Phase 1:

Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery

Prepared on behalf of the University of Portsmouth by the Economics and Finance Department, Portsmouth Business School, University of Portsmouth.

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Summary

Existing evidence

The insularity of the Isle of Wight is the result of geological processes and long predates the development and implementation of artificial administrative processes aimed at funding and facilitating the economic well-being of its dwellers.

It is intuitive to think that the funding mechanism in force in the proximity of Church Flatts Farm[1] is not necessarily suitable to the more complex circumstances imposed by Nature upon the Island. Nevertheless, in the past decades, the Isle of Wight Council has struggled to make the case for a fairer funding mechanism in support of the delivery of its statutory public services.

A wealth of research has been carried out highlighting, in great detail and with ever increasing forensic accuracy, how insularity has a negative effect on the economy of the Island in a number of different ways. All provided evidence seems to coagulate around three main themes:

Firstly, forced self-sufficiency reflects the lack of spillover from neighbouring authorities; research shows local governments benefit from their population being able to use public services provided by neighbouring local government area. This so-called public goods spillover is efficient if each area by itself would be too small as to provide these public services at an efficient scale.

Secondly, the Island premium represents the additional cost of conducting business on and with the Isle of Wight. This premium not only encapsulates higher transportation costs, but also the limited opportunities for optimal economies of scale, due to reduced competition and, quite simply, the size of the market.

Thirdly, dislocation represents the actual or perceived distance, geographical or social, from the mainland. Insularity may bear many positives, but it will impose a negative effect on the general attractiveness principles of the dominant development model, characterised by mass production of standardised goods and the knowledge intensive and multi-specialised urban economies. Whilst dislocation affects several economic dynamics, the social element is probably the key and critical one. Lack of attractiveness may act as deterrent for skilled labour to relocate to the Island and as a motivation for it to seek employment on the main land, in a context of higher wages and wider choices.

All the evidence provided points at a number of characteristics of the Island which not only exacerbate the underlying trends but also act as catalyst for them and drive the economy in a perilous, inward spiralling process.

A range of economic concerns relate to the general composition of the Island economy which has historically been dominated by public service and seasonal tourism related activities, with very few large employers in operation. Despite a few large employers in sectors of advanced manufacturing, the local economy is fragile and lacks resilience to exogenous shocks. The contribution deriving from business rates is very limited.

The labour market suffers from a relatively small workforce, with the added disadvantage of even less available jobs. Seasonal unemployment shows sensible fluctuations between cycles, showing limited counter seasonal job opportunities. In a context of visibly low earning (on any comparison), the

[1] Calculated by the Ordnance Survey to be the farthest point from the sea in Great Britain

Island has a high index of deprivation and benefit dependency. The education system suffers from a variety of negative factors: difficulty in recruitment and retention of teaching staff; retention of those students who enter Higher Education; lack of Higher Education facilities and very limited access to Further Education institutions. Low skilled labour cannot access upskilling programs held on the mainland, contributing to the stationary concentration of low skills on the Island.

Finally, the housing market is epitomised by increasing private renting and high levels of second home ownership for holiday purposes rather than work. In stark contrast to neighbouring Hampshire and much of the South East, property values are more in line with the national average. Accessibility to housing is therefore made more difficult to the low earning workforce.

Prioritised issues

The Island premium is the highest ranking concern. This is one of the most direct outcomes, or repercussions, experienced by the Isle of Wight Council because of the nature of its Island economy. It also has far reaching impacts and is has been given extra weight due to the importance of the ongoing and likely increase in private sector provision of public services on the Isle of Wight expected in the near future.

The Island premium is already well documented for a number of services with specific 'additional' costs calculated using an accountancy style. It would be beneficial to update this evidence, updating all the calculations as a desk exercise, and undertaking more in depth analysis of the most influential/largest of these costs. This will be a particularly pertinent exercise for waste management and highways maintenance services that have undergone competitive tendering processes since the original calculations.

Self sufficiency is ranked as the second most important overall issue. It is recommended that Phase 2 of the public goods spillover model is undertaken to further assess the magnitude of this issue.

Dislocation is ranked as of least importance of the three overall issues. In part, this is because higher transport costs are already included under the Island premium issue.

Recommendations for Phase 2

The next phase of this project would expand on the following themes:

- Analysis of the spillover effect model, with the aim to quantify the overall social loss for the Isle of Wight resulting from being detached from the mainland.

- Analysis of businesses that are not heavily dependant on: (i) transport/sea travel or (ii) the local market, in order to compare their success/proliferation on the Island with those on the mainland.

- Drafting of a simulation model of the Isle of Wight's economy to model a number of different scenarios such as variations in population size or business numbers required to achieve the economies of scale, to raise council tax and business rate receipts to offset the island factor in the current funding formula.

Introduction

The University of Portsmouth has developed a two phased scope of work. Phase one is a scoping exercise, reviewing existing literature, data and evidence. Then presenting a rating and summary analysis of the key factors related to separation, and the impact on public and particularly council services.

This is based on quantitative and qualitative analysis with a particular focus on and assessment of the economic impact of those issues on the delivery of public and particularly council services. The analysis draws on existing sources of information, facilitated by the Isle of Wight Council through access to its information networks and data sources where possible.

Many of the previous reports detailed in the literature review section are based on the assumption of the existence of the Island premium, self-sufficiency and dislocation costs, using them as a framework to present a case to various central government and European Union departments. The unique aspect of this report is that it seeks to challenge or find supporting evidence for these assumptions.

This report provides an independent and objective assessment of the most significant factors and consequences resulting from separation, identifying a prioritised long-list of separation related issues that have a direct impact on the delivery of public services. A prioritised list of issues is presented by both their direct impact as an island factor, and where relevant its contribution to exacerbate other issues experienced by the Island.

The results presented can be used to better inform local and national strategy and decision making. Where relevant, there is a description of the social, economic and environmental impact of physical separation on the Island, relative to nearby mainland locations and comparable places.

Recommendations for further areas of analysis are suggested, and are indicative of the analysis that will be conducted in Phase 2.

Public services provision on island economies

> *"About ten thousand years ago, sea levels began to rise as the great ice sheets of the last Ice Age melted. As sea level rose, the estuary of the Solent River was gradually inundated until eventually the Isle of Wight became separated from the mainland. This is thought to have occurred about 7,000 years ago."*
>
> *(Isle of Wight Nostalgia - Geology)*

One day in 5,000 BC, occasional strollers on what is today the coast line between Calshot and Lymington, may have noticed that it had become impossible to jump across that long fracture in the ground as it had become just too wide and they could even see seawater at the bottom of it. A miniscule shrug of the tectonic plate forced the permanent detachment of that piece of land and the newly proclaimed island status will affect its history for ever.

Coming to more recent times, it is recognised that "islands are considered [...] as non attractive places for permanent living and/or for business today" (ESPON, 2013). As a consequence it is likely that "the socioeconomic base will shrink and diverge from national goals for sustainable development, economic, social and territorial cohesion" (ESPON, 2013). The Isle of Wight is in no way estranged from this process and its Local Government is therefore under increasing pressure to deliver its statutory duties in the face of continuing social and economic changes taking place at local, regional and national level; some of these pressures result from international trends and from underlying, long term, social and economic tides.

The Isle of Wight Council (and its previous incarnations) has devolved much attention to strike a sustainable balance between statutory duties and their cost of delivery. The fiscal tightness imposed by the Central Government in the past 6 years has only added to the existing challenge of delivering statutory, public services in a context of (1) forced self sufficiency (the lack of spillover to and from neighbouring authorities), (2) Island premium (the additional costs of conducting business on and with the Isle of Wight) and (3) dislocation (the inability to attract and retain key skilled labour).

The literature reviewed and presented in this section has helped shape the direction of the later analysis, including the three over-arching themes. Many of the reports reviewed are based on the assumption of the existence of the Island premium, self-sufficiency and dislocation costs, using them as a framework to present a case to various central government and European Union departments. The unique aspect of this report is that it seeks to challenge or find supporting evidence for these assumptions.

Considering each relevant report in chronological order, a short summary is provided, with more detailed key points referenced within the relevant sections.

New Systems Group, (1989), "An island apart, the cost of severance by Sea for the Isle of Wight"

Only a few years ahead of the "Isle of Wight (Structural change) order 1994", the then local authorities commissioned a study for the investigation of the "insularity" costs, i.e. those costs which only arise due to the severance by sea. The 1994 order was the result of a process initiated at least in 1984 and whose outcome in 1986 was a suggestion to install a single county authority on the Island to provide unity of direction and efficiency in the provision of public services (Local Government Boundary Commission for England, Report 519, 1986).

The study provides an accurate and detailed account of the premium costs under four main headings:

a. "the cost of severance by sea from sources of supply of materials and goods;
b. the extra costs of providing self sufficient services, which on the mainland would be based on mutual support and co-operation with neighbouring authorities;
c. the penalty of small scale activity, determined by the Island boundary;
d. the extra burden due to the absence from the Island of motorways and trunk roads financed by central government".

The study accepts that the Isle of Wight is not truly comparable to any other county on the mainland. The study addresses a number of key issues which are later considered by following studies:

a. Cost of travel to and from the mainland
b. Cost of running the local Fire and Rescue Service
c. Cost of delivery of selected educational activities by the LEA
d. Irreducible minimum level of management and support services
e. Cost of the Island-only road network
f. Small scale population increase the per-head cost of services
g. Small scale size is not attractive enough for the competitive provision of competitive services to the local communities.

The finance shortfall is quantified in the amount of £4.6M, "a negligible sum in the national context, but of critical importance to this small island's community".

Milford, S. (1991). An evaluation of the additional costs associated with providing county council service on an island.

This paper develops to an even greater detail the cost analysis of providing public services on the Isle of Wight and introduces a few new perspectives. Whilst defending the demographic and geographic uniqueness, there are comparisons with other island authorities in the UK (which are benefitting from special status) but they do not appear to be conclusive. The matter of geographical isolation is also being considered in respect of mainland authorities (Cornwall for example) which are similarly isolated, yet benefitting from spillover from neighbouring counties and direct funding from central government with regards to the road network.

An amalgamation with Hampshire County Council might be able to produce a more efficient delivery of public services. However, a particularly interesting point is raised with regard to the time cost of travelling. Whilst not clearly mentioned in the study, the perception is that the Island is much further away than the 4 to 8 miles it actually is from the mainland.

The size factor plays also a fundamental role regarding small catchment areas, which make any service per head cost, more expensive than elsewhere on the mainland. The detailed analysis of costs quantifies in £4.5M the financial shortfall from Central Government

In summary, Central Government already recognises the existence of an island status (the Isles of Scilly) which is characterised by additional, objective, direct and indirect costs related to the insularity and it advised that an adjustment mechanism is put in place to balance to historical underfunding of the Isle of Wight local authority.

Coopers& Lybrand, (1996), "Wight weighting: the case for a special Island grant"

This very well constructed research builds upon the results of previous studies and aims at (1) reviewing previous funding schemes, (2) considering the reason for higher costs and (3) estimating the additional costs and funding required.

The study suggests that Central Government is already indirectly recognising the specificity of island status through the funding of an enhanced Area Cost Adjustment (ACA), to compensate for the additional costs due to severance by sea.

A detailed analysis of the calculation of the Revenues Support Grant and of the Standard Spending Assessment is carried out based on historical figures to assess the adequacy of the pro tempore funding framework. Whilst the estimates for the ACA are close in size to that of previous studies, they are based on data which do not contain enough information to quantify any additional contribution above any statutory compensation for labour and business rates.

A relatively theoretical assessment of higher factor costs is done with the purpose of comparison with other authorities on the mainland. Three main reasons are identified: 1) Higher factor prices due to marine transportation; 2) higher costs due to the relatively small scale of activities; and 3) specific exogenous factors (like self sufficiency, no incentives for large firms, lower receipts from capital sales and rented properties, lack of local competition and choice and higher contract cost due to small size of contracts). Strong evidence is found to support 1) & 3), but mixed evidence for 2), as this depends on the proportion of the total budget accounted for by each service. The analysis suggests that the shortfall in government funding amounts to £4.56M with lower bound of £4.12M and upper bound of £5.63M, again pretty much in line with previous estimates.

(2000), "The island factor"

This document is of interest as it looks at the excess costs sustained by the NHS in the delivery of its statutory duties on the Isle of Wight. Whilst the perspective might be different from the previous studies, some of the findings are totally aligned with those of previous reports. In its words there is a "case for a special adjustment to be made to the Isle of Wight target for the unavoidable excess costs which are directly related to the unique circumstances of the Island which are not and could not be reflected in the resource allocation formula".

"The Isle of Wight is neither atypically rural nor remote. Its boundaries are not determined by arbitrary lines on maps, but by beaches and cliffs. It is physically isolated. As such the Island cannot benefit from all of the potential economies of scale which are open to all other local authorities on the mainland to reduce costs." This is a well presented case for the features of territorial continuity and geographical proximity from which the Island cannot benefit in any form or scale. Quite interestingly there is mention to Cornwall and Devon which are somewhat geographically isolated and sport higher than average costs as well.

The issue of skills is also presented with the interesting assessment regarding the lack of a complete skills' set. Whilst lower level skills could be sourced on the Island, higher skills would be expensive to deploy and would not have adequate workload to maintain continuing professional accreditation. Another side of the territorial discontinuity is given by the inability to efficiently deploy any excess resources to neighbouring communities.

The paper concludes recognising the unavoidable excess costs and directly attributable to the diseconomies of scale and the physical separation. A point raised by a previous study relates to the quality of data, which might have the effect of masking inefficient working practices.

Isle of Wight Council, (2002), "The effects of being an island"

This study provides a comprehensive assessment of the services provided by the local authority and of how they are impacted by insularity. This research introduces a number of new issues but often doesn't elaborate on the information provided or draw arguable conclusions. For example, this is the only research mentioning demographic pressure, even though limited to a comparison of age distribution between the Island and UK. The criticality of such information is not so much into the age profiles pro tempore, rather in their development over time and in the future impact in terms of size of population, size of the workforce, purchasing power, to mention a few aspects deriving from a top heavy population.

With regards to transport issues, there are some evidence-based comments regarding the cost of maintaining the road network and the land sliding risks. There is an occasional mention to the fact that this is the only island in Europe with a sizeable population and without a commercial air service; it is true but the paper fails to draw any assessment. Crucially for an island, there is no mention whatsoever to the three ports and to their role in the transport system.

Of particular interest is the section dedicated to economic effects, which summarises an assessment of the Island economy through a range of indicators. The picture is the one of a semi-closed economy with a number of non-functioning markets, low wages, and a low added value economy which spirals inward into even lower wages and added value. Here, disinvestment and lack of business competitiveness favour long term unemployment which can be only approached with re-skilling (if there were work opportunities on the Island) or relocation to the mainland.

The research touches a range of other factors, but fails to recognise that similar trends are not peculiar to the Island and are also visible on the mainland. Manufacturing has been in decline across the Solent region for some time; deprivation is an issue on the Island, but it is similarly an issue in Portsmouth, Gosport and Southampton and in many other areas of the UK. Insularity may have acted as a catalyst to accelerate some processes, but they are not unique to the Isle of Wight.

The picture drawn in other areas such as Education and Health is equally pointing at negative trends. However whilst they are below the average in the UK, this situation is not unique to the Island. Again insularity might be a catalyst but not necessarily a demonstrable root cause.

Some of the conclusions drawn by this paper are arguable as the causation relations are not always demonstrable or supported. "An over dependence on a vulnerable declining manufacturing base as well as a seasonal tourism industry" are catalyst and accessories to economic difficulties, but they are not necessarily related to insularity.

Price Waterhouse Cooper, (2002), "An Island Apart: Identification of additional costs of service provision arising from severance by sea"

Builds on the findings and recommendations of both Coopers and Lybrand's 1996 study and New Systems Group's 1989 study. This report takes an accounting approach to estimate the additional costs to particular services of severance by the sea. These services include: Special education, Fire services,

Waste management, Highways maintenance, Construction projects, Concessionary transport, Social services residential care and council travel expenses.

However, the report explicitly excludes the impact of costs relating to: discretionary services; lack of economies of scale; the socio-demographic and economic profile of the Island; the physical geography (e.g. coastal protection) and "supporting or maintaining the economy of the Island, which is heavily dependent on tourism". While many of these are not solely island specific issues, it could be argued that many of these exacerbate the costs of severance or act as catalysts to further escalate other costs. Phase 2 of this project will seek to re-visit some of these estimations in light of changes to large contracts (waste management and highways) and include some of the previously excluded elements such as the impact of the Island's changing demography.

The ESPON 2013 Programme, (2011), "The development of the islands - European islands and cohesion policy (EUROISLANDS)"

> *"The basic assumption underlying the overall approach followed in this study is that, on areas which are no longer attractive for establishing competitive economic activities and attracting population, the socioeconomic base will shrink and diverge from EU and national goals for sustainable development, economic, social and territorial cohesion. Islands are considered, among other areas, as non attractive places for permanent living and/or for business today." p.8.*

Isle of Wight Council, (2013), "The case for EU Structural Funds for the Isle of Wight"

The key point of this report is to call for re-classification of the Island at a NUTS 2, rather than NUTS 3, level. The Island's classification at the NUTS 3 level groups it with the far more affluent economy of Hampshire, and therefore masks the socio-economic conditions present on the Island. Re-classification of the Island, separate to the mainland, at NUTS 2 level would allow recognition of the socio-economic conditions on the Island and eligibility for receiving EU Structural Funds to address them.

Isle of Wight Council, (2016), "Living with austerity actions taken by the Isle of Wight Council to respond to its financial challenges"

Details the actions already taken and planned by the council to increase income, recovery of income, reduce expenditure and plan.

The Isle of Wight Council, (2016), "Case for fairer funding"

This report builds on the assumptions of the Island's premium, self-sufficiency and dislocation costs.

> *"The ability to reduce demand and cost or increase income is significantly impacted by the Island's segregation. This gives rise to premium costs for bought services, costs in having to over-provide certain services to give resilience and robustness to service delivery and dislocation costs from travel and time spent waiting to travel. In addition the low wage economy and fragility of the single dominant tourism sector makes it very difficult for the council to seek further income from the local community to meet its financial deficit."*

Legislation (various years)

The European Union first recognised that island communities can suffer from economic and social disparities compared to their national mainland counterparts in Article 158 of the Amsterdam Treaty (1997). This has since been further reinforced in Article 174 of the Treaty of Lisbon which also requires Member States to conduct their economic policies and coordinate them in such a way as to reduce these disparities (Article 75).

> *"The principle of an 'island factor' impacting on the funding public services would seem to have been a topic of debate for many years. In 1956 for example the Edwards Committee is reported as recommended that the Isle of Wight should receive similar treatment as the Isle of Scilly based on its unique character and the extra costs which inevitably result."*[2]

Further comments

All documents use a similar approach of forensic accountancy aimed at quantifying the excess costs sustained by the Authority to deliver their statutory duties. They contribute to drawing a picture and are capable of indicating the required short term accountancy fix but they are unable to provide longer term projections.

Any underlying demographics, social and economic trends cannot be waived. Very much like geography, demographic trends are uncontrollable but are good predictors of future social pressure. Other than additional accounting cost related to transport, insularity seems to produce a subtle but pervasive and uncontainable economic cost.

Because of the territorial discontinuity, the markets are not able to provide all possible intercepts of offer and demand; there are gaps which cannot be filled and as such choices are exercised with opportunity costs which very steeply increase when in proximity of the spatial discontinuity. These costs are reflected in inefficient markets, whether it is a matter of basic goods or services, lifestyle preferences and outlook.

To fix the accountancy problem it might be the case to tweak the formula grant: perhaps a different combination of parameters and variables or an error correction when the regression of the formula grant is too far away from the Standard Spending Assessment.

Quantification of the spillover effect appears to be a difficult exercise. One way to assess the economic impact of this is through the use of Computable General Equilibrium model, in which we could simulate fluctuations in order to minimise the extra funding; for example, to estimate how many more people should live on the Isle of Wight to increase the Grants in such a way to minimise the shortfall, or similarly, to estimate the amount of business rates or council taxes needed.

[2] The Isle of Wight Council Case for Fairer Funding, 2016

Overarching Issues of Island Economies

The three overarching Island issues of Self sufficiency, Island premium and Dislocation are presented and discussed, with particular emphasis on the impact they have on the provision of public services and the operations of the Isle of Wight council. It is worth noting that these are not mutually exclusive issues, as it could be argued that the dislocation creates a smaller market which in turn restricts competition and accelerates the Island premium.

The overarching issues can also not be viewed entirely in isolation. Therefore, the 'Exacerbating' or background characteristics of the Isle of Wight are also presented. These are the characteristics that do not directly follow on from one of the overarching issues, but are related as a consequence or an accelerating factor, which may add to the underlying issue. The following is not intended to be an exhaustive list nor simply a repetition of the information presented in greater detail in other documents, but has been created to provide context and assist in the ranking of issues.

Three overarching themes:

1. Self sufficiency

Self sufficiency refers to the (lack of) spillover of public goods and public service provision to and from neighbouring authorities and the potential for over provision. Self-sufficiency costs occur where there is an obligation that a sufficient and proportionate service is provided on the Island. In this case it is not possible, or too costly, to share or access mainland services or facilitate cross-boundary arrangements for the provision of services that may be available to other authorities. Examples include the operational delivery of Fire and Rescue Service and the operational delivery of a number of services for children's and adult's social care.

However, there may still be the opportunity for cross-border partnerships, with strategic alliances already in place with other public sector organisations to share the burden, or benefit from economies of scale, in the provision of public services. These include, but are not limited to: Fire control provided by Surrey Fire and Rescue Service, Children's Services management undertaken by Hampshire County Council, Fire and Rescue Service management undertaken by Hampshire FRS and strategic financial management undertaken by Portsmouth City Council. Similarly, many responses to the financial challenges the Council faces are already in place. For example, the Council has created alliances with local town and parish councils for continued provision of non-statutory services. The Isle of Wight Council participates in joint procurement arrangements with a number of other authorities for Independent Fostering Agency services, and with other public sector bodies for mobile telephony services.[3]

The magnitude of this issue to the Isle of Wight, having taken into account demographic and other characteristics of the population and required provision, is to be calculated in Phase 2. The model and surrounding issues is discussed in the Phase 2 suggestions and recommendations section of this report.

2. Island Premium

The Island premium refers to the additional cost of conducting business on and with the Isle of Wight. For the provision of public services this may refer to the relatively higher prices that may be charged

[3] Living with Austerity Actions Taken by the Isle of Wight Council to Respond to its Financial Challenges, 2016. p.5.

by contractors, or reflected in the price of goods and services delivered. This may reflect physical costs, such as additional transport costs, or the need to establish distribution infrastructures. Additionally, it will likely be influenced by the size of the market and the inherent potential for restricted competition. This is evidenced by the limited interest in contracts for council services unless they are for a significant length of time.[4] Extra weight should be attached to the importance of this issue given the ongoing[5] and likely increase in private sector provision of public services on the Isle of Wight.

> *"These costs are best demonstrated in building works such as for example in the Education Funding Agency's development of the Island Free School where it is reporting costs 30 percent in excess of expectation because of the Island factor."*

> *"The development community (in particular those with mainland experience) regularly highlight the difficulties of the Island market as a result of a restricted labour market (skills and costs), material costs, restricted end values, and the ability to gain finance to deliver projects on the Island. Recent projects supported by the Education Funding Agency provide good examples of this where the level of developer interest in Island projects was limited and some developers (Interserve) applied a specific 30% up-lift to costs, thus raising the overall project costs and impacting on development delivery."*[6]

3. Dislocation

Dislocation refers to the costs associated with the physical, and perceived, separation from the mainland. Dislocation (sometimes referred to as isolation) is the common characteristic of all islands and "expresses 'objective' and measurable characteristics, including small areal size, small population (small market), isolation and remoteness, as well as unique natural and cultural environments." "These characteristics of islands are not compatible with attractiveness principles of the dominant development model, which is characterised by mass production of standardised goods and the knowledge intensive and highly multi-specialised urban economies."[7]

Dislocation has direct and indirect costs, and is closely tied to the underlying issues of the Island premium and Self sufficiency.

> *"The council actively engages with the Solent Local Enterprise Partnership in order to secure funds to leverage investment and business development on the Island but with very limited success. It has a view that the Island's segregation acts to its detriment when the Solent Local Enterprise Partnership is considering funding bids (especially for local growth deal)which means that Island bids will always be ranked lower than mainland bids making it difficult for the Island to secure funds through this route."*[8]

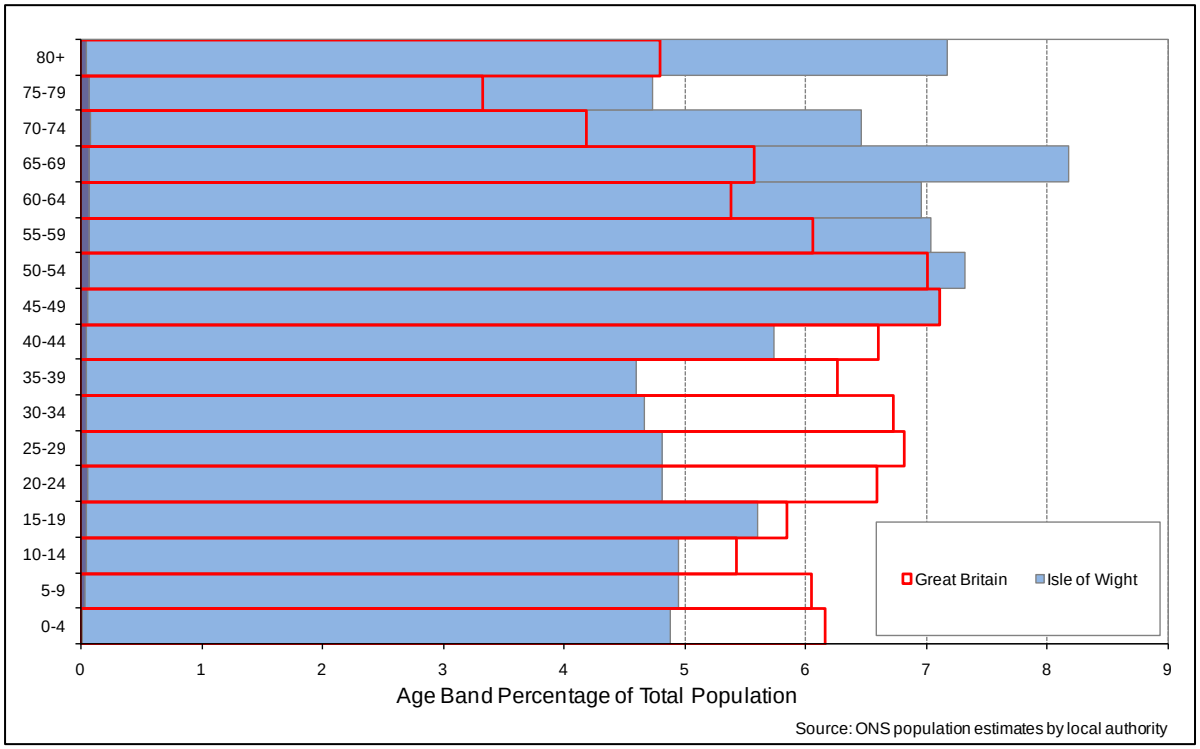
[4] Living with Austerity Actions Taken by the Isle of Wight Council to Respond to its Financial Challenges, 2016, p.5.
[5] Highways maintenance, street cleaning, waste management, grounds maintenance, beach cleaning, grounds maintenance, building maintenance and home to school transport are all subject to contract
[6] The Isle of Wight Council Case for Fairer Funding, 2016. p.12.
[7] The ESPON 2013 Programme, The Development of the Islands - European Islands and Cohesion Policy (EUROISLANDS), 2011. p. 8,13.
[8] Living with Austerity Actions Taken by the Isle of Wight Council to Respond to its Financial Challenges, 2016. p.3.

Exacerbating characteristics of the Isle of Wight

Population

The Isle of Wight's 139,400 population is characterised by an ageing 'top-heavy' population, augmented by a net migration outflow of the young and a net inflow of older generation.[9] Figure 1 shows that the Isle of Wight has a disproportionately 'top-heavy' population pyramid with an above average older population. The Isle of Wight has a correspondingly smaller proportion of working age (16 to 64) population (57.5%, 80,200) compared to neighbouring Hampshire, the South East and the national average (60.9%, 62.2% and 63.3% respectively). This trend is projected to continue.[10]

Figure 1: Resident population, by 5 year age bands, Isle of Wight and Great Britain, 2015



Migration

Overall, the Isle of Wight experiences a net inflow of migrants.[11] However, this masks the ongoing shift in demography with considerable net outflows of younger people (those in the age range 16 to 24), and net inflows of older residents. Table 1 and 2 show a clear and strong impact on public service delivery, particularly adult social care, of an ageing population. While this is not a unique feature of an island, there are issues with being an island, such as limited in-commuting due to dislocation. This can create an unsustainable situation or unbalanced economy, that normal market forces are restricted from re-balancing

[9]Source: ONS Population estimates, 2015.
[10]ONS based population forecasts
[11]Source: ONS Migration, 2011

Table 1: Net migration within the UK by age group[12], Isle of Wight

Age band	All persons
Age 0 to 15	293
Age 16 to 19	-294
Age 20 to 24	-135
Age 25 to 34	205
Age 35 to 49	476
Age 50 to 64	475
Age 65 to 74	150
Age 75 and over	-23

Source: ONS Migration by age, 2011

Table 2: Migration by economic activity

	Economically active: In employment	Economically active: Unemployed	Economically inactive: Retired
Lived at same address one year ago	52,231	3,865	33,506
Inflow: Total	2,240	397	800
Outflow: Total	1,387	298	475
Net migration within the UK	524	45	224

Source: ONS Migration by economic activity, 2011

Geography

The Isle of Wight has an expansive coastline (114km), of which a large proportion is heritage protected. Although having a coastline that requires maintenance is not unique to an island, it certainly exacerbates other issues, in particular the requirement for self-sufficiency. Similarly, the location of many residents and key roads within erosion zones only adds to this. A key example of erosion and recurrent landslips causing unique costs to the Island and its residents can be found on the south coast of the Island from Niton to Bonchurch. In particular, the main through road, Undercliff Drive, has been subject to ongoing controversial and high profile extra-ordinary road repair following a landslip.

The Island is classified as 'Mainly Rural (rural including hub towns >=80%)', on the basis the DEFRA Urban-Rural Classification, with the Isle of Wight's population centred around the towns (Department for Environment, Food & Rural Affairs, 2011). While the clustering of the population around the major towns may alleviate some issues with service provision, issues remain around the accessibility of services for those outside of the main conurbations.

Based on a measure of population density, the Isle of Wight fails to qualify for Rural Services Delivery funding or grants. The funding, provided by central Government, is allocated to the top quartile of authorities based on a 'sparsity indicator'. This measure is used to rank authorities by the proportion of the population which is scattered widely, using 2011 census data (Department for Communities and Local Government, 2014).

[12]Net migration within the UK does not include people who have moved to or from outside the UK.

Transport on the Island

The rural nature of most of the Island could be addressed through a network of excellent transport links. However, the majority of the road network is often rural and narrow, the train service connects less than a third of the Island's population and the several issues with the provision of bus services are reported in the literature. Similarly, firms already established on the Isle of Wight, across a range of industry types, consider transport links to be a problem for the operation of their business.[13] These concerns are clearly not unique to an island, but they are driven to a certain extent by the issues of being an island and limit potential resolutions to those issues by reducing the attractiveness of the Island as a place to work and set up a business.

The limited market size restricts competition for the provision of services – which in turn has the potential to limit the quality and increase the cost of council funded provision and subsidy. For example, lack of competition for the provision of bus services on the Island reportedly led to an additional payment (Island premium) over the national average for home to school transport of £300 per student.

Dislocation from the mainland is argued to be accountable for an increase in the cost of highways maintenance (the Island premium) that PWC estimated to be £147,000 in 2002. Furthermore, an argument has been made that if the Island was attached to the mainland then many roads would become trunk roads and therefore no longer fall under the responsibility of the council.

Transport off the Island - Ferry Service

The Island does not currently benefit from a commercial airport,[14] following an unsuccessful trial operating from Sandown.[15] Therefore, the Isle of Wight is almost entirely dependent on sea transport for access. Served by six ferry and hovercraft routes to the mainland, and responsible for approximately 4 million passenger return journeys and 3 million vehicle movements a year.[16] Of the 8.7 million passenger journeys, marginally more were taken in cars than on foot. The majority of vehicle movements were cars. The Office of Fair Trading ruled in 1991 that the levels of fares could not be regarded as 'against the public interest', despite the form of monopoly in existence and the considerable profit levels of Wightlink.

Previous reports found the number of foot passengers peaked in August, and dropped in the winter months (December to February) with tourists making up approximately a quarter of foot passengers.[17] Of the 3.9 million foot passengers, then roughly a third used the Wightlink in Ryde, and also the Red Funnel in West Cowes, with 21% from Hovertravel. Of the 4.6 million car passengers, equal amounts (about 42%) used Red Funnel in East Cowes and Wightlink from Yarmouth. The currently available ferry use data allows for only limited analysis, although some inferences can be still drawn from this data, such as the likely maximum number of full-time commuters a year (14,200).[18] Phase 2 of this report could estimate the true economic cost of travel time to and from the Island, by including the elements of delay, cancellation and preventative actions to mitigate that risk such as allowing extra journey time or using alternatives.

Commercial vehicles already account for an eighth (250,000) of vehicles using ferries, approximately half from the Red Funnel at East Cowes.

[13] Source: Inplace Survey July 2010, cited in the Isle of Wight's Local Economic Assessment, 2010. p.91.
[14] The Isle of Wight has two airports which are only suitable for private flying.
[15] http://www.iwcp.co.uk/news/features/looking-back/looking-back-at-the-isle-of-wight-july-22-2016-95638.aspx
[16] Local Economic Assessment 2010, p.10.
[17] Cross-Solent Movement Study, MVA for Isle of Wight Council, June 2006.
[18] Based on the assumptions: a quarter of all passengers are tourists – the remainder are commuters, there are 230 working days a year, and each commuter makes a return journey every working day.

Similarly, the majority of the movement of goods must be by the sea. The movement of all bulky goods must go through a single facility, the Medina wharf, in Cowes. This accounts for approximately 300,000–500,000 tonnes a year, most notably including the import of aggregate and, road stone and the export of grain.

However, the wharf facility is relatively small and suffers from the limited market size of the Island. Medina Wharf is reported to be able to bear its operating costs – but not its potential investment costs for repair or renewal. As a consequence the facility is slowly falling into disrepair due to structural failures and faces closing completely in the fullness of time. The consequences of this for the Island would be significant. The reliance on the substitute, lorries using the ferry, would likely increase the cost of shipping (estimated at an additional £15 a tonne). This would in turn have a knock-on effect on the cost and viability of development projects on the Island. This would further exacerbate the Island premium of construction projects. Similarly, the potential closure of Medina Wharf would increase the shipping costs of the Island's exports of grain, and therefore cause repercussions for the Island's agricultural industry.

Economy Overview

The economy of the Isle of Wight has historically been dominated by public service and seasonal tourism related activities, with very few large employers in operation. However, the Isle of Wight describes itself as a centre for renewable energy activities and a technology hub for composite materials and their application in marine technology, renewable energy and aerospace, collectively known as advanced manufacturing.

Its' particular strengths are described as:

- "Aerospace. Aircraft have been built on the Isle of Wight for over 100 years and was home to the Princess flying boats, the Black Knight rocket programme, the hovercraft and the Britten-Norman Islander. GKN Aerospace, the Isle of Wight's largest manufacturing employer produces advanced composite structures for the aerospace industry and is recognised as a world leader in composite material manufacturing."

- "Renewable energy. Vestas, one of the world's leading wind turbine manufacturers, has their R&D facility on the Island. The local authority, in partnership with the private sector are working towards creating a test bed facility for tidal energy just to the south of the Isle of Wight."

- "Composite materials. Gurit have a significant presence on the Island, providing materials and technology into the aerospace, renewable energy, marine and automotive industries."

- "Marine. The Island has a long tradition of boatbuilding and a range of companies based in and around Cowes, the international home of yachting, produce vessels from racing yachts through to specialised work boats for the offshore renewable energy market."

- "Defence electronics. BAe systems have a presence outside Cowes, producing advanced radar systems for the defence and commercial market."

- "All the above have an extensive local supply network of mainly SMEs who provide a range of specialised products and services.[19]

[19] Assisted Areas status request 2014-2020, Consultation Stage, IOW.

Council Income –Business Rates

National Non-Domestic Rates (NNDR) growth is extremely low and separation from the mainland is considered to be the likely factor. Only 5.8% growth has been achieved in the number of Island business enterprises between 2010 and 2015; compared to the South East which has seen growth of 14.2% and 17.3% in Great Britain. The limited growth in business enterprises is also held to account for low growth in employee jobs on the Island which increased only by 1.1% in the period 2009-2014, compared to a growth of 4.8% in South East and 4.9% in the UK.[20] The total number of businesses now stands at 6,674.[21] Further analysis shows that shops make up the largest share (22%) of business premises, followed by visitor accommodation (15%) and workshops (13%). In a further reflection of the prevalence of the tourist industry, beach huts are more common (6%) than offices (5%) or warehouses (2%).

In terms of the rateable value, 75% of properties are below £10,000, representing approximately 20% of the potential revenue, with approximately half of all properties with a rateable value below the £5,000 threshold. Only 1% of properties have a rateable value above £150,000, but these represent 30% of the potential revenue for the Council.

Shops, particularly supermarkets, tend to be of a higher value. Most offices (75%) are rated below £10,000 but there are some very large exceptions to this. However, the relatively low value added nature of the tourism sector is indicated by the rateable value of visitor accommodation. Self catering homes represent the majority of these type of properties and are mostly rated at less than £3,000. While some hotels are of a high rateable value, most guest houses are below £10,000. Similarly, beach huts tend to command a relatively low rateable value.

There are a range of employment sites with various property options on the Isle of Wight including: St Cross Business Park, Venture Quays, Osborne Technology Park and Kingston Business Park.[22]

Island Businesses

The majority of businesses (public and private) on the Isle of Wight are micro businesses (0-9 employees), and these tend to be in accommodation and food services, and professional or construction industries. There are only a small number of large employers (employing more than 250 people) on the Isle of Wight and these are in manufacturing, education and health.[23] Outside of the public sector, there are few medium or large firms, and these tend to be retail multiples or manufacturing firms.[24]

Looking at private sector businesses, 98% of businesses employ less than 50 people, which is broadly comparable to the South East and Great Britain (98% and 99% respectively), shown in Table 3. However, it would be misleading to take from this simple analysis that the structure of the economies is the same. The relative importance of those rare few medium and large employees on the Island has to be taken into account.

[20] Living with Austerity Actions Taken by the Isle of Wight Council to Respond to its Financial Challenges, 2016, pp.2-3
[21] The Isle of Wight Council Case for Fairer Funding, 2016, p.7.
[22] Assisted Areas status request 2014-2020, Consultation Stage, IOW.
[23] ONS UK Business Counts – Enterprises, 2015
[24] Local Economic Assessment 2010, p.67.

Table 3: Size of businesses – enterprises and local units, 2015.

Enterprises	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)
Micro (0 to 9)	3,885	85.5	88.6	89.4
Small (10 to 49)	575	12.7	9.5	8.7
Medium (50 to 249)	80	1.8	1.5	1.5
Large (250+)	10	0.2	0.4	0.4
Total	**4545**			

Local Units	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)
Micro (0 to 9)	4,585	81.7	84.0	84.8
Small (10 to 49)	880	15.7	14.0	12.3
Medium (50 to 249)	140	2.5	2.6	2.5
Large (250+)	10	0.2	0.4	0.4
Total	**5615**			

Source: Inter Departmental Business Register (ONS), UK Business Counts (2015).

Employment by sector and occupation

The occupation types that are over-represented on the Island tend to mirror the lower earnings and prevalence of seasonal and part-time employment opportunities discussed elsewhere in this report. The slight exception to this is the marginally higher representation of managers, directors and senior officials compared to the national average (although this is still lower than the regional average). To some extent his may be a beneficial impact of the Self-sufficiency Island issue. For example, every small business will still require a manager/director, and with less general employment these managers and directors will represent a greater proportion of the workforce.

Table 4: Employment by occupation, 2015/16.

Occupation type	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)	Great Britain (%)
1. Managers, Directors and Senior Officials	6,600	11.1	11.3	11.9	10.4
2. Professional	9,500	15.8	19.7	21.4	19.9
3. Associate Professional & Technical	7,600	12.8	15.8	15.2	14.1
4. Administrative & Secretarial	5,100	8.5	10.5	11.0	10.6
5. Skilled Trades	7,700	12.8	11.2	9.9	10.5
6. Caring, Leisure and Other Service	8,000	13.4	8.6	8.9	9.2
7. Sales and Customer Service	5,700	9.5	7.5	7.2	7.6
8. Process Plant & Machine Operatives	2,700	4.6	4.9	5.0	6.4
9. Elementary Occupations	6,400	10.7	10.2	9.1	10.8

Source: Annual Population Survey, % is proportion of all persons aged 16+ in employment.

Compared to neighbouring Hampshire, South East and the national average, the Island has a smaller proportion of professional and technical occupations, shown in Table 4. Similarly, there are marginally less administrative roles, but more skilled trades, represented. However, what is most clear and reflective of the most prevalent industries on the Island, is the disproportionately high level of those in caring, leisure, sales and customer service occupations.

The Island experiences a much higher proportion of part-time employee jobs than the regional and national average, shown in Table 5. Again, this is unsurprising given the types of industry and occupation types currently available on the Island.

Table 5: Employee jobs, 2014.

	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)	Great Britain (%)
Full-tme	29,800	62.4	67.2	67.8	68.3
Part-time	17,900	37.6	32.8	32.2	31.7

Source: ONS Business Register and Employment Survey. Note: Excludes self-employed, government supported trainees, farm-based agriculture & HM Forces.

One of the most striking features when analysing the proportion of employee jobs by industry is the dearth of jobs in the information, communication and finance industry - particularly compared to neighbouring Hampshire and the rest of the South East, shown in Table 6. These tend to be amongst the highest paying jobs. Conversely, there is a significantly greater proportion (more than twice the national average) of employee jobs in accommodation and food service industries. These tend to be amongst the lowest paying jobs and laden with part-time or seasonal jobs.

Unsurprisingly, given the limited number of other large employers on the Island, and particularly relevant for this research, almost a third of employee jobs are in public administration, education and health. Similarly, there are a slightly higher share of civil service jobs (2015) on the Isle of Wight (1.8%), than neighbouring Hampshire (1.5%), South East (1.1%) or Great Britain (1.5%).[25] The concentration of employee jobs in public administration is particularly important in the context of austerity measures, as any cuts will have a relatively larger impact on the Island's economy and residents.

Table 6: Employee jobs by industry, 2014.

Industry	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)	Great Britain (%)
Primary Services	100	0.2	0.3	0.2	0.4
Energy & Water	300	0.7	1.1	1.1	1.1
Manufacturing	4,100	8.6	8.3	6.2	8.5
Construction	2,100	4.4	5.6	4.8	4.5
Wholesale & Retail	8,200	17.2	17.1	17	15.9
Transport Storage	1,500	3.2	4.1	4.6	4.5
Accommodation & Food Services	6,900	14.4	7.6	7.4	7.1
Information & Communication	800	1.6	5.8	5.8	4.1
Financial & Other Business Services	5,800	12.1	22.1	22.5	22.2
Public Administration, Education & Health.	15,100	31.7	23.6	25.6	27.4
Other Services.	2,800	5.8	4.5	4.8	4.4

Source: ONS Business Register and Employment Survey. Note: Excludes self-employed, government supported trainees, farm-based agriculture & HM Forces.

However, it is worth highlighting the relative importance of manufacturing for the Island, particularly when considering the potential for high Gross Value Added per worker. Further analysis of the top 50 Isle of Wight businesses by employee numbers allows for a more finessed interpretation of, and sheds

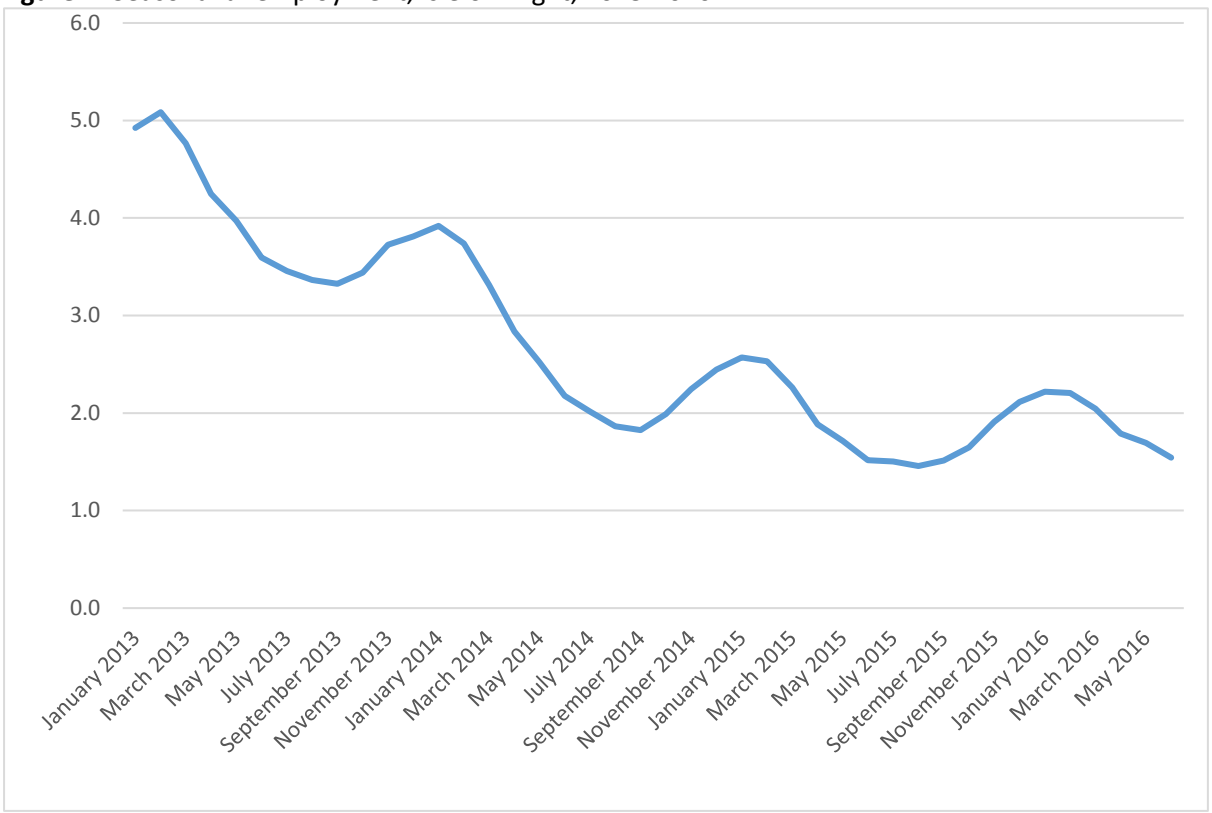
[25]Source: ONS Annual Civil Service Employment Survey, 2015. % of total jobs in area that are civil service jobs

more positive light on, the Islands economy. The relatively strong manufacturing sector, particularly marine and aerospace related, is clearly represented. Similarly, there are a small number of Technology and Communication related businesses. However, there is also a notable lack of finance or business service represented as larger employers. This is particularly noteworthy when compared to other economies in the local area. As would be expected, the public sector (e.g. Isle of Wight Council, Isle of Wight NHS Trust and HM Prison Service) is also strongly represented alongside transport and utility businesses. However, apart from the ferry operators, there are relatively few tourism-related businesses appearing as large businesses. This is of particular note as it supports the premise that while tourism is clearly important for the Island, it is not directly supporting large amounts of sustainable and reliable year-round employment on the Island.

Labour Market

The Isle of Wight has a lower jobs density, 0.74, (representing the ratio of total jobs to working age population) than neighbouring Hampshire (0.85), the wider South East (0.85) or Great Britain (0.82).[26] This can be interpreted as the Isle of Wight not only suffering from a relatively smaller workforce, but that workforce has the added disadvantage of even less available jobs.

Figure 2: Seasonal unemployment, Isle of Wight, 2013-2016



Source: Office for National Statistics, Claimants as a proportion of residents aged 16-64, January 2013 to June 2016, Isle of Wight.

More than three quarters of the Island's working age population is economically active (77%), with 73.2% in employment and 5.2% unemployed. This is broadly in line with the national average (77.8%, 73.7% & 5.1% respectively), but less economically active than the rest of the South East (80.6%, 77.2% & 4.1%) or neighbouring Hampshire (82.9%, 79.7% & 3.7%). Unemployment trends over the last three years are shown in Figure 2. Of those classed as economically inactive:

[26]Source: ONS jobs density (2014) Total jobs includes employees, self-employed, government-supported trainees and HM Forces

- a smaller proportion are students (19% compared to 25.3% South East & 26% Great Britain),
- a much larger proportion are long-term sick (27.1%) or retired (18.5%) – (South East 19.1% & 15%), Great Britain (22.4% & 13.8%),
- a higher proportion of those who 'want a job' (32.4%, South East 26.7%, Great Britain 24.6%)

Therefore, the Isle of Wight is not too dissimilar to Hampshire in terms of the low proportion of students and high proportion of retired economically inactive population.[27]

Links to the mainland – employment and trade

83% of Isle of Wight residents that are in employment work on the Isle of Wight (including 15.5% who work from home). Only 5% travel to work in the rest of the South East.[28] The average distance travelled to work by Isle of Wight residents was only 12.5km, with almost half of employed Island residents travelling less than 5km, shown in Table 7.

Taking into account that the Island is only approximately 40 kilometres by 20 kilometres, and the Solent separating the Island from the mainland is only about 6km in some of its closest places, this represents a fairly immobile incumbent labour force (at least for commuting out of the Isle of Wight). It is not known for certain whether this immobility is in response to the Island's Dislocation and internal transport issues that artificially reduces residents' employment radius by imposing additional cost and travel time. Moreover, this could simply be a rational response to the lack of demand on the mainland for some residents' relatively lower skill levels.

Table 7: Distance travelled to work, Isle of Wight residents

	Number of residents	% of residents
Work mainly at or from home	7,280	12.3%
Less than 2km	14,437	24.3%
2km to less than 5km	6,986	11.8%
5km to less than 10km	11,072	18.7%
10km to less than 20km	10,019	16.9%
More than 20km	3,977	6.7%
Other	5,528	9.3%

Source: ONS Census 2011, Distance travelled to work, Isle of Wight, All usual residents aged 16 to 74 in employment the week before the census.

Three quarters of Island firms only advertise for staff on the Island, although this is much more evident in predominantly low skilled industries such as construction and retail/hospitality than manufacturing.

Island businesses tend to be inward looking, and focused on the local and domestic market, with only 20% of Island firms reporting sales outside of the UK. Close to a third of businesses rely entirely on the Island for their sales – although this differs greatly by industry and is much more prevalent in construction firms.[29] Close to 15% of Island businesses reported that all their suppliers were located on the Island. Manufacturing firms reported the smallest proportion of Island suppliers (10%), and construction firms the most (35%).[30]

[27]Source: ONS annual population survey, April 2015-March 2016
[28]Source: ONS Census 2011, Location of usual residence and place of work
[29]Local Economic Assessment 2010, p.27.
[30]Local Economic Assessment 2010, p.10.

Retention and recruitment

An inability to attract and retain key skilled labour can be of particular importance to an island economy, and is particularly relevant for the provision of public services. For example, the Isle of Wight Council has encountered this issue most notably in adult's and children's social care. Similarly, private sector businesses have reported issues with recruiting skilled employees to or from the Isle of Wight.[31] The costs may be direct, in terms of a requirement for a market supplement to be offered and the covering of transition or gaps in provision that may require relatively expensive consultants or temporary post-holders. There will also likely be indirect costs incurred in the delivery or quality of the service, through the channel of the usual reduced efficiency associated with high levels of staff turnover.

The Council must pay market supplements, up to 7.5% for some roles, to attract and retain suitable staff. This directly adds to the Island premium for delivering public services. Most notably the Council pays supplements for workers at a variety of levels in child services: such as social workers, practitioners and mangers of child services. Market supplements are also paid for Watch Managers in the Fire Service, a service linked to the Island's self sufficiency, and more senior Health and technical positions. However, even where market supplements are available, these do not always solve the issue. For example, foster parents resident on the Isle of Wight are still paid more for looking after children from Southampton than Isle of Wight children.

The reasons for difficulties with staff retention and recruitment are multi-faceted, however those most strongly related to the unique issues of an island are discussed here. The job itself may have become unattractive, or too complex. The small size of many businesses, or the relatively small market, require employees to take on a number of different roles, i.e. there are no economies of scale that enable specialisation of staff. This may be particularly pertinent to council roles where there are more statutory duties and responsibilities that may require a named officer, or an occasional submission, but there is simply not enough work to justify a full role, resulting in the amalgamation of many smaller jobs into one role.

Promotion opportunities may be scarcer. Those within more specialist roles are less likely to leave/change position than on the mainland simply because there are fewer options available. If the potential employee is not from the Island, and is considering moving there, they may have a partner who will also require a job on the Island. The economic summary in this report highlights how concerns within the Island's labour market may be a barrier to this occurring. Phase 2 will consider calculating the cost of hiring and recruiting additional staff.

Earnings

Table 8 and 9 show weekly and hourly pay for full time workers on the Island and broader regions. The Isle of Wight has much lower earnings, by both residence and by workplace, than its local neighbours and region.

Table 8: Gross weekly pay, full time workers, 2015

	Isle of Wight	Hampshire	South East	Great Britain
Residence	£479	£575	£575	£530
Workplace	£441	£549	£552	£529

Source: ONS Annual Survey of Hours and Earnings: Resident (Workplace) analysis, 2015. Median earnings in pounds for employees living (working) in the area

[31]Detailed in an extract from the Inplace Survey 2010, presented in the Isle of Wight Local Economic Assessment 2010, p.66..

Table 9: Hourly pay excluding overtime, full time workers, 2015

	Isle of Wight	Hampshire	South East	Great Britain
Residence	£11.65	£14.70	£14.62	£13.33
Workplace	£10.91	£13.77	£14.06	£13.32

Source: ONS Annual Survey of Hours and Earnings: Resident (Workplace) analysis, 2015. Median earnings in pounds for employees living (working) in the area

Standard of Living

Cost of living

Prices are higher (mainly due to transport costs) although also elements of monopoly, or at least reduced competition. Additionally, prices are affected by seasonal tourism.[32] Furthermore, residents of the Island may have less choice in their consumption patterns, either the suppliers or distributors are not physically represented on the Island, or residents are not entitled to the usual delivery options from national retailers. Additionally, residents living in rural areas without their own transport are forced to shop 'locally' at more expensive stores.

Purchasing Power Standards per inhabitant show that Isle of Wight residents have a lower purchasing power than the EU average, and considerably less than neighbouring areas of Portsmouth, South Hampshire and the wider South East of England.

Table 10: Purchasing Power Standard

Region	Purchasing Power Standards per inhabitant, percentage of the EU average
Isle of Wight (NUTS3)	95%
Hampshire & Isle of Wight (NUTS2)	112%
South Hampshire	107%
Portsmouth	114%
Southampton	103%
Central Hampshire	114%
South East	118%

Source: Eurostat (Based on 2014 data)

Housing

The housing market is epitomised by increasing private renting and high levels of second home ownership for holiday purposes rather than work.[33] In stark contrast to neighbouring Hampshire and much of the South East, Island property values are more in line with the national average[34] (although still not affordable for many). However, this has an indirect effect on local authority care funding as it means lower capital receipts for those self-funding care.

[32]The Effects of Being an Island: The Isle of Wight, 2002

[33] Source: ONS 2011 Census

[34] Source: Land Registry – House Price Index

Table 11: Average House Prices

Region	Average House Price (June 2016)
Isle of Wight	£199,555
Hampshire	£299,198
South East	£309,149
England	£229,000
Great Britain	£216,593

Source: Land Registry – House Price Index

Deprivation

The Isle of Wight is ranked 109 out of 326 local authorities on the overall Index of Multiple Deprivation 2015 scale, where 1 equals the most deprived. The Isle of Wight has 13 Lower Super Output Areas within the 20% most deprived in England, of which two are within the 10% most deprived.[35]

Benefit dependency

The working age (16-64 years of age) Claimant count for the Isle of Wight is 1.5% in June 2016. This is higher than the larger regions of Hampshire (0.7%) and the South East (1%), although lower than the national average for Great Britain (1.8%).[36] A key concern group of those unemployed are people aged between 18 and 24 years. The Isle of Wight has a higher proportion of 18-24 year olds unemployed (2.8%) compared to Hampshire (1.1%), the South East (1.4%), and Great Britain (2.5%).Furthermore, the main out-of-work benefits[37] show that Isle of Wight has a higher proportion of residents in receipt of carers and disabled benefits (10.8%) compared to Hampshire (5.1%), the South East (6.4%), and Great Britain (9%).

Again, these issues of deprivation and benefit dependency are not unique to the Island but clearly add to the pressure on the provision of public service delivery. They also differentiate the Island from its relatively prosperous neighbours (although there are still pockets of high deprivation within Hampshire, particularly in Gosport, Portsmouth and Southampton). These issues are to a certain extent a consequence of the Island's dislocation. It is unsurprising that out-of-work benefits are high when there are relatively less employment opportunities available to residents. However, the potential inter-generational transmission may result in persistent long-term unemployment even if there were sufficient opportunities.[38] While a labour surplus can be attractive to businesses moving into an area (implying a ready workforce and limited upward pressure on wages), this is based on the assumption that the labour has the requisite skills. Furthermore, the longer that residents are unemployed then the less likely that their skills will remain relevant.

Education

The appropriateness of the skill and qualification levels of the resident workforce are an issue often raised by businesses looking to set up on the Isle of Wight. This is not unique to the Isle of Wight and although it is also not an island phenomena, concerns with human capital and lifelong learning are identified as major problems on other EU islands.[39] However, the issue is exacerbated at a range of levels by a number of factors that are influenced by Island specific issues. For example, the issues

[35]See JSNA fact sheets for full details.
[36]Source: ONS Claimant count by age, June 2016, % is number of claimants as a proportion of resident population.
[37]Source: DWP benefit claimants - working age client group, June 2016. Main out-of-work benefits includes the groups: job seekers, ESA and incapacity benefits, lone parents and others on income related benefits. % is a proportion of resident working age population.
[38] See Black, S. & Devereux, P. (2011). Recent Developments in Intergenerational Mobility. In D. Card & O. Ashenfelter (Eds.), *Handbook of Labor Economics, Volume 4B* (pp. 1487-1541). Holland: Elsevier.
[39] The ESPON 2013 Programme, The Development of the Islands - European Islands and Cohesion Policy (EUROISLANDS), 2011. p.12.

surrounding recruitment and retention of teaching staff, in order to increase the skill level of the resident Island population. [40] Furthermore, the same issues may apply to retaining (or pulling back) those that do enter higher education.

The exam results achieved by children and young people from the Island are above the national and regional average at early years. However, results at primary and secondary level remain below national averages despite showing improvement.[41] There are no universities or higher education establishments on the Isle of Wight, so those that are academically able need to leave, or at least commute from, the Island. These residents may face physical (dislocation) or financial barriers to be able to commute or move to receive further education and those that are able to go may not return, resulting in the so-called 'brain drain'. This is certainly one way of interpreting the net migration figures, with more 16-24 year olds leaving than joining the Isle of Wight, and the relatively low levels of working age population with higher qualification levels. However, clarifying whether these are actually the former residents leaving for university and not returning would require further study.

The dislocation of the Island impacts the travel to work area, and therefore the pool of labour and skills is restricted to Island residents. Therefore, highly specific skills cannot easily be supplemented by commuters from outside the area.

In terms of the proportion of the working age population with at least some qualification, the Isle of Wight performs slightly better than the national average (although worse than local Hampshire and the rest of the South East), see Table 11. However, it falls drastically behind both the national and local comparators for the proportion of residents with higher qualification levels, notably above NVQ3 (equivalent to at least two A levels).

Table 12: Qualifications, working age population, Isle of Wight and comparators, 2015

Qualification level	Isle of Wight (number)	Isle of Wight (%)	Hampshire (%)	South East (%)	Great Britain (%)
NVQ4+	21,800	28.3	37.1	39.8	37.1
NVQ3+	41,500	53.9	60.3	60.4	57.4
NVQ2+	55,900	72.6	77.7	76.8	73.6
NVQ1+	67,200	87.3	90.3	88.5	84.9
Other Qualifications	4,600	6.0	3.8	5.2	6.5
No Qualifications	5,200	6.7	5.8	6.3	8.6

Source: ONS Annual Population Survey. Based on residents aged 16-64.

The education opportunities and aspirations of young people, the skill level of the working age population and the availability of skilled employment opportunities on the Island are clearly inter-related issues. Today's young people may become tomorrow's low skilled working population, and if there aren't the job opportunities available then there is likely to be less motivation or aspiration for young people to achieve the desired qualifications.

[40] Isle of Wight Council Children's Committee, 19th May 2016, Teacher Recruitment report by Interim Assistant Director (Education and Inclusion).
[41] Isle of Wight Council Executive, 26th January 2016, Educational Attainment on the Isle of Wight 2015: Results and Priorities, report to the Leader and Executive Member for Children's Services and Lead Member for Resources.

Market Size

The relatively small size of the market on the Isle of Wight is a recurring theme and an often cited issue, be it for attracting new businesses and competition, sustaining those in existence or justifying public service provision. This may refer not only to the overall size of the population, or specific demographics such as those of working age within this, but also the number of businesses as potential buyers or suppliers. Furthermore, it is not just the number of agents that is important but also the disposable income or willingness to spend of that population. The Isle of Wight has both a small population in absolute terms (139,400)[42] but also a lower level of overall income per capita than the national average. The size of the market does not simply refer to the number of agents, but also their ability and willingness to consume. The Gross Domestic Product (GDP) of the Isle of Wight is 4,294 million Euros at current market prices (2014). The Island has a GDP per person well below (more than 11%) the national average. This disparity is further emphasised by the areas surrounding the Island experiencing GDP per person well above the UK average. The disposable income of Island residents will also be influenced by the ageing population, as retired households in the UK tend to have lower disposable income (by about 25%) than non-retired households.[43]

Table 13: Gross Domestic Product (GDP), Isle of Wight and comparators, 2014

Region	GDP (millions)	GDP per capita
UK	£1,938,695	£30,012
Isle of Wight (NUTS3)	£3,693	£26,567
Hampshire and Isle of Wight (NUTS2)	£59,657	£30,751
South East	£288,238	£32,481

Source: Eurostat, Regional GDP (2014), million Euro converted at a rate of 1EUR = 0.86GBP.

There are a few examples of natural (or government granted) monopoly market conditions on the Isle of Wight. For example, there is one public bus service operator on the Island, and despite an open competitive tendering process in 2012, only one company made a final bid. This reportedly led to an additional payment (Island premium) over the national average for home to school transport of £300 per student.

> *"Insularity implies isolated and small markets, monopolies and oligopolies are more often the reality than free competition; therefore, prices for transport and goods are higher compared with prices on the continental mainland. For the same reasons (small scale, territorial discontinuity) the provision of services of public interest and of private services is very unequal."*[44]

In order to have a feasible market size, then more people need to be attracted to stay, live or work on the Isle of Wight. In order for this to be feasible, they need to be able to find suitable employment. In order for there to be suitable employment, businesses need to be attracted to the Island. This becomes a dilemma, or a potential market failure requiring intervention, if those businesses require a reasonably large market.

[42] Source: ONS Population estimates, 2015.
[43] Calculations based on ONS figures of median equivalised household disposable income by household type, 2010/11 to 2015/16
[44] The ESPON 2013 Programme, The Development of the Islands - European Islands and Cohesion Policy (EUROISLANDS), 2011. p.12.

More industry and a greater population should result in greater revenue for the council. However, there will be a mixed impact on the costs of provision of public services. There will likely be a requirement for greater provision of many services (some of which may retain the Island premium despite the increased market size). On the other hand, some issues concerning self-sufficiency will be removed by achieving a critical mass and the ability to spread the fixed costs of a required service over more users.

There is of course a cost associated with attracting more residents and businesses to the Island, in that it may lose some of its unique qualities and strengths; its rural charm, its quietness and its excellent wildlife environments.

Prioritising the issues

The Island premium is given the highest ranking. This is one of the most direct outcomes, or repercussions, experienced by the Isle of Wight Council because of the nature of its Island economy. It also has far reaching impacts and is has been given extra weight due to the importance of the ongoing and likely increase in private sector provision of public services on the Isle of Wight expected in the near future.

The Island premium is already well documented for a number of services with specific 'additional' costs calculated using an accountancy style. It would be beneficial to update this evidence, updating all the calculations as a desk exercise, and undertaking more in depth analysis of the most influential/largest of these costs. This will be a particularly pertinent exercise for waste management and highways maintenance services that have undergone competitive tendering processes since the original calculations.

Self sufficiency is ranked as the second most important overall issue. It is recommended that Phase 2 of the public goods spillover model is undertaken to further assess the magnitude of this issue.

Dislocation is ranked as of least importance of the three overall issues. In part, this is because higher transport costs are already included under the Island premium issue.

Of the underlying factors, the limited market size of the Isle of Wight is the most ubiquitous and damaging factor that will continue to undermine attempts to address other issues:

- Firstly, it ensures that there is restricted competition of incumbent industry on the Island, and acts as a disadvantage for new industries that would otherwise relocate or set up their enterprise on the Island. For the provision of Council services this results in higher prices (the Island premium) and less choice of service providers which may impact the desired quality standard of provision.

- Secondly, the limited population size ensures that the cost of service provision per user will be above the national and comparator average, as economies of scale cannot be utilised.

- Thirdly, the limited population and current level/type of industry ensures that the income received by the Council in the form of council tax and NNDR is insufficient.

The education, skills and qualifications of Island residents is seen as the second most important factor. The relatively low level is not unique to the Island but there is evidence to suggest that it is low because of the issues facing the Island. For example, the difficulties in recruiting and retaining quality

educators, and the lack of career opportunities on the Island that require such skills. Other factors impacting the labour market are ranked as the next most important factor.

The ageing population is given less importance as an Island issue. It does exacerbate and accelerate many of the other issues discussed, and is in some part a consequence of the issues facing the Island, but is not unique to the Island.

A diagram representing some of the connections between the various exacerbating issues and the overarching issues is presented in Appendix A. Some of these relationships are complex, and do not follow a linear pattern as there are feedback loops, and a life-course approach needs to be taken in understanding the many inter-relations. The links between the exacerbating issues and the underlying issues are also presented in a tabular form in Appendix B. This shows the strength of the relationship (from low * to high ***), which is in part dependent on there being a direct or indirect link. This also summarises whether the exacerbating issue is a cause or consequence of the main overarching issue.

Phase 2 suggestions and recommendations

Analysing additional costs of doing business

It is recommended that an analysis is performed to compare Island premium in terms of increased contractor cost. This cost is highlighted by, but not exclusive to, the highway maintenance contract. The analysis will utilise the Isle of Wight Council contracts information, made available as part of adoption of the transparency code, to compare similar contracts across counties.

Furthermore, the analysis will extend to businesses that are not heavily dependent on transport by sea travel or the local market. This will enable a direct comparison of their proliferation on the Island with similar firms on the mainland.

Simulating the economy

Often, driving growth of business rates collected by the local authorities is the simplest solution to suggest when an increase in public finance are required. The reality of which is often complicated by affecting other elements of the economy, such as, the labour market and housing.

It is recommended that a simulation of the Island's economy is undertaken. This would model a number of different scenarios to increase the market size, to reach the same situation where there is a balanced (or optimal) budget. For example, these scenarios may include:

- A population (working age) change to reach a critical mass,
- A change in the mix and/or level of industry,
- Improvements in the skill level of residents (e.g. the impact of a higher education institute) &/or a change in resident's income.

The results would show how much each of these factors would need to change to reach the same position. The knock-on impact this would likely have on other areas of the Island and its economy would also be calculated. This will allow decision makers at the Council to assess whether it is feasible to change the market size by enough to make a difference, and if so, to assess whether the negatives of doing so would outweigh the positive impact on their finances.

Public goods spillover

In this part of the project, we analyse the impact of being an island on public service provision. Within a contiguous area, it has been shown previously for the United States (Case et al., 1993), Spain (Solé-Ollé, 2006) and Portugal (Costa et al., 2015) that local expenditure for public services is lower when such expenditure is high in nearby local government areas. In other words, local governments benefit from their population being able to use public services provided by neighbouring local government area. This so-called public goods spillover is efficient if each area by itself would be too small as to provide these public services at an efficient scale.

If a small region like the Isle of Wight is detached from the mainland, its citizens cannot use public services provided by other local governments, or only at a significant cost. As a consequence, the local government will either provide this service at a lower-than-efficient scale, or choose not to provide it.

Hence, being detached from the mainland will result in higher costs of public service provision or social welfare loss caused by its under provision. The aim of this part of the project is, therefore, to predict public service expenditure on the Isle of Wight in the hypothetical case if it was connected to the mainland, and to quantify the loss to the Isle of Wight resulting from the foregone public service spillovers.

The analysis proceeds in four steps: In the first step, we use publicly available data from 152 English local government areas to estimate the impact of the area's own characteristics, their neighbouring areas' characteristics and public expenditure, and the distance to these neighbouring areas on areas' public expenditure.[45] As expected, local governments spend less if public expenditure in neighbouring areas is high. However, our preliminary results also point at a cost of proximity to other areas: If neighbouring areas are more populous, public services may become overcrowded, so that the local government will have to spend more on them. Hence, it is not *a priori* clear which of these effects will dominate, i.e. whether being attached to the mainland would make the Isle of Wight spend more or less than it actually does.

The second step is, therefore, to use the estimation results from the first step to predict how much more or less the Isle of Wight would spend on public services were it attached to the mainland. In particular, the predicted impact of the nearby mainland local government areas' characteristics on the Isle of Wight's expenditure is summed up.

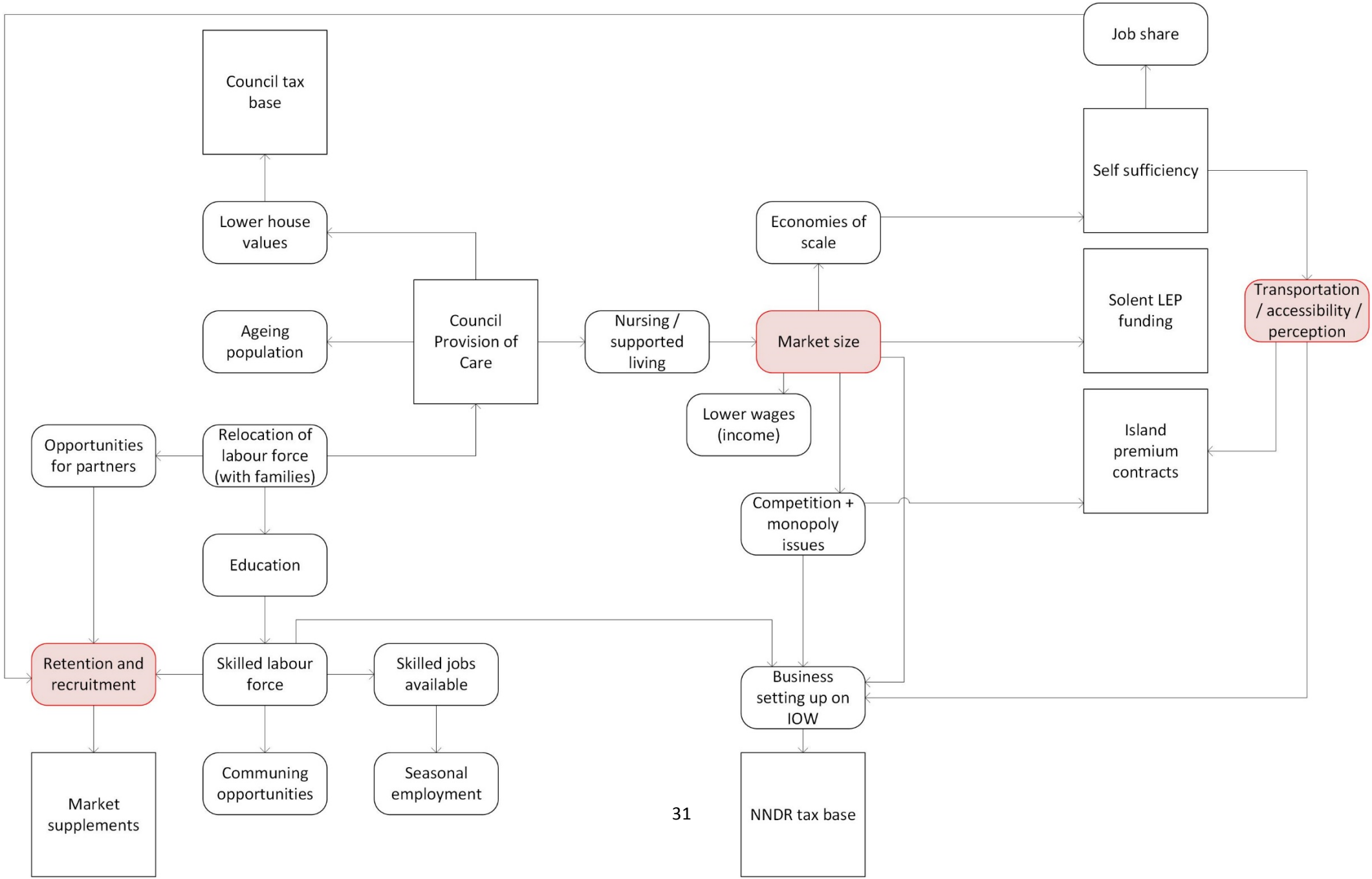
This estimate will initially be based on the simplifying assumption that the Isle of Wight is currently not subject to any public service spillovers. This is probably true for Poole, Bournemouth and West Sussex, the beeline distance to all of which is less than 50 miles (our threshold for considering another area as a neighbour), but which are more costly and time consuming to travel to than a 50 miles distance on land. However, it is most definitely an exaggeration for potential public service spillovers from Southampton and Portsmouth. Hence, the third step in our analysis will be to develop a more accurate measure of the status quo by approximating which distance by land would be comparably costly to travel as Southampton and Portsmouth are from the Isle of Wight.

Finally, we will quantify the overall social loss for the Isle of Wight resulting from being detached from the mainland. As noted above, a remote area may decide not to provide a certain service at all rather than providing it at an inefficient scale. As our analysis in the second step is only concerned with expenditure, it would not capture such an effect, so that we would underestimate the impact on the Isle of Wight when confining our analysis on that part only. Hence, we will develop a simple theoretical model of decision making by local governments in order to quantify the social loss associated with the loss of public goods spillovers, taking into account the predicted change in expenditure calculated in the third step.

[45] Due to the reverse causality problem (as the neighbouring region's expenditure also depends on the observed region's expenditure), we follow the academic literature by using the generalised spatial two-stage least squares estimator pioneered by Kelejian and Prucha (1998).

Appendix A

Connections between the exacerbating issues and overarching issues. High priority issues presented in red.



Appendix B

The links between the exacerbating issues and the underlying. The strength of the relationship (from low * to high ***).

		OVERARCHING ISSUE	
EXACERBATING ISSUE	**Island Premium**	**Self sufficiency**	**Dislocation**
Market size - in terms of service users, businesses, disposable income.	*** Limited competition. Small market size linked to inadequate purchasing power.	*** Restricted number of service users for statutory provision. However, Self sufficiency would not be as important an issue if there was the population/market size to justify it.	*** Small market size.
Public goods spillover (lack of)	**	*** The Island cannot easily benefit from the spillover of it's neighbouring authorities public goods provision.	*
Responsibility for statutory duties	*	***	
Links to the mainland	**** Transport - costs	*** Transport	*** Employment and trade
Ageing population		* Exacerbates issue	* Consequence of Dislocation – as market forces, or in-commuting, cannot re-balance the population.
Retention and recruitment --> Market supplement	*** Market supplement increases Island premium	** Consequence of Self sufficiency - increasing complexity of council roles due to amalgamation of several roles.	**
Education	An underlying reason for the limited market size and labour force skills. Both of which result in a greater Island premium as goods/services not available on the Island without a premium.	* Exacerbates issue.	* Consequence of Dislocation.
Labour market - workforce skills	**		*
Economy make-up	** Related to market size, limited competition.	* Proportionately larger public sector.	
Geography	** Exacerbates issue	* Exacerbates issue	***
Purchasing power	*** Inadequate purchasing power linked to small market size.		
Self sufficiency	Market supplements	-	
Island Premium	-	Exacerbates issue	
Dislocation	Underlying reason	Underlying reason	-

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