of the recession upon the rural areas of the East of England. It begins by outlining the main trends and changes at the UK and regional level, and then discusses rural unemployment, sectoral and business issues.

FURTHER INFORMATION RESOURCES AVAILABLE AT WWW.INSIGHTEAST.ORG.UK

Regional overview

The outlook is for continued recession in 2009. The UK economy is forecast to contract by between 3 to 4 per cent in 2009. The rate of decline in business conditions has slowed in the region; businesses are less pessimistic than they were earlier in 2009.

The rate of growth in unemployment in the region has slowed since February. The official rate of unemployment (January to March 2009) is now 5.9 per cent – compared to 4.5 per cent in same period in previous year; and compared to 5.5 per cent in the previous quarter (October to December 2009). Rising unemployment is largely being driven by new labour market entrants unable to find work.

There has been a reduced incidence of redundancies and businesses seeking advice on redundancy. Redundancies are below their peak in December 2008 and January 2009.

Total employment levels have remained fairly stable in the region since the recession began. In January to March 2009, total employment had increased by 4,000 compared to the previous quarter (October to December 2008). The East of England is the only UK region that has maintained higher levels of employment during the recession

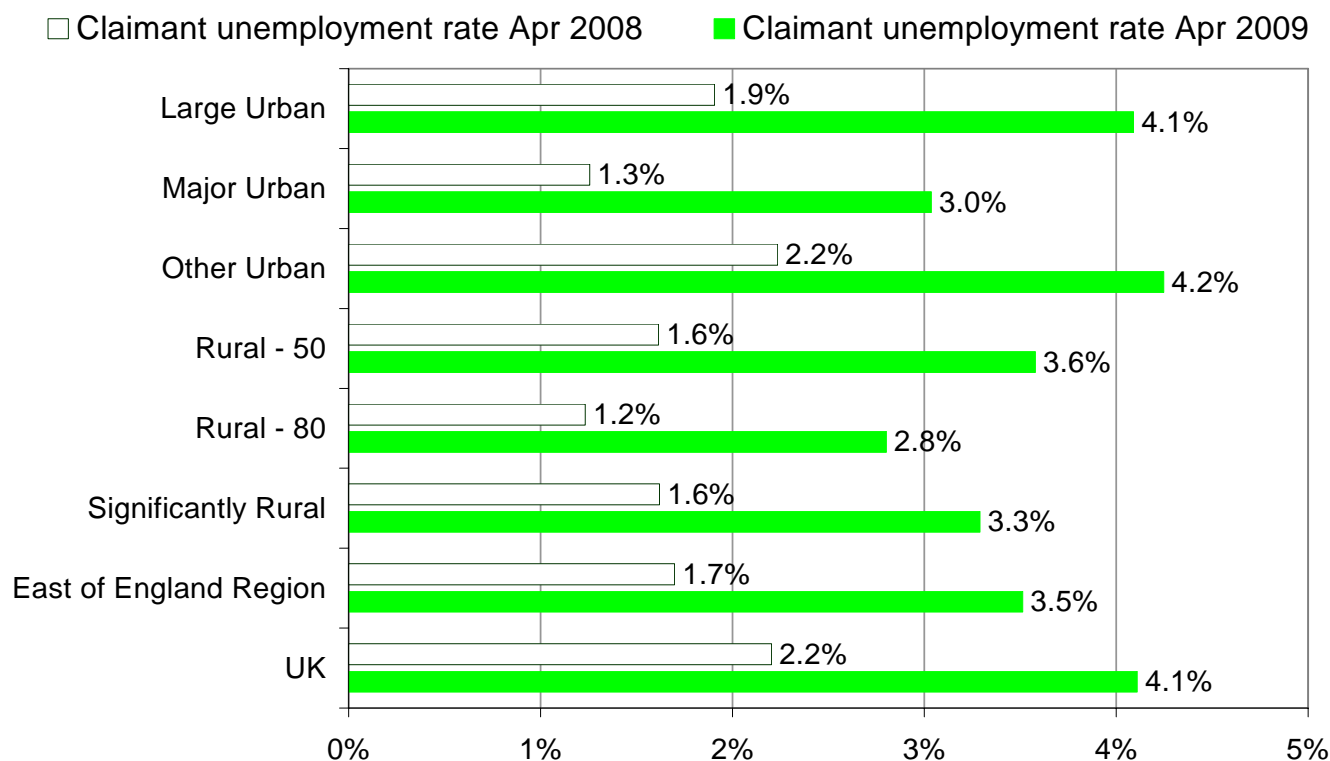
Unemployment in rural areas in the East of England

Analysing evidence of unemployment related benefit claims, as presented in Figure 1, leads us to conclude that although rural areas in the East of England have lower claimant unemployment rates (the proportion of working age adults claiming unemployment related benefits) than the regional average, unemployment has grown at levels similar to that found for the region and the UK. Evidence shows that for the rural parts of the East of England, claimant unemployment rates have more than doubled.

Figure 2 shows a map of the change in the claimant count rate (the proportion of working age adults claiming unemployment related benefits) from April 2008 to April 2009. It shows that districts such as Basildon, Harlow, Peterborough, Southend-on-Sea, and Thurrock have

experienced the biggest increases in claimant count. It is also apparent that rural districts such as Fenland have experienced sharp increases.

Figure 1: Claimant unemployment rates in the East of England by urban-rural classification, April 2008 and April 2009

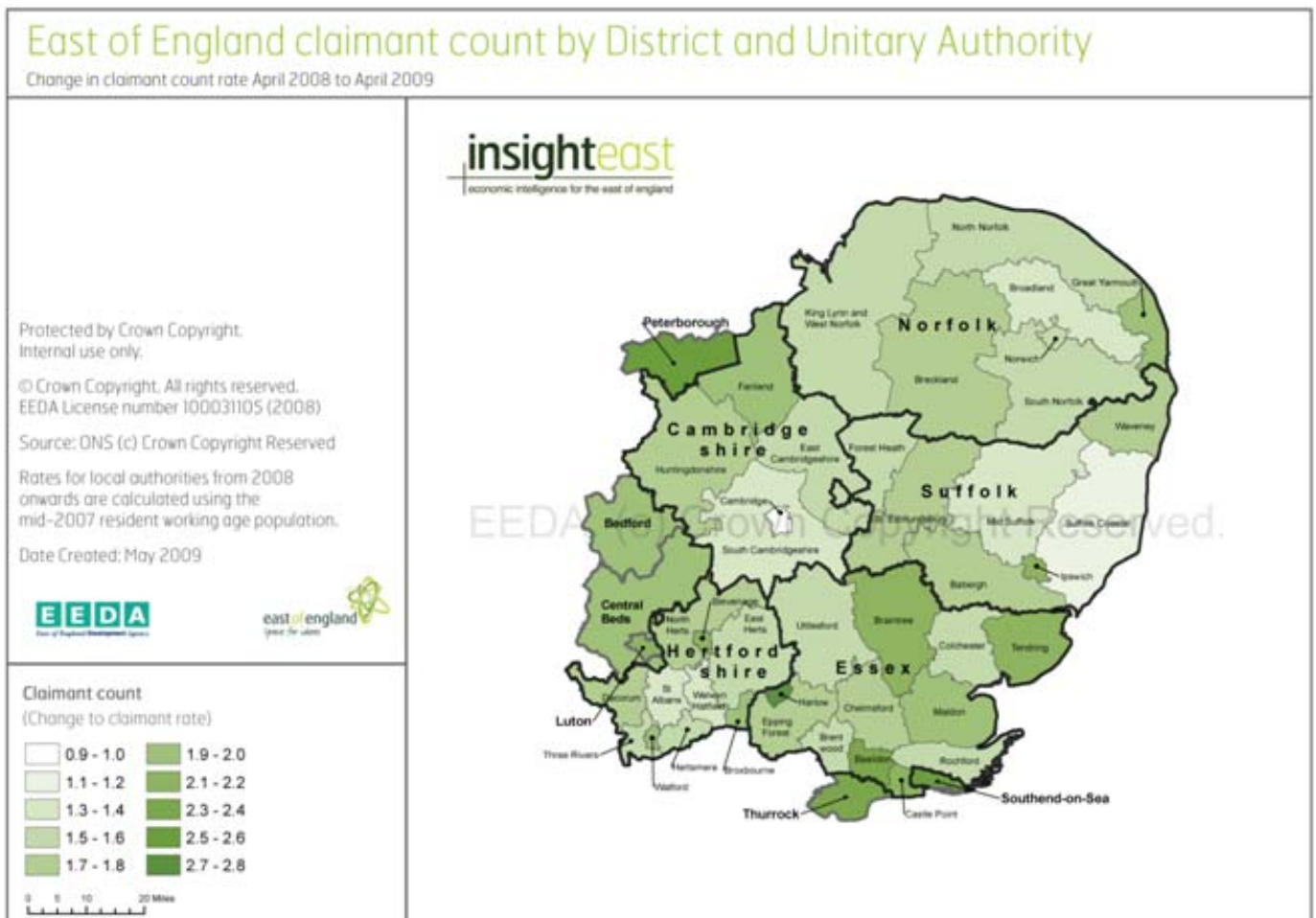


Source: Claimant count, ONS

The Rural/Urban Definition, an official National Statistic introduced in 2004, defines the rurality of very small census based geographies. Areas forming settlements with populations of over 10,000 are urban, while the remainder are defined as rural town and fringe, village or hamlet and dispersed. This rural definition is very useful when analysing data at very small levels.

Where data is only available for larger geographies, such as districts, the rural definition cannot be used. Instead, it forms the basis of the Local Authority Rural Urban Classification. This categorises local authorities based on the number or proportion of their population living in urban centres or rural settlements and large market towns.

The three urban categories differ according to the number of residents living in urban centres, with Major Urban being the "most" urban districts, followed by Large Urban and the Other Urban. Of the rural categories, Rural-50 districts have between 50 and 80 percent of their population living in rural settlements or large market towns. Rural-80 districts have at least 80% of their population in rural settlements and large market towns. The remaining category, Significant Rural, indicates that a district has between 26 and 50 percent, or over 37,000, of its population in rural settlements and large market towns.

Figure 2: The change in unemployment claimant count rates April 2008 to April 2009


Source: Claimant Count, ONS

Agriculture

The agriculture sector has fared better than most during this recession. In Q1 2009, when UK GDP fell by 1.9 per cent, the agriculture saw growth (albeit marginal) of 0.3 per cent. The sector experienced a good harvest in 2008 and higher import prices have improved domestic demand. During the recession, demand for food has continued, as evidenced by retail sales statistics. The latest ONS figures showed that retail sales rose by 0.3 per cent in March, compared to the previous month with food and clothes sales increasing and sales of household goods continuing to decline.

Consumers have, however, changed their spending patterns, with many producers of lower grade fruit and vegetables and low cost cuts of meat seeing increased demand. During one week in February, national sales of low cost pork belly and shoulder joints rose by 66 per cent and 270 per cent respectively. The East of England is a major producer of pork and producers in the region also reported increased sales. Newmarket seed firm, DT Brown, also reported a 35 per cent increase in sales with more people growing their own food. Conversely, demand for organic and 'luxury' food products has reduced. Leading Norfolk shellfish business, the Cromer

Crab Company – which features Marks and Spencer among its customers – has recently made 20 redundancies after M&S reviewed its cost base due to consumers' buying patterns shifting away from premium fish products.

The declining value of sterling has caused problems for farmers in terms of increased prices of imported inputs such as fuel and fertiliser. With food retailers, particularly supermarkets, cutting costs to attract consumers, they have reportedly not accommodated these increased costs and continue to try to push prices down.

Farmers have also experienced a recent reduction in farmland prices. In Q1 2009, English farmland values fell for the third quarter in a row, dropping 2.6 per cent to £4,700 an acre. However, this is still just over 1% higher than 12 months ago, unlike most other property values, and follows exceptionally strong growth in the first half of 2008.

In terms of access to finance, much evidence suggests that banks are still willing to lend to the agriculture sector – bucking the trend of more cautious lending activity and reducing the amount of credit available. This is due to farmers' strong asset prices and the positive outlook for the sector over the long-term. However, the sector is not immune, with Business Link East receiving some reports that some farmers have experienced difficulties in accessing finance from banks unless they can demonstrate robust cashflow in current business activity and that their banks had planned to increase the base rate for existing borrowing, leading to a reduction in farm diversifications – particularly where conversions of redundant farm buildings are involved.

There were concerns among farmers early in the recession that there would not be enough migrants working in the industry during the 2009 harvest due to the declining exchange rate making the UK a less attractive place to work. However, the number of migrant workers has not fallen to the extent that was earlier anticipated as falling GDP in Eastern European countries has provided an incentive to remain in the UK.

Food Production

The East of England's food manufacturing sector (generally located in rural areas) has experienced long-term issues with the need to lower costs and remain competitive. Where produce has been imported from Europe, increased costs from the falling value of sterling have not been accommodated by supermarkets.

A number of job losses and jobs at risk were announced in January:

- + Vion: the closure of its Haverhill (Suffolk) abattoir and butchery and 470 job losses were announced due to competition and over-capacity in the UK meat processing sector. Suffolk County Council, St Edmundsbury District Council and EEDA have agreed £1.8m funding in principle to retain as many of the functions and jobs at the factory as possible due to the importance of the sector for the region's economy.
- + Tulip: The pork products firm announced the closure of its abattoir in Linton, Cambridgeshire with the loss of 90 jobs and its cooked bacon factory in Thetford, with the loss of 75 jobs due to competition and over-capacity in the sector.
- + Bernard Matthews: The company announced 130 job losses (since reduced to 55) at its head office and production facility in Great Witchingham, Norfolk due to increased price sensitivity and a need to lower costs to remain competitive.

- + Bakkavor: The Icelandic food manufacturing company – one of the leading providers of ready meals and salads to UK supermarkets – announced the possible loss of 400 jobs at its Lincolnshire sites as part of a restructuring plan due to the global economic downturn and increasing overhead costs. While outside the region, this could have impacts through the supply chain.
- + Linda McCartney: The vegetarian food producer announced 17 job losses in manufacturing cutbacks at its site in Fakenham, Norfolk. The firm's US-based parent company said output had exceeded demand, meaning production hours need to be reduced.

The decline in the value of sterling could provide a boost to the sector, making British products considerably cheaper. Earlier this year, Pasta Foods in Great Yarmouth reported increased export orders as a result of the falling value of sterling and expected annual sales values to rise by 20 per cent by the end of the financial year.

Pubs and Breweries

Pubs across the region have been experiencing a number of difficulties, including reduced demand from the economic downturn, the smoking ban and competition from supermarkets. In the second half of 2008, 82 pubs closed across the region, averaging three per week. The majority were in rural areas, creating social as well as economic impacts, with pubs acting as a central point for communities.

Rural charity Suffolk Acre has been encouraging rural pubs to diversify to offer more services to their local communities. Councillors from South Norfolk District Council are also pushing for the implementation of a six-point plan that includes:

- + Beer duty to be cut or frozen until Britain comes out of recession
- + Beer ties relaxed so publicans can buy stock at lower prices, and compete more effectively
- + Councils to decide which pubs get business rates relief (at present, they can only grant relief when a pub fits limited circumstances, for example, when it is the only pub in the village and has a rateable value of less than £10,500)
- + A level playing field for pubs and social clubs on business rates. At the moment, if a social club occupies premises in its own right, it is rated like a pub. If it is in a village hall, it is not, which is 'unfair competition'
- + A minimum price for per unit of alcohol to stop supermarket loss-leader promotions on drink.

Recognising the difficulty facing the sector, Business Link East has launched a campaign to promote the support available to publicans, including individual advice, free business workshops and funding worth up to £500 for publicans who act quickly. Rural pubs in Suffolk can also – under the Suffolk Rural Economy Scheme – benefit from grants of up to £5,000 to help them diversify their business to include services such as a grocery or newsagent shops to serve their local community.

Falling demand in pubs has impacted on rural-based breweries in the region. Southwold-based Adnams (Suffolk) has announced that its 2008 profits fell by 64 per cent, from £4.2 million to £1.5 million due to very weak trade in pubs and pub closures nationwide. Although the company has said that 2009 was likely to be as bad, or worse than 2008 for the industry, it is confident of coming through the downturn. It has, however, put the expansion of its Cellar and Kitchen shop

development on hold. Bedford-based brewery, Wells and Young, has announced 34 possible job losses. The company is planning to outsource its dray fleet and associated warehousing as a response to the changing beer market and to remain competitive. The Bury St Edmunds brewer, Greene King (Suffolk), announced that its net income in the 24 weeks to 19 October 2009 fell to £20.4m, from £72.3m a year earlier due to falling sales and property values. The brewer has, however, recently announced plans to raise £200 million from shareholders to repay debts and to fund the purchase of cut-price assets in the pubs sector.

Tourism

Bucking the trend across most sectors, the region's tourism sector is experiencing increasing demand due to the depreciation of sterling. Some holiday parks, hotels, campsites and visitor attractions have seen a dramatic surge in bookings – particularly in coastal areas:

- + During Easter, Great Yarmouth's Hemsby Beach and Summerfields holiday parks were fully booked and some Norfolk attractions reported record numbers and sell-out shows
- + Great Yarmouth hotels have reported summer bookings up by as much as 20 per cent on last year
- + Hoseasons are recruiting 15 more staff at its Lowestoft call centre in response to increased demand from customers and travel agents
- + Waveney District Council has had to print an extra 10,000 copies of its tourism brochure – its stock was expected to last until October 2009. Broadland, King's Lynn & West Norfolk, and North Norfolk local authorities also have also reported an increase in enquiries and bookings
- + Searles Leisure Group, Hunstanton (West Norfolk) has reported year-on-year bookings up 12 per cent
- + One caravan and holiday accommodation site in Acle has reported that its 100 pitches and 18 cottages are already fully booked for the peak season – this is the first time that it has been booked up this far in advance
- + Tendring's (Essex) peak season will be extended to 42 weeks of the year under plans to boost tourism in the district. Tourism officials have called on hoteliers and small businesses to take advantage of the expected rise in domestic holidaymakers. The proposals include conference facilities, luxury caravan parks and changes to Clacton seafront and the Warwick Castle site in Clacton.

Surveys conducted at the end of January suggested that 55 per cent of the population were considering domestic holidays this year due to economic conditions, the weak pound, weak confidence in travel companies/transport operators, overseas terrorism, climate change (reducing air miles), more short breaks and special offers. According to the director of Banham Zoo, near Lowestoft, such trends are usual in a recession. The zoo experienced its strongest demand in the early-1990s recession and did well in the 1970s recession.

Retail

Like urban areas, rural towns have been affected by store closures although the impacts on residents of remote towns are likely to be greater. However, where stores have closed, many new shops are opening. For example, empty Woolworth's stores in rural and coastal towns are being taken up by budget retailers. Discount retailer, QD has taken up units in Beccles (Suffolk)

and North Walsham (Norfolk). 750 and 500 people attended all-day jobs fairs for the 20 and 25 job opportunities at both stores. In Hunstanton (West Norfolk), the Warehouse Clearance Shop has already opened at the old Woolworth's premises, while Carpet Right and Iceland are taking over stores in Diss and Swaffham (Norfolk), St Neots (Cambs) and Haverhill (Suffolk).

Some market towns have reported robust retailing conditions. In Bury St Edmunds, the new Arc shopping centre – which opened on 5 March 2009 – surpassed trading targets in the first week of opening, the flagship Debenhams store reported a 55 per cent increase on predicted targets, some firms recorded their best-ever trading results and the number of shoppers has increased. The shopping centre has created an additional 300 jobs in the town's retail sector and resulted in the employment of 500 people in the construction and development process.

With some small and independent stores closing, supermarkets are increasing their market share. One town in the region has also reported that Tesco now owns 70 per cent of retail space following the gradual closure of small independent stores. Business Link East has also reported the closure of farm shops in the region – possibly due to competition from supermarkets.

Stall rents within some market towns are also posing problems. Market traders in Bury St Edmunds have urged St Edmundsbury Borough Council to scrap its plans for a 4 per cent rise in stall rents (following last year's 5 per cent rise after three years of frozen rents), claiming that the combined rise in other costs of running a stall (including electricity and parking fees) were causing an overall increase of 11 per cent.

Consumer Services

As well as the closure of pubs and shops, regional media has suffered from a reduction in advertising revenues – particularly from recruitment agencies, car dealerships and estate agents. Redundancies have been announced to cut costs (at Archant in Norwich and Ipswich, Northcliffe Media in Essex and Newsquest Essex) and free newspaper deliveries have stopped, such as delivery of the Ely Standard across East Cambridgeshire.

Ports

Ports in the region's coastal towns have been affected by the reduction in world trade.

- + EastPort Cargo Handling has recently announced five redundancies among its 16 workers just months before the commercial launch of Great Yarmouth's £50m outer harbour.
- + At Felixstowe, around 200 jobs have been cut this year and port workers have been asked to accept pay cuts of 6 to 11 per cent. Volumes of throughput in January 2009 were 16 per cent lower than in January 2008. Annual volume for 2009 is expected to be significantly down on 2008.
- + Shipping giant Maersk has announced a reduction in North Sea services on its ferry subsidiary, Norfolkline. From May, the service between the Netherlands and Felixstowe will be reduced from the four vessels it currently operates to three vessels.
- + Job losses – rumoured to be in the region of 30 – have also been announced at Harwich International port as the port looks to cut costs. Falling exports and car sales have led to cuts in freight services between Harwich and Rotterdam, with Stena Line scrapping one of the three vessels from Harwich to the Netherlands.

Port occupiers also face large backdated business rate payments. With the Government changing the way that business rates are calculated for ports – taxing individual firms instead of port operators – port occupiers could face large bills which will be backdated to 2005. It is feared that many shipping companies may switch their business to Holland, finishing journeys by road or rail to bypass British ports. The Government has attempted to ease the impact and minimise job losses by allowing firms to spread payments over eight years.

Energy

The region's energy sector is expanding as it looks towards long-term demand for energy, particularly from renewable sources. Over the next five to seven years, around 4,000 jobs are expected to be created on North Sea oil and gas platforms off the Norfolk and Suffolk coasts along with tens of thousands more in the renewable energy industry. Demand has prompted one Norwich recruitment firm, Cooper Lomaz, to set up a specialist energy division to help fill the vacancies.

The proposed construction of a gas-fired power station in Hatfield should also lead to new jobs in the area while plans for a new renewable energy plant in March (Cambridgeshire) could create up to 15 jobs. Local Generation Ltd is looking to build an anaerobic digestion plant on land at the Fenmarc Produce vegetable packing factory to produce up to 2.5MW of electricity and heat from a combination of potato waste produced at the Fenmarc site and other locally sourced food waste. The project will generate enough electricity to supply 1,500 homes.

Public sector

A number of local councils in the region have been hit by a combination of falling income and interest rates (including falling revenues from planning applications) and higher costs, coupled with greater demands on key services such as housing and council tax benefits.

Some councils in Norfolk are facing shortfalls of between £350,000 and £4m which they are planning to meet through the use of reserves, pay freezes, increased charges and cuts in services. **South Norfolk Council** is looking to make further savings despite freezing recruitment and proposing a council tax rise of 2.9 per cent. The Council will undergo a restructuring process and become more 'businesslike' over the next six months in order to get through the recession.

Councils in Cambridgeshire are facing similar situations. Staff at **Huntingdonshire District Council's** planning department may have to be redeployed to help other departments. In one week in February, there were just 17 planning applications on the council's list and most of those were for minor work such as house extensions.

In addition, St Nicholas Hospice in Bury St Edmunds has warned that it may have to cut jobs due to a £500,000 deficit in funding caused by the downturn. Its 120 staff and 540 volunteers have been fully briefed about the situation and of the precautionary plans being implemented by the trustees and senior management to prepare the hospice for the coming financial year.

Local Councils are providing additional funding for the third sector to help meet increased demand. **Babergh District Council** (Suffolk) is providing £35,000 to extend Citizens Advice Bureau (CAB) services into villages to help to reduce the effects of the recession in rural Suffolk. **Cambridgeshire County Council** has agreed to fund additional third sector advice activity due to strong demand, especially in Huntingdonshire. A partnership of organisations

offering people advice on debt and other financial problems – Advice for Life and CABs – will receive £200,000 over two years from the county council. The money will enable nearly 300 people in each district council area to receive welfare and debt advice, and will also provide help for people with employment issues. The first instalment has been provided to Huntingdon CAB. However, arts and cultural charities could fare badly in the downturn with public sector support directed at employment, housing and core well-being issues.

2.4 per cent (£150,000) of **South Cambridgeshire District Council**'s proposed 4.9 per cent council tax rise will also be earmarked for targeted initiatives aimed at keeping local people in work.