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Simon Clarke MP
Minister for Regional Growth & Local Government
Ministry of Housing, Communities & Local Government
2 Marsham Street
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9th June 2020

Dear Mr Clarke

The Isle of Wight's Economy – and the Council's Financial Position

Thank you for our recent – but individual – discussions, about the ability of the Isle of Wight to 'recover' from the impacts of the coronavirus and the unique challenges that we face in doing so. Our recent dialogue about a specific Island Deal has already set out these challenges so we will not restate them again here, other than to draw your attention to the urgent need to support the Island's visitor economy.

We have three specific requests

Visitor Economy

The visitor economy is one of the largest employment sectors on the Isle of Wight. It attracts close to 2.4 million visitors annually with a direct spend of over £300 million into the Island's economy. One in seven businesses (c 800) and one in six employees (c 8000) are dedicated to this sector, although these numbers are estimated to more than double when taking into account those working in the supply chain and who benefit from the 'spillage' of the tourism pound into other sectors of the local economy.

In general, most tourism businesses rely on their trade over the peak summer months to support their activities over the fallow winter period. For the Isle of Wight, 28 percent of all visitors will travel here between April and June (Q2) and a critical 40 percent will visit between July and September (Q3). Overnight visitors are key to the economic impact of this sector to the Island spending £9 a day to every £1 spent by a day visitor.

The government's support for small businesses through its various small business support schemes and those directed at the retail, hospitality and leisure sectors has been invaluable in helping these businesses to survive through Q2. We are grateful to government for these crucial interventions. **However, without further support through Q3 it is unlikely that many of the business that rely on visitors will survive into next year.** Notwithstanding the government's current plan to reopen the hospitality sector on 4th July, it is most unlikely that the normal volumes of trade can be achieved in this quarter, especially with the need to incorporate social distancing arrangements (reducing income earning potential) and provide additional cleaning (with associated costs).

Therefore, we would like to ask that, in order to provide further assistance to these businesses, if necessary, the council be allowed to repurpose the balance of the funds received from government for small business support, but with additional freedoms and flexibilities to those currently allowed under the 'discretionary fund' guidance.

The council originally received c £61 million from government for the small business grants and retail, hospitality and leisure grants funds. However, having cleansed the data by removing ineligible businesses, it has identified a total requirement of £51.6 million. It has paid out £44 million to eligible businesses, but despite extensive efforts to contact outstanding businesses, the number of calls on the fund is decreasing. A sum of £3 million has been allocated for the new 'discretionary' scheme (£1 million already paid out) and we would like to use any remaining balance up to the £51.6 million to provide urgent additional support to businesses associated with the visitor economy.

The Isle of Wight Council is able to continue managing the allocation of the government's funds, but is unable to make any other direct contribution from its own resources because it too is facing a very difficult financial position as a result of the coronavirus pandemic.

Financial Position

At present the council is forecasting a potential overspend of £9.8 million in the current 2020/21 financial year (its annual net spend is £150 milion). This is based on the government's current planning assumptions of no second wave. The council is heavily impacted by loss of income from car parking (£3.2 million) and the use of leisure centres (£1.7 million), which are two of the council's services most closely aligned to the strength of the visitor economy. Additionally, the council is currently forecasting an in year reduction of business rate funding of at least 1% due to business failure, although this could be much higher once the expanded retail relief and grants wind out.

Description	**£million**
Additional Costs	7.4
Budgeted Savings - Unable to be achieved	1.1
Income Losses (e.g. Rents, Fees and Charges)	8.0
Funding Losses (i.e. Council Tax and Business Rates)	2.3
Less: Emergency COVID-19 Funding	*(9.0)*
Total Shortfall	**9.8**

The council has an obligation to plan its financial management responsibly. It is not permitted to set a deficit budget or to draw upon its general reserves to the extent that they fall below the minimum level, which is £7 million of the £10.2 million available.

The council will continue to act prudently and responsibility as it has done in strengthening its overall financial position over the past three years. To do so it is in the process of developing a deficit recovery strategy, which it is confident will enable it to continue to operate without the need to consider emergency spending controls and service reductions under a Section 114 Notice. The emerging strategy will involve:

- Some use of the council's corporate contingency;
- Some use of earmarked reserves - set aside for transformation activities supporting the council's medium-term financial strategy which regrettably will now not be deliverable as expected, plus some funding from reserves for risks that have now subsided;
- Placing some previously approved spending plans "on hold" until it has a clearer financial position.

Many of these actions will reduce the council's spending plans in its main discretionary areas such as regeneration and economic development, just at the point when spending in these areas is most needed to help support and stimulate the Island's economy as it recovers from the impact of the coronavirus.

Future Investment – East Cowes (Venture Quays)

One of these spending options that is now under review is the acquisition and development of some employment (Venture Quays) and housing land in East Cowes from Homes England. Following the collapse of a deal with between Homes England and a foreign investor the council was ready to step in and acquire the site to protect the 150 high value jobs in the ship building industry based there. After some two years in negotiation a deal was agreed for £1.2 million and would have been completed in March 2020 had it not been for the coronavirus. The scheme provides for a combination of marine manufacturing and affordable housing, and the location (and the businesses) were featured in the Prime Minister's visit to the Isle of Wight during his leadership election campaign.

This places the council in a real dilemma. There is a strong local and regional strategic and economic case for the acquisition of the East Cowes sites, but the financial case and associated risks for the council's finances are now problematic at best, with the depth and length of the inevitable recession arising from the pandemic weighing heavily against any investment. The East Cowes sites are central to the council's plans for economic recovery but come with some risk, especially in relation to the government's (Homes England) conditions of sale for the two housing sites, requiring a start on site in two years or else be taken back by Homes England. The financial future is so uncertain it is arguable whether the council should risk spending the significant sums (in Isle of Wight terms) up front to do all of the preparatory works for these sites, knowing that any delay would mean that Homes England could claw them back and the money would be lost to the council.

Of a more pressing nature is whether, as the council is preparing its deficit recovery strategy, it would be more prudent to retain the £1.2 million allocated to the acquisition as a buffer against any further financial shocks in the future, either from the ongoing impact of the pandemic, a second wave or any other shock now that the council's financial resilience is becoming increasingly fragile. Although Homes England has offered a deferred payment, the challenge is still the total amount due and the alternative uses it could be put to in balancing the council's overall budget position. A deferred payment arrangement simply addresses a cash flow shortfall as opposed to a funding shortfall. Funding is the difficulty for the council. The further risk is the need for the shipyard to have some certainty about its long term place in East Cowes so that it can make its own financial investment plans as the nation begins to open up again.

These are extremely important jobs and housing sites for the Island which will contribute to its future economic and social wellbeing. Therefore, we would ask whether the government could provide assurances to help the council proceed with the acquisition. If the government could agree to support the £1.2 million investment and a removal of the claw back arrangements imposed by Homes England, this would significantly de-risk the investment for the council and enable it to develop and fund its employment and housing plans along a timeline in parallel with the necessary economic recovery of the Island.

Island Deal

Although we have focused on the council's 'in-year' financial position, we are also conscious of looking ahead to future years in order to maintain a robust and well managed approach to the council's finances. Whilst understandable in the circumstances, the postponement of the outcomes of the local government funding review will create additional pressure on next year's budget. We had assumed a modest benefit of £2.5 million as a result of the Fair Funding review based on the positive indications we had received from government – including the Prime Minister – for an 'Island Deal'.

Therefore, we would be grateful for an opportunity to discuss the prospects of securing Island funding in the 2021/22 budget settlement as the government begins to develop its plans for funding local government in that year.

Conclusion

In closing, we wish to state that we are proud of the council's financial management since the current administration took majority control of the council some three years ago. The prudent approach of its current leadership has left it in a much stronger state to respond to the coronavirus pandemic than would otherwise have been the case.

Our proposals in this letter come from a strong desire to build on this strong and robust financial management and secure the best opportunities we can to lead the Island out of the pandemic.

With best wishes

Bob Seely MBE MP
Member of Parliament for the Isle of Wight

Cllr Dave Stewart
Leader of the Isle of Wight Council