



## **Is the 'Credit Crunch' impacting on your economy? – Interim report to Professor Michael Parkinson**

### **Introduction and summary**

Professor Michael Parkinson has been commissioned by the Minister for Local Government, John Healey MP, to inform the Government about the impacts of the 'Credit Crunch' on economic development and regeneration. It was agreed in discussions between Professor Parkinson and Head of Rural Economies at the Commission for Rural Communities, that CRC would seek and provide evidence and commentary from rural stakeholders for inclusion in his report to the Minister. Between mid-August and mid-September, CRC issued a call for evidence and comments through web-based and emailed communication routes. The following interim report draws together and summarises the responses received by mid-September. A final report will be prepared and sent to Professor Parkinson in early October for incorporation in the report to be published.

CRC's call for evidence on the impacts of the 'Credit Crunch' on rural areas attracted wide and varied responses from a range of organisations and members of the public. Responses were received from rural local authorities, from business membership organisations, from rural and market town partnership boards and commissions, from rural leads in RDAs and from professional advisors. These were drawn from Kent to Durham, from Shropshire and Suffolk and accompanied by representative organisations with universal coverage in England or indeed across the UK. Their comments described effects and anticipated effects on businesses – both those selling directly with consumers and those focused on B2B trading – on housing associations and companies; on voluntary and community organisations; on individuals and on public authorities.

Three features and trends in these responses set a useful context:

- Certain impacts are already apparent, but most commentators conclude that it is too early to identify or evidence the full impacts. Changes described cannot all be attributed to the 'Credit Crunch'. However, concern was also raised that even in 6-12 months time data and other evidence may be unable to properly assess the impacts, due to inherent weaknesses in rural and economic data.
- Some impacts appear to have contrary directions. For example, some areas are witnessing an upturn in residential lettings, whilst in others existing tenants are struggling to maintain payments and shared ownership/ rental property is struggling to attract new occupiers: In some areas tourism is benefiting from more UK-based holidays, but others have witnessed declines perhaps because of reductions in second and short holiday breaks
- The 'Credit Crunch' and higher costs of products and services are exacerbating deep seated challenges of running businesses, securing and maintaining jobs and living in rural areas, rather than creating new challenges. Those reported include the disparity of wages for employees in rural workplaces and commuting residents; need for multi-jobbing to create living wage has become more difficult and more necessary, costs of travel and fuel to premises not on mains; late payments from large to small firms.

From the evidence received the two key issues most regularly reported as having unfavourable impacts on rural firms and communities are access to affordable housing and costs of fuel. Whilst this latter effect is due to rising costs rather than the Credit Crunch per se, it is having such a significant effect that we have reported it here.

Some rural businesses are struggling under the current economic conditions to access finance for expansion, some land and property transactions are falling through, some consumers are having greater difficulty securing mortgages, and smaller businesses are experiencing cash flow problems, with evidence of changes in business and consumer credit and late payments. Several sectors including retail, distribution and tourism, are facing greater challenges from the downturn in finance, spending and rising costs. Agriculture is suffering the double impacts of increasing fuel costs and a poor harvest following a wet summer.

## **Affordable housing**

Most respondents reported that the construction industry had been the hardest hit by the 'Credit Crunch'. The CLA commented that the residential market catering for social housing is having problems with tenants defaulting on their rents. Rural Housing Enablers and partners of Community Lincs are already observing a marked increase in the numbers of homes being repossessed, as have the number of people in arrears. This suggests that repossessions have yet to peak. Despite falling house prices, which are creating some challenges for existing homeowners, the lack of affordable housing is still a major concern reported by rural members of the Federation of Small Businesses (FSB) and many communities. In many rural areas it is still difficult to attract staff because the lack of affordable housing. This is made worse by difficulties faced by staff failing to obtain mortgages.

Kent Rural Board commented on the lack of affordable houses being built, coupled with expensive mortgages and large deposits. At one end of the spectrum young people and low paid workers were still finding it difficult to buy property, whilst the other end is illustrated by an older homeowner who emailed that the drop in house prices has affected the sale of her house and her ability to provide as planned for her future and her family.

The RDA's joint response found rural house prices were falling as steeply as in urban areas. Building sites in rural areas are starting to mothball and the lack of new building will increase the demand for affordable housing. The mismatch between demand and supply may be made worse by the potential evictions of private landlords and reduction in private rented housing. Rural Housing Enablers at Community Lincs foresee this resulting from some private landlords being unable to keep up payments on their loans and thus may evict their tenants and raise rents, making it difficult for other tenants to stay in the property, whilst other landlords seek to sell rented property in a difficult market.

Leicestershire Rural Partnership (LRP) reported that lending for Housing Association's developments had become difficult. 'Higher interest rates make schemes cost more and this may well make them financially unviable.'

LRP do believe affordable rural housing will continue through exception sites because they don't rely on developer contributions. It may increase efficiencies from builders as exception sites become more cost effective. The Housing Corporation may allocate more grants to increase rural housing so they can achieve their targets. Developers could also sell off 'unsellable' properties to the Housing Association which may also help to boost housing.

Gloucestershire First believes the high house prices in rural areas won't be reduced by the Government's housing measures such as holiday on stamp duty because most of the house prices in rural Gloucestershire are above the threshold.

The Durham Economic Partnership found a possible a positive affect of the 'Credit Crunch'; the reduction of house prices may attract more first time buyers. But there needs to be better mortgage deals on offer especially for those who are self employed or have several part time jobs.

## **Cost of fuel and heating oil**

FSB reported that all their members (urban and rural) were concerned about rising fuel prices. Rural businesses believed it would be a barrier to expanding their firms and to the recruitment of staff.

The price of petrol in rural areas is often considerably more than in urban areas, average length of journeys was higher and availability of public transport was lower, all having an impact on recruitment, ex-situ training, employee retention and wage settlements. Kent Rural Board believed increasing fuel costs would have a disproportionate impact on rural households because they travel, on average, 50% more than urban households. It would also have a negative effect on the viability of running a commercially-operated rural bus service as well as the increased level of subsidy required for subsidised public transport and community transport operations.

The RDAs' joint response noted that a significant amount of rural homes and businesses used solid fuel or oil for heating and the cost of heating oil has more than doubled over the last 2 years. These homes and businesses also have fewer options to reduce costs because they are off the grid and it is rarely viable to install infrastructure to enable mains connections to be made. Fuel poverty is expected to increase in rural areas. FSB rural members also draw attention to the costs rises and energy worries for those firms who rely on oil fired central heating systems, which governments' rarely pay attention when considering action on fuel prices.

Distribution businesses are significant employers in rural areas and public transport, fishing and agricultural sectors are likely to be hit hard by the increasing fuel prices. Research by Oxford Economics for Yorkshire Forward had identified that the distribution sector will be hardest hit by the credit crunch. As a result the costs of service provision in rural areas are likely to rise, impacting on public sector budgets. In the south west the rise in fuel prices are being keenly felt by the fishing industry, particularly by trawler and beam trawlers and consequently parts of the South West fishing fleet are remaining in port.

A positive effect, or hope, reported by FSB South West of the higher cost of fuel would be more people shopping locally, especially where car parking is free. Similarly, the Leicestershire Rural Partnership (LRP) thought high fuel prices might encourage more people to use public transport and a greater uptake of library services.

## **Employment**

Shifts in employment levels and patterns are reported but not in forms, levels or over time that is showing up in statistical data sets. This mirrors the situation during the Foot and Mouth crisis of 2001+. Enterprise agencies across County Durham Economic Partnership area are reporting that tradesmen in the construction industry are shifting from subcontractors to self employment, entering a caution that these may be vulnerable in their new guise if the current conditions persist. As RDAs report the construction industry is an important employer in many rural areas. Anecdotal evidence from Leicestershire (Leicestershire Rural Partnership) has shown contractors related to the construction industry have 'dried up'.

Narrower employment opportunities in some rural communities may increase the rate of inactivity, unemployment or commuting. It may also and in turn form a self-perpetuating circle with homelessness, with those laid off, having difficulty in maintaining housing payments, or those losing their homes having difficulty maintaining current jobs, or in securing replacement employment.

## **Community impacts**

The FSB point out that it has become increasingly difficult for small employers to access services such as banks and Post Offices, and thus keep their businesses running.

High Peak Borough Council reported a significant disparity between those who live and work in their rural district, and those who live but commute out of the area to work. Wages outside the borough have been increasing at higher rates than inside the borough. The higher costs of living impacts more severely on these households and they have to travel further to access services.

LRP expect reduced incomes combined with wider economic pressures will mean local retailers suffer from reduced 'footfall'. Populations in sparsely populated areas will feel the impact more because they will have to travel further predominately by car to access shops, leisure, education and employment.

The County Durham Economic Partnership (CDEP) report that the near collapse of Northern Rock as a result of the 'Credit Crunch' has had wider implications. The Northern Rock Foundation is a key funding source for community activity but funds have been dramatically reduced and the eligibility criteria has become stricter. A similar effect and worry was reported from Sussex where budgets of grant-giving bodies and advisory sources are being squeezed with an impact on their contributions to rural community activity. CDEP cite the example of an agricultural support service in Upper Teesdale with 8 staff being at risk because of this dependency on grant funding and wider charitable contributions.

## **Investment and finance**

Many FSB members have raised concerns about access to finance. The lack of available credit is stopping their business expanding. CLA report that new ventures are being put on hold.

High Peak Borough Council believes the 'Credit Crunch' impacts on investment and regeneration in rural districts will be small, as most funding is tied up in 3 year cycles. Nevertheless they do express the view that 'sometimes government (regional bodies) while grasping the need can fail to understand how best to support investment on the ground due to their own internal rules being primarily geared towards large urban regeneration.'

A chartered surveyor replying from south east England, express the concern that a 'policy emphasis on conservation often at the expense economic reality coupled with the cost of regulatory compliance as the single hurdle' to expansion of businesses. Property and contract disputes have apparently been increasing and speculative building development and construction had stopped.

The Co. Durham Economic Partnership has found more small businesses were moving to home based operations out of business incubation units to save money. New start-up businesses are having difficulties accessing new finance. CDEP also articulate the impact of cumulative changes in financing referred to by many respondents - the Credit Crunch is coinciding with a substantial change and diminution of public funding for certain localities from changes in structural funds and central government funds targeted at supporting economic development at local level, such as the Working Neighbourhoods Funds, LEGI and LABGI.

Early signs of a different but equally worrying relationship between private finance and public funds is reported by RDAs. Some banks appear to be slightly reluctant to provide credit to applicants who have received approval for RDPE (Rural Development Programme for England), yet this previously approved credit may be needed by businesses as match funding, for firms applying for these funds. These coincidences are making the situation more difficult.

Adjustments are also being felt within finance and income sources within rural firms. 72% of Shropshire rural businesses selling to consumers are reporting a downturn in consumer spending. Over half (58%) of firms responding to a survey by the Shropshire Chamber of Commerce of effects of the credit crunch on businesses also report that customers are delaying payments or failing to pay on time. FSB members in south west draw attention to large firms making late payments or taking longer to pay which can hit smaller firms the hardest. RDAs' joint response reported evidence that businesses were withdrawing 'merchant's credit' (buy now, pay later) which has had severe impact on the agricultural sector. Evidence from High Peak Borough Council showed micro businesses are suffering with cash flow problems.

## **Rural firms (all sectors)**

Shropshire Chamber of Commerce undertook a business survey amongst firms across rural Shropshire about the impact of the Credit Crunch and rising costs. Whilst the sample is small, the 33 responding companies employed over 750 workers, and gives an insight into wider impacts and trends. Half of these firms were reporting a decrease in spending from Business customers and most estimated the scale of these declines between 5-20%. A similar proportion reported decrease in consumer spend with most reporting falls in spending between 10 and 40%. Downturn in the construction sector featured as a regular explanation for the fall in B2B sales. Decrease in consumer spending was attributed to less disposable income is resulting for example in lower spending on luxury goods and replacement goods, in favour of maintenance/repairs. Delays in payments are adding to these difficulties

As a result 64% of firms were reducing their expenditure and whilst all aspects of business activities were affected, wages and staffing levels were regularly cited. FSB's rural members reported increasing their security measures e.g. extra fencing to protect oil supplies from thieves. The south east Chartered Surveyors could foresee an increase in rural crime with farms reporting thefts of fuel as a particular concern.

It is clear from the responses to this inquiry that the impacts of higher costs and the credit crunch vary by activity and sector, but also spatially. Spatial variation occurs within rural towns or between settlements within the same district.

This has been well catalogued by the South East Rural Towns Partnership (SERTP) who surveyed and reported on the experience of shops, pubs, restaurants and some other businesses across 8 rural towns of varying size. In some towns shops are closing and remaining vacant, new shops were not being filled and others are reporting reductions in customer spend. Other market towns or other services in the same town report continued expansion, new firms starting and new premises being rented or sold.

Some sectors are being affected in specific ways, amongst which are:

## **Agricultural Sector**

The impacts of the 'Credit Crunch' on agriculture was highlighted as a concern from CLA, south east Chartered surveyors, Kent Rural Board and Leicestershire Rural Partnership. The CLA commented 'the agricultural sector being underwritten by the land as its main asset is more strongly placed when seeking finance which has always given it a buffer. The global rise of the cost of food has made it a stronger year for farmers' margins but this will be squeezed by the rising cost of oil based inputs such as fertilizers, chemicals and fuel. This is on top of cuts in EU CAP payments.'

John Lytton, a Sussex firm of Chartered Surveyors and Kent Rural Board also commented on this year's wet summer. In some areas it has ruined the harvest and has further damaged the farmer's margins especially with the high cost of grain drying. Farmers are unwilling to borrow more money because of the potentially high interest rates. Kent Rural Board also commented that farmers are suffering cash flow problems with rising input costs and shifting payment terms with payment on delivery for fertilizers etc. increasingly expected.

## **Manufacturing**

High Peak Borough Council fear the 'Credit Crunch' would affect High Peak's localised economy because of its high manufacturing base. Job losses in this sector would hit the market towns and rural communities because of the dependence on this sector. There is also a lack of alternative employment in the High Peak and travelling the long distances to urban employment will become expensive (high fuel costs). Some business closures and redundancies reported by local business media across rural England, suggest that firms are reducing activity and employment in less efficient, older, or constrained sites or in business locations that are distant from head office and company decision making locations.

## **Construction**

A variety of impacts on the building industry and on rural economies from the slowdown within the construction sector are described by several commentators. Speculative building development and construction has almost ceased, market for development land has collapsed reducing its collateral value, though it is also reported that farms in the south east are still being purchased and speculatively lotted for sale near towns. CDEP similarly report property companies pulling out of land deals for development of housing, and cite an example in Derwentside in which a bid was withdrawn at the last minute for a multi-million land deal, leaving the selling company to make redundancies. On the other hand they also report that large capital and pre-programmed schemes are proceeding at this stage.

## **Tourism**

Respondents had mixed views on the impact of the 'Credit Crunch' on tourism. The CLA reported that tourism has benefited with less people travelling abroad (despite the wet summer). FSB members with small hotels and B&Bs had seen increased guest numbers, and campsites are also reporting increases in demand. However,

Although the chartered accountant believed tourist enterprises (B&Bs, pubs etc.) had seen reduced visitor numbers – possibly due to less people taking second holidays. Durham Economic Partnership reported on a new media and awareness raising campaign to boost tourist numbers in Durham with the promotion of 'Durham Deals'.

## **Retail**

The South East Rural Towns Partnerships compiled a detailed report of the impact of the 'Credit Crunch' in several villages. Most villages had seen shops and pubs closing over the last 3 months. There was a lack of general interest in the freehold or leasing of empty premises because of the possible recession. Many retailers had seen a reduced number in footfall. Pubs, restaurants and cafes also reported lower customer numbers.

RDAs joint response believed rural retailers would be affected by the tightening of household budgets. Shopkeepers would have to add on margins to products and this will lead to consumers shopping in supermarkets because they offer cheaper products.

## **What steps are being taken or proposed?**

Businesses, landowners, communities and households are responding to the downturns and risks in many ways. These include:

- reduced spending on luxury and new products and services,
- delaying spend on replacement items,
- 'job juggling',
- switch from credit cards to greater use of cash,
- reducing overheads, equipment hire, spend on temporary staff and advertising,
- suppliers are expecting payment on delivery; whilst at the same time larger firms seem to be delaying payments to smaller businesses, who in turn appear reluctant to use the measures now available to them to secure swifter payments.

Business and Enterprise North East have mailed out an information pack on the credit crunch to over 2,000 businesses that they feel are most vulnerable. The County Durham Area Tourism Partnership has increased media coverage and awareness in an attempt to boost visitor numbers and spend. Kent's Rural Housing Enabler group has reported that in response to the collapse of would-be owner/ tenants for shared ownership schemes some social landlords are offering 'try to buy' i.e. rent first and see whether you can buy your share later.

A few respondents have made suggestions for specific short term responses from Government from creating a scheme to use spare capacity of under-employed construction workers to meet demand for new-build affordable housing, developers should be assisted to transfer 'unsellable' properties or land to Housing Associations. However, those who have addressed this question in greater depth, recognise that many of the causes are complex, national or international, and likely to last for some time. They have correctly argued that longer term and structural measures are needed. Amongst these which will be reported in more detail in a follow up report, business representatives call for a better balance between needs of small businesses and environment when making planning decisions, better access to flexible training and apprenticeships; equality of access to improved communication technology from better mobile phone coverage to adequate broadband speeds for internet, and improved transport provisions; and a shift from regulation, protection and control to better advice, support, guidance and freedoms to take economic decisions and actions. Several commentators also drew attention to the need to change the urban and city centric view that characterises several strategies and funding programmes.

## **Conclusion**

Respondents to this call for evidence on the 'Credit Crunch' had varying views on the impacts. The high cost of fuel and lack of affordable housing were widely reported as having a substantial impact on rural communities. Fuel costs disproportionately affect rural households because they travel further for employment, education and services. Many rural homes and businesses rely on expensive solid fuel and heating oil and are, or are at risk of, falling into fuel poverty.

Rural areas still lack affordable housing even with falling house prices. Many developments are in danger of becoming mothballed. This coupled with expensive mortgages and high deposits mean young people and low paid workers are still unable to buy properties in rural areas. Several changes are taking place in the construction sector affecting the tenure and availability of jobs, purchases of land and completion of building schemes.

Investment and capital finance into rural businesses has been reduced. Banks' lending has become tighter and high interest rates have led to fewer businesses expanding. Start-ups are moving out of incubation units to be home based to reduce costs. Micro businesses are having cash flow problems. People are unwilling to invest in new businesses with the impending recession.

Several sectors that are important employers in rural areas are feeling significant effects from the rising costs, declining income and wider Credit Crunch challenges. Agriculture, manufacturing, retail, construction, distribution and fishing have all attracted specific comment. These effects are in turn having profound impacts on community vibrancy on some market towns and smaller communities because of the lack of alternative employment, multi-jobbing, their community contributions and reduced footfalls and higher costs affecting service provision.

Most commentators conclude that the real scale and nature of impacts will take several months to appear, with Suffolk County Council arguing that the real impact of the 'Credit Crunch' on our rural communities will become more apparent in 6 to 12 months time. However, they also highlight the need for more information on our rural areas in general to calculate the real impact. Many rural areas suffer from lack of lower level spatial data and current data sources. Government needs to address this in any future survey or monitoring of this or other economic crises.

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