

Institution: University of Portsmouth		
Unit of Assessment: UoA 17: Business and Management Studies		
Title of case study: Increased government funding support for the Isle of Wight (IoW)		
Period when the underpinning research was undertaken: 07/2016-10/2018		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Adam Cox	Principal Lecturer	05/10/2009 - date
Alan Leonard	Senior Lecturer	01/11/2011 - date
Ansgar Wohlschlegel	Principal Lecturer	15/11/2012 - 31/08/19
Giorgio Bondoni	Senior Teaching Fellow	12/09/2016 - date
Period when the claimed impact occurred: 2016-2020		
Is this case study continued from a case study submitted in 2014? N		
1. Summary of the impact <p>The Isle of Wight does not have a fixed link to the mainland. This raises problems as, in the event of a major fire or chemical explosion, for example, additional resource from neighbouring authorities cannot be called upon in a timely manner (the 'self-sufficiency' effect). Equally, there is an additional cost of conducting business on and with the Isle of Wight due to transportation costs and the reduced opportunity to exploit economies of scale (the 'island premium' effect).</p> <p>Adam Cox and his team at the University of Portsmouth were asked to estimate the costs associated with the effect of this geographical separation on the Island's cost of providing public goods and services by the IOW council in August 2016. They found these costs were of the order of GBP381.69 per capita, and equated to about 26.0% of the island's actual public expenditure.</p> <p>The impact of their research was two-fold. First, it was used to directly occasion a change in central government policy. The Portsmouth research data proved instrumental in causing the government to revise its local authority funding model, introducing an 'area cost' adjustment in June 2019. Second, this revised funding model grants an extra GBP9 million in local authority funding to the IOW from 2020/21 onwards, thereby allowing the provision of improved public services to the island's 141,606 inhabitants.</p>		
2. Underpinning research <p>Cox was appointed to the Economics Department in April 2010 and swiftly assumed responsibility for completing economic impact analyses and labour market studies for the Centre of Economic Analysis and Policy. He was subsequently joined by Leonard and Wohlschlegel, and the team produced applied research examining the levels of worklessness in Southampton, the likely economic impact of local regeneration schemes, and providing local economic assessments in Portsmouth. Regional economic modelling was successfully employed in the PERCEIVE project (2016-20), an EU project tasked with creating a better understanding of the channels through which European policies contribute to differing levels of identification with the European project across profoundly different European regions. On the strength of this acknowledged expertise in applied economics in August 2016 the Isle of Wight Council commissioned Adam Cox and this team to undertake research on potential factors occasioning extra costs due to the geographic consequence of being an island (G1).</p> <p>The Isle of Wight has a population of 141,606 (2019) and is located about five miles off the English coast. As there are no bridges connecting the island with the mainland, all traffic to and from the island is via ferries. Despite the significant costs in terms of time and money associated with such travel, and the 'self-sufficiency' and 'island premium' alluded to above, island status had not historically been recognised as a unique/important feature when determining the allocation of local government funding.</p> <p>The IoW Council issued a tender in April 2016 in response to the Ministry of Housing, Communities and Local Government initiating a <i>Fair Funding Review</i> in February 2016. The objective of the review was to set "new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence". The tender was intended to provide underpinning evidence to support the IOW Council in its quest to</p>		

be granted special status (as an island economy) in funding review. Portsmouth won the tender (May 2016) and the task placed before Cox and his team was to identify all factors that contributed to the increased costs consequent on being an island - and to then quantify them.

This research yielded three outputs, two reports delivered to the Council in January 2017 (**R1** and **R2**), and an academic journal article entitled 'Quantifying the cost of foregone public goods spillovers on an island' published in *Regional Studies* in 2019 (**R3**).

In their report (**R1**) the team highlighted the limited nature of public sector spillovers open to an island economy. In most instances local authorities (and residents within a local authority) can make use of facilities provided by neighbouring authorities, such as adult social care, leisure facilities, fire and rescue services, or waste management ('spillover effects'). This increases the usage of these facilities and allows them to be provided at a more efficient scale. Due to this efficiency gain, local authorities (and the residents therein) will therefore be able to access a given level of public goods at a lower cost. For an island economy, the cost of travel between an island and the mainland makes it impossible (or costly) for the island's residents (council) to use such facilities provided on the mainland, and so these spillovers are either eliminated (or reduced). The second report (**R2**) analysed in more detail the 'self-sufficiency' and 'island premium' effects. The conclusions of both these reports produced by Cox and his team were based upon the theoretical and empirical research findings that were contained in a publication submitted to *Regional Studies* in March 2017, subsequently published in the same journal following revision in 2019 (**R3**).

The *Regional Studies* (**R3**) publication estimated a panel model of local public expenditure using spatial lags in order to account for the public goods spillovers between neighbouring municipalities. **A three-step process was employed. First**, panel data from 205 municipalities in England, Scotland and Wales over a period of 10 years was used to estimate the impact of the municipalities' own characteristics, their neighbouring municipalities' characteristics and public expenditure, and the distance to these neighbouring municipalities on each municipality's public expenditure. **Second**, the estimation results from the first step were used in order to predict how much more (or less) a geographically separated municipality such as the IoW would spend if it was not geographically separated (i.e.: it was attached to the mainland by normal road and rail connections) – the 'island premium effect'. **Third**, the research team calculated how much more budget the IoW would need in order to enable its citizens to consume the same amount of private and public goods as if it was part of the mainland (the 'forced self-sufficiency' effect). This enabled the team to estimate that the overall social loss for the IoW resulting from being detached from the mainland was of the order of GBP381.69 per capita and "... **we conclude that, according to our measure of social costs, the Isle of Wight's costs of geographical separation from the mainland and, thus, lack of public goods spillover, amount to about 26.0% of its actual public expenditure**". (**R3**, p.1178). This led them to estimate that, in monetary terms the Isle of Wight's cost (in a reduced spillover sense) from being an island was equivalent to at least GBP6 million per year. As a consequence, Cox and his colleagues recommended that the island status of the Isle of Wight should be taken into consideration in the calculation of funding for local authority services by the Funding Review (**R3**).

The team also stressed that "**The proposed approach can yield valuable information for political decisions in a number of scenarios beyond the case of the Isle of Wight used for illustrative purposes in this publication**" (**R3**, p.1180). This observation subsequently attracted the attention of Rishi Sunak, the then Parliamentary Under-Secretary of State for Housing, Communities and Local Government (DCLG), who invited Cox and his team to input directly into the funding mechanism review in July 2018 (see Section 5).

3. References to the research

(R1) Cox, A., Leonard, A., Wohlschlegel, A., & Bondoni, G. (2017). *Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery – Phase 1*. Report, University of Portsmouth.

(R2) Cox, A., Leonard, A., Wohlschlegel, A., & Bondoni, G. (2017). *Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery – Phase 2*. Report, University of Portsmouth.

(R3) Cox, A., Leonard, A., & Wohlschlegel, A. (2019). Quantifying the cost of foregone public goods spillovers on an island. *Regional Studies*, 53(8), 1170-1182. DOI: [10.1080/00343404.2018.1548762](https://doi.org/10.1080/00343404.2018.1548762), listed in REF2.

The references above contain one peer-reviewed journal article (R3) and two policy reports (R1) and (R2). (R3) was published in CABS 3* journal and, following peer-review, adjudged as of 3* REF2021 quality.

Research grant funding

G1: Cox, A., Wohlschlegel, A., & Leonard, A. (2016). *Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery*. Funded by the Isle of Wight Council, June 2016-January 2017 (GBP39,750).

4. Details of the impact

The impact of the research of Cox and team was two-fold. It not only occasioned a **change in central government policy** relating to the funding of local authorities (Impact 1), it also leads directly to **improved welfare of IoW citizens through enhanced public** spending on the island (Impact 2).

The comprehensive research completed by Cox and team (**R3**) was used to frame 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 (**R1**). This report (**R1**) was produced to 'better inform local and national strategy and decision-making', and its principal findings provided the main substance of the IoW Council's March 2018 submission to the Government's Fair Funding Review. In their submission, the IoW Council explicitly referred to both reports (**R1** and **R2**) and the factors responsible for an island's extra costs identified therein. It stressed that "recognition for [these factors] is the council's most important outcome from this consultation", and attached a copy of **R2** to the submission letter, so as to allow DCLG to scrutinise the methodology and findings (**S1**). The research (**R2**) was further cited as evidence in the **Island Infrastructure Investment Plan** that was published by the Solent Local Enterprise Partnership in May 2018 (**S2**). The purpose of this report was to 'provide an identification of the future infrastructure needs of the Isle of Wight across a range of "economic infrastructure" categories. This is in the context of the need to support sustainable economic growth on the Isle of Wight, and having regard to national and local priorities'.

The research also informed the IoW MP Bob Seely's political agenda, and empowered him to secure a Westminster Hall debate specifically on the topic of "**Local Government Funding: Isle of Wight**" with the then Parliamentary Under-Secretary of State for Housing, Communities and Local Government, Rishi Sunak, on 16 January 2018. In this debate Bob Seely stated that in a "study by the University of Portsmouth, the extra cost of providing local government services on the Isle of Wight – the island factor – was estimated at GBP6.4 million per annum" and called for the Minister to "respect, accept and act on, this year and in the future, the costs outlined in the University of Portsmouth report". In his response, Rishi Sunak acknowledged the study's "thoughtful and detailed analysis", which he promised "will not be analysis for analysis' sake", going on to state that the factors identified in the study "are exactly what we need to hear about and consider in formulating a new funding formula" (both quotes are taken from **S3**). Bob Seely also cited the UoP research findings in making the case for additional funding for the IOW for services (including healthcare and transport) during a debate with the All Party Parliamentary Group (APPG) on Islands on the **Economy of UK Islands** (10/5/2018, **S3**). And, following the Economies of Islands debate (May 2018), he further cited the research in a debate on **Provision of Healthcare on English Islands** (27/6/2018, **S3**).

Subsequent Parliamentary debates triggered by the research findings also led to the intervention of the Prime Minister - and a promise of an 'island deal'. In the **Prime Minister's Update** on 25 September 2019, the Prime Minister, Boris Johnson, announced "I thank my hon. Friend, who is a doughty and mighty campaigner for the Isle of Wight, as I have seen for myself. I thought that he was going to ask me about the island deal that we are going to do—I can assure him that we are, do not worry" (**S4**). Bob Seely further cited the research at the Government debate **Improving**

Healthcare: Isle of Wight on 1 October 2019, and again cited the research in relation to the annual additional costs of providing local government services on the island in his follow-up **letter on the subject to the Prime Minister** dated 23 October 2019 (S4).

Concurrently, following the Westminster Hall debate of 16 January 2018, Cox and his team received an invitation to brief Rishi Sunak, the then Under-Secretary of State for Housing, Communities and Local Government, **on the wider research findings relating to public good spillovers**. On 3 March 2018 Cox and his team, in conjunction with Bob Seely and leading representatives of the IoW Council, met Rishi Sunak at the Houses of Parliament (Portcullis House) for further detailed discussion of the research and its implications for adjusting the Government's funding mechanism (S5). At the conclusion of the meeting, the Under-Secretary requested the Portsmouth team brief his civil servant colleagues on the implications of their research for the UK local authority funding mechanism.

On 19 July 2018 the Portsmouth team met with the Analysis and Data Directorate for Local Economic Policy, the officials working on changes to the funding mechanism. In the meeting Cox and his team provided the Directorate representatives with a detailed overview of their research, responded to questions on the methodology and the results, and responded to the explicit question: *"We'd value your views on this, and in particular our suggested measures of "accessibility" and "remoteness" in the context of the Isle of Wight."* (S6).

In December 2018, the Ministry of Housing, Communities and Local Government, published '**A Review of Local Authorities' Relative Needs and Resources**'. This explicitly acknowledged that; *"some local authorities face unique pressures related to their geography; such as the costs associated with conducting business from isolated or peripheral communities (including islands and coastal areas)."* It further went on to say that; *"The Isle of Wight is a uniquely isolated and remote authority as it is only possible to reach a major town or city from households on the island via a ferry journey. The Government therefore considers it necessary to take account of the additional time taken by ferry transport in any measure of remoteness, including the time taken on board the ferry and at embarkation and disembarkation."* (S7).

The subsequent June 2019 report '**Review of Local Authorities' Relative Needs and Resources: Area Cost Adjustment**' followed up by outlining the structure of area costs adjustments in terms of remoteness, specifically highlighting the Isle of Wight as a case in point (S8) (**Impact One**). This new method of calculating local authority funding has been of particular benefit to the IoW, which received **an increase of GBP9 million in the annual Local Authority budget 2020-2021, 60% (GBP5.5 million) greater than the national average increase for local authorities**. Strikingly, this above average increase in the IoW local authority budget (GBP5.5 million) is almost exactly identical to the aggregate social costs of this geographic separation as computed by the Portsmouth team (GBP381.69 per capita across a population of 141,606 equates to GBP5.4 million). To place this 'island premium' in context, this funding increase exceeds the sums currently spent on providing Housing Services (GBP6.65 million), Fire and Rescue services (GBP6.9 million), or Public Health Services (GBP7.65 million) on the island each year. **Moreover, this is not a one-off benefit**, as the new method will be used for allocating annual local authority funding for the foreseeable future (**Impact 2**).

Furthermore, the changes the research has instigated has not only raised the IOW's profile in the corridors of Westminster, but has also influenced the way the Government considers the Isle of Wight more broadly in funding terms. In August 2019, the Health Minister, Matthew Hancock, announced an extra GBP48 million funding for the Isle of Wight NHS Trust. In response Bob Seely stated *'Last month in Parliament, Health Secretary, Matt Hancock, agreed with Bob that the Island faces additional challenges in providing healthcare because of its isolated status as an Island.'* and *'When I became the Island's MP, I promised that Government would listen to the Island more. I am delighted that this Government is beginning to do so'* (S9).

Just over a year later, at the end of October 2020, as the **COVID-19 pandemic** took hold the IOW local authority was awarded an additional GBP11.4 million in general-purpose grant funding to accommodate council's COVID-19 pressures, equivalent to GBP79.56 per capita. This placed the IoW in the top 25% in terms of allocation per capita, well above the mean of GBP44 per capita, despite the Island being one of the very few regions in the UK in the lowest Tier (1) at the time.

In a letter of support sent to the Portsmouth team, [text removed for publication] *'The Impact of Physical Separation from the UK Mainland on Isle of Wight Public Service Delivery has been the key piece of evidence [text removed for publication] the research undertaken by Dr Cox and his colleagues from the University of Portsmouth has given us the empirical evidence to make a much stronger case for the Island than we would have done. Realistically, it has been the building block on which we have made that case.'* (S10).

5. Sources to corroborate the impact

- (S1) Letter from council to Department for Communities and Local Government (26/09/2016).
- (S2) Solent LEP infrastructure report (05/2018).
- (S3) Evidence of R1 & R2 used in Parliament debate (16/01/18, 10/05/18, 27/06/18).
- (S4) Evidence of R1 & R2 used to engage Prime Minister Boris Johnson for an Island Deal (23/10/19).
- (S5) Briefing note for the Meeting with Bob Seely MP and Rishi Sunak MP (03/03/18).
- (S6) Meeting with members of Analysis and Data Directorate (06/07/18).
- (S7) Ministry of Housing, Communities and Local Government's "review of local authorities' relative needs and resources" consultation document (12/18).
- (S8) Needs and redistribution Area Cost Adjustment report (25/06/19).
- (S9) Bob Seely MP welcomes additional funding (05/08/19).
- (S10) Letter of support from [text removed for publication] to Cox and his team (25/10/20).