

Executive Summary

ISLE OF WIGHT

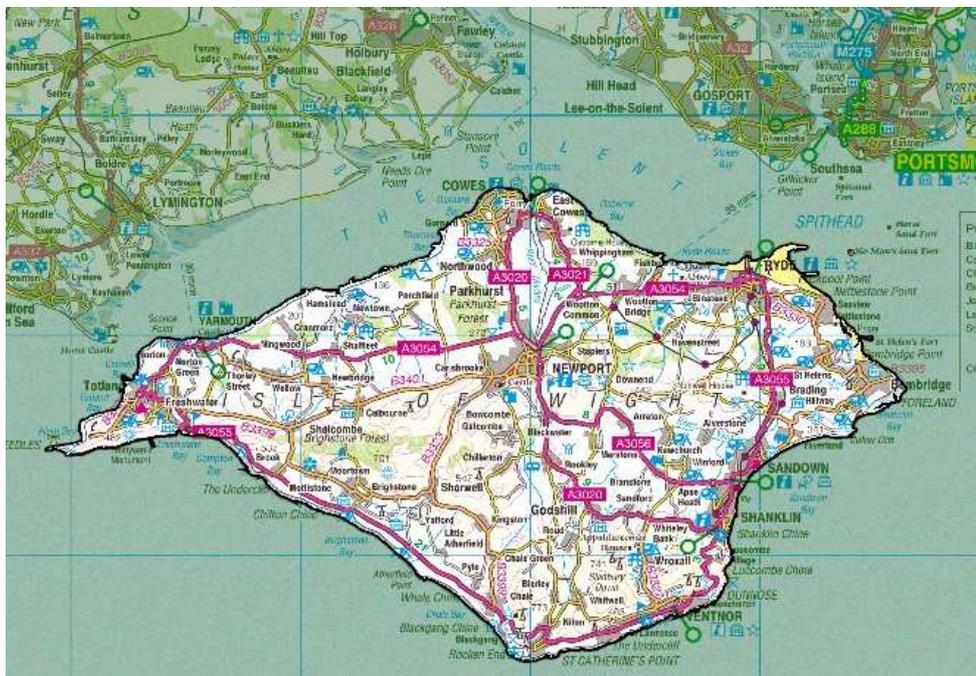
**LOCAL ECONOMIC
ASSESSMENT**

December 2010



Executive Summary

Plan 1: The Isle of Wight



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1.1 Summary of key messages

With the public sector expected to materially shrink in the mid term, the ability of the private sector to generate employment and output growth is key to the Island's sustained economic recovery. Leading into the recession the Island was performing well, driven by strong employment growth in business services and solid growth in personal services, and construction. The Island's public services had also grown whilst employment in hotels stagnated. Manufacturing firms continued to shed jobs, but the sector stood up reasonably well. In terms of economic output, the Island fared better in the recession than elsewhere and its longer term output growth is anticipated to be broadly in line with the mainland. But employment growth is anticipated to be weaker, with no net growth expected until well into 2011. Distribution and retail, transport and communications, and business services are expected to drive employment growth thereafter.

The Island experiences a net loss of about 2,500 employees each day, principally to Portsmouth and Southampton. Transport links to and from the island are generally good. Whilst 20% of Island firms have some sales outside of the UK, Island businesses are generally inward looking. About a third of the business base relies entirely on the Island for their sales, much more for the recruitment of staff. In contrast, business supply chains reflect greater willingness to procure goods and services from further afield.

The island has an older population structure than elsewhere, with average growth driven by significant in-migration of people aged 45-54, many for early retirement. It has a growing

population of people aged 65+ and 15 -24 but a decrease in those aged between these groups. The skills profile of Islanders has improved.

A Level attainment is reasonably good; GCSE attainment has been disappointing, but is now improving strongly. There have been strong improvements in the education attainment of children in receipt of free school meals. Despite this, more of the island's children live in low income, or out of work households than regionally/sub-regionally and a lower proportion of children from low income households on the Island progress to higher education.

The island economy is highly seasonal and this influences almost all business sectors quite significantly as well as business recruitment patterns. Firms have been increasingly wary of their cash flow situation as their prices are being squeezed, leading to a deterioration in cashflow (based on data relating to May to July 2010). Generally they do not expect to employ again before the winter. This is reflected in a lack of job vacancies on the island, in the face of some evidence of recovery in the region. Economic activity rates have been in steady decline since 2007, alongside a steady increase in International Labour Organisation (ILO) unemployment – not reflected in the Job seekers allowance (JSA) unemployment measure. Through the recession this has increased to above 4% and is expected to return to pre-recession levels by 2017. Into the recession, the Island had experienced strong growth in professional occupations alongside stronger growth in personal service occupations. Incapacity benefit claimant rates are higher than elsewhere, but this is driven by younger not older people.

There are few large private sector employers. Although business survival rates are reasonable, there is a generally low business start up rate. A low volume of people are seeking to grow their business and nearly half do not anticipate major areas of expenditure in the next twelve months. Island businesses have continued to recover from the recession, but trading conditions have become more difficult to July 2010, as public sector cuts begin to bite and consumer confidence is dented. Despite this Island businesses are generally tied to it and most are long established. Access they have to local services are perceived to be good, transport links a source of frustration.

Quality and choice of commercial premises are both considered to be lacking, the former is the bigger issue, particularly for construction and transport and communications firms. The Island remains attractive to residential developers and there has been strong housing growth. Local housing affordability is an issue, supporting a reasonably large private rental sector. House prices held up initially through the recession – but have now slipped and appear to be sliding once more. Second home ownership is four times the national rate.

In terms of the Island's local communities, the Medina Valley is at the heart of the Island, economically as well as geographically. Its labour market is relatively healthy compared with the rest of the island. If the Island is successful in building a larger presence in the marine and renewables sectors then this is likely to be associated with new developments in the valley. Over the next 20 years, Newport is likely to see population and employment across a broad range of sectors, although in the short term it may be vulnerable. Many Newport jobs are however taken by residents from the rest of the Island, so that the social impact of employment cuts is likely to be dispersed.

Cowes is famous for its leisure offer but it is also an important gateway. There is a reasonably strong independent retail offer here, but also some scope for improvement. There is a significant presence of small office accommodation above shops but with high vacancy rates, reflecting some poor quality premises. Alongside careful management of existing employment sites and the development of new sites, Cowes also needs to continue to serve as a gateway retaining its character and scale as well as a maintaining its role as a destination for excursion and short-stay visitors.

Ryde is the Island's largest urban area and another important gateway and place of employment. The town has high levels of tourism and retail employment and also relatively high levels of employment in financial services. Businesses in Ryde are generally less inward looking than elsewhere on the Island. The skills base may also be higher than Island average. However there are concerns about its dynamism. Employment was static before the recession, which then hit the town badly. Ryde also suffers from a slightly lower level of vacancies than the island as a whole, suggesting that businesses are not experiencing enough demand to fully serve the labour market, leading to problems with longer term unemployment. Whilst Ryde has the potential to become a significant tourist destination, this would need to involve significant investment in place-making as well as careful identification of a target market. It can also grow its general employment offer, and is one of the few places on the Island where significant employment land can realistically be provided over the longer term.

With its high reliance on traditional tourism, the Bay's economy is particularly susceptible to seasonal cycles and local employment opportunities are consequently more volatile. It has an older population than either the Medina Valley or Cowes – close to thirty per cent of the population is retired, with only around 55 per cent of working age. As a result the Bay has relatively low levels of social housing. There are, however, high levels of Incapacity Benefit claimants, and the Bay generally has a low skilled workforce. The future prosperity of the Bay area is likely to depend on the extent to which the Island can significantly reposition its tourism offer, or attract younger residents, or both.

Reflecting the rural nature of much of the island, farming, forestry and other land based industries are consequently of great importance, although other sectors too contribute significantly to rural employment, including retail, hospitality, construction, public administration, health and education. In addition these sectors are often entwined with one another, with for example a number of farms also offering accommodation for visitors, and high rates of double-jobbing. Rural areas also have high concentrations of older people: over a third of the population of rural Wight is retired, and only 52 per cent are of working age. Here, the clear imperative is to protect and enhance the natural heritage of the Island, whilst looking for opportunities to raise life chances for local people and strengthen local communities. Rural areas are also likely to benefit particularly from the refurbishment of the Island's roads under the PFI contract.

1.2 Statistical Summary

1.2.1 The Island's Economy

Between 2000 and 2008 the Island's annual average output growth (GVA) was between 2.5% and 3%. Island output fell by 3% in 2009, the UK and South East fell by 5%. Output for 2010 is forecast to be 4% faster than the Partnership for Urban South Hampshire (PUSH) at 3% and UK at 2%. Transport and communications (53% growth since 2000) and Business Services (74%) were the fastest growing sectors. Island manufacturing output fell by some 4% to 2008, when in the UK and South East it fell by 10%. Construction grew strongly 23% (10% UK and South East). Between 2000 and 2008, Island employment growth was volatile year on year but strong (8%). Figures for PUSH and the South East were 2%, the UK 5%.

In 2009 Island employment growth fell more (over 3%) than the UK (2.2%), the South East and PUSH figures were both under 3%. The Island lost some 1,200 net jobs during between 2008-2010.

In 2010, health is the largest Island employment sector (16% of employment), Distribution employs 14%, Hotel and catering 11%. Business services employ 10%, up from 6% in 2000.

Prior to the recession, the Island performed slightly better than would have been expected given its industrial structure, by some 1,700 jobs. Island output is expected to grow by 4% in 2010, 2% in 2011, and 2.5% in 2012. At the same time 1% employment growth is expected in 2010, -0.25% in 2011 and 0.5% in 2012. Business services in expected to grow by 13% to 2013, transport and communications 7%, distribution 5%. Public administration is expected to fall by 9%, manufacturing by 3%.

GVA per Island employee is £29,000 and there has been little growth in this figure since 2004 (£37,000 - UK, £39,000 – South East). On the Island, GVA per worker is highest in financial services (c. £50,000), and manufacturing (c. £38,000). It is lowest in Hotels (c. £15,000) and Agriculture (c. £10,000).

1.2.2 Economic Linkages

The island is served by six ferry/hovercraft routes. Some 3.9 million passenger journeys are made each year between it and the mainland – some 3.1 million vehicle movements. The Island loses some 2,400 people (net) per day who work on the mainland. Some 800 people commute to Portsmouth, 550 Southampton, 400 to London. Some 150 Island employees commute to the Island from Bournemouth, 100 from Poole, 90 from Southampton, 80 from Portsmouth. But 95% of Island resident employees also work there (54,025).

In July 2010, 75% of Island firms only advertise for staff on the island (down from 81% in October 2010), 23% advertise on the mainland and Island. Construction firms (86%) and retail/hospitality (84%) were most likely to look for staff solely on the Island, manufacturing (58%) the least likely. Some 30% of Island firms rely on the Island for 100% of their sales. The figure is highest within the construction sector (5%) rely on the Island for all sales. 80% of firms had zero international imports and 15% said all their suppliers were located on the island. By

value, manufacturing firms have the least proportion of Island suppliers (10%); Construction firms the most (35%).

1.2.3 The Island's People

The 2008 Island population was 141,000. Average Island resident population growth since 2000 has been 0.7% (PUSH and South East was 0.6%, the UK (0.5%). Death's per 1,000 (12) outweigh Births (9). Per 1,000 people, the birth rate amongst under 44's is low (28); so too is the over 65's death rate (53). Male life expectancy is 79 and 83 years for women (higher than national rates 78 males – 82 females). Some 25% of Island residents are over 65 years of age, over 50% are 45 years old or older. Inward migration accounted for 9,000 new people between 2003 and 2008; 4,000 of these were over 45, and a further 1,000 over 65, but 2,600 were 14 or under. Some 96% of Islanders are white (PUSH 94%; South East 92%, UK 88%). 10% of the island population have no qualifications (PUSH – 9%, South East 9%, UK 13%). 24% are qualified to NVQ Level 4+ (PUSH 30%, South East 32%, and UK 29%). Data from 2003 to 2008 indicates the situation is improving with a 12% reduction in those with no qualifications and an 8% increase in those qualified to NVQ Level 3+. Those with NVQ Level 4+ increased by 6% (PUSH 12%, South East 7%, UK 9%).

The island population is expected to grow at 0.7% per year between 2010 – 2016, slightly higher than the South East (0.6%) and the UK (0.5%).

1.2.4 Child Poverty and Well-being

22% of the Island's children live in low income households, in line with the UK (PUSH 16%, South East 15%). 22% live in out of work households, (PUSH 18%, South East 17%, England 23%). The Island performed well in the environment score in the child well-being index (35th out of 254 local authorities), but poorly on the housing and education scores (319th and 280th respectively). The gap in educational attainment between children in receipt of free school meals at Key Stage 2 was 26.5 points in 2004/05; 12.8 points in 2008/09. At Key stage 4 the equivalent was 28.5 in 2004/05 23.8 in 2008/09. 17% of young people on the island from low income families progress onto higher education (England 19%).

1.2.5 The Island's Labour Market

In April 2010 the Island had as JSA unemployment rate of 4.25%, in line with the UK average, and some 4.5 job centre vacancies for 1,000 working age population (the South East figures were 3% and 7.5, respectively). This compares to April 2007, where the Island's figures were 2.3% unemployment, 7.5 vacancies per 1,000 working age population. 13% of Island jobs are in managerial/senior positions (PUSH 16%, South East 17%, UK 15%). In addition, 13% of Island jobs are in elementary occupations (PUSH 11%, South East 10%, and UK 11%). Between 2002 and 2009, personal service occupations grew by 37% (South East 14%). Professional occupations grew by 21% (South East 13%). Managerial/senior occupations fell by 9% (in the South East they grew by 8%). Skilled trade occupations fell by 12% (South East 9%). Island self employment is 13%, (PUSH and UK 10%, South East 12%).

In 2005 the Island's economic activity rate was 80%, (South East and PUSH 82%, UK 78%). In 2009, the economic activity rate had fallen to 76% (PUSH and South East 82%, UK 78%).

Employment rates amongst 16-24 year olds on the island is 65%, in line with PUSH (South East 60%, UK 59%). The rate amongst 25-49 year olds is 82%, in line with PUSH and the South East (the UK rate is 81%). Amongst the 50+ to retirement age rates are 67%, (PUSH 75%, South East 77%, UK 70%).

Claimant (JSA) unemployment increases by up to 1% in the winter months and decreases by up to 1% in the summer months. In May 2010 Island claimant unemployment was 3.7%, in line with Great Britain (PUSH and South East rates were 2.7%). JSA unemployment is expected to stay at around 4% until 2013. At the same time ILO unemployment rates were 4% in 2005 in line with PUSH and the South East. By 2009 these were 8% (UK 7.5%, South East and PUSH 5.5%). In April 2010, 36% of Island JSA claimants had been claiming for over 6 months (PUSH 30%, South East 33%, UK 35%). In 2010 the rate of unemployed aged between 18 and 24 was 27% (PUSH 26.5%, South East 25.5, UK 27.5%). In 2010, some 7% of 16-18 year olds were not in education employment and training (NEET). This compares to PUSH (6.5%), England (6.25%) and South East (5.5%). In November 2009, some 6% of the working age population were claiming Incapacity benefit in lieu with the UK rate (PUSH and South East 4%).

In July 2010, 71% of Island firms had not attempted to recruit any new employees in the last three months. Whilst 20% had attempted to recruit part time employees, 17% had attempted to recruit full time staff. Manufacturing firms had on average 3 skilled trade vacancies per firm. Recruitment difficulties were experienced by 29% of firms in recruiting the staff they needed, this was highest in the manufacturing sector (42%).

1.2.6 The Island's Businesses

69% of Island businesses employ four or fewer people (PUSH 72%, South East 74%, UK 71%). 1% employ over 100, in line with PUSH, the South East and GB. Growth in the number of Island businesses has fluctuated. In 1999 the business base grew by 2.7% (PUSH, 5.7%, the South East 5%, Great Britain 3.2%). In 2008 the figures were -0.9 on the Island, 0.5% PUSH, 1.4% South East and 1.7% Great Britain. In 2007 the business registration rate per 10,000 people on the Island was 25 (PUSH 32, South East 39, and the UK 34). The deregistration rate per 10,000 people was 19 (PUSH 25, South East 27, the UK 24).

A survey is carried out with a representative sample of Island business every three months. The latest results (July 2010) are reported in the form of 'balances'. A balance is the percentage of respondents saying that a variable has increased minus the percentage saying it has decreased. Overall, employment was up +7 (20% attributing this to seasonal reasons); orders or sales up +24 (35% attributing this to seasonal reasons); cashflow down -3; prices at which goods/services are sold up +13. Since the previous survey (carried out in April) prices have fallen (where the result was +20); so too has employment (+10 in April) and cashflow (+1 in April). Since April, orders and sales continue to recover (+21).

Confidence amongst individual business owners in their prospects for the next twelve months has improved (+10), confidence in the Island as a place to do business has fallen (-6). Business expectations for the next three months are employment growth (0), orders and sales (+25), cashflow (+22) and prices at which goods or services are sold (+12). These are all down from April's results. 35% of owners are not seeking to grow the business and 48% expect no areas of major expenditure in their business over the next twelve months.

1.2.7 The Island's Property

There are 57,500 households on the Island. Home ownership is high at 77% and 42% own their property outright (i.e. not with a mortgage). Some 4% of the island household spaces are second homes – four times the regional and national rate. More pensioner households (81%) own their property outright than elsewhere (75% South East, 69% in England). Between 2004 and 2009 some 780 homes per year have been built on the island. The average figure for PUSH was 525.

In 2009, the average price of a detached house on the island was £300,000, £50,000 less than the national average, (the South East average was £451,000). The average flat costs some £150,000, (South East £175,000, England £200,000). The average semi detached home costs some £200,000, in line with the England average (South East £250,000). Overall the average home is 7.1 times the average salary (PUSH 7.8, South East 7.0, England and Wales 5.8). The average net weekly social housing rent is some £70, compared to £71 regionally, and £61 nationally.

There were 3,997 commercial properties on the Island in 2008. Of these 1,797 were retail premises, 534 were offices, 811 were factories and 526 were warehouses. There was 996,000 square metres of commercial floorspace on the Island in 2008. Of this, 276,000 was retail floorspace, 94,000 office floorspace, 378,000 was factory floorspace and 149,000 warehousing. Vacancy rates are generally lower than regionally or nationally. In 2004/5 vacancy rates stood at 6%, (South East and England 9%). Some 89% of companies surveyed are unlikely to relocate away from the Island in the next three years. 42% of businesses have been in their current premises over 10 years. Firms are most satisfied with their access to local services (84%), least satisfied with the value for money they get from their premises (72%). 9% of companies were considering a relocation to other premises on the Island, of these some 61% said they expected these to be larger than the current premises they occupied.

We draw out key local messages in chapter 10 as well as set out various potential growth scenarios, we refer the reader to these summaries for local information.