In terms of the Council of the Isles of Scilly we are a unique Council and although we have all the responsibilities of a Unitary Council we are extremely small and are geographically position 28 miles of the mainland of the UK. In terms of Local Government funding the Council of the Isles of Scilly are treated slightly differently to most other Local Authorities for some funding distributions, where they are treated the same the outcome is usually a very small sum that often cannot deliver any meaningful service and costs more to administer and report on than the sum itself.

The Council would like to be recognised by Government as being so unique and small that the only reasonable solution would be to remove the Council from all national funding mechanisms and give the Islands a special single grant that incorporated all revenue and capital allocation’s including some special grants to recognise the Islands uniqueness and to also include in this Business Rates as any retention scheme is not appropriate for the Islands.

In furthering this aspiration the Council has had a meeting with Jake Berry the Parliamentary Under-Secretary Minister for the Northern Powerhouse and Local Growth at MHCLG. Further to this meeting the following letter was sent to Minister setting out the Islands position in more detail and this is the same message we wish to give to the select committee in its inquiry into Local Government Finance.

The letter is set out in the following pages:—

April 2019
Following up from our meeting 26 February

Thank you for the time you recently dedicated to our discussion about the unique challenges faced by the Council of the Isles of Scilly, particularly its financial challenges. I was encouraged by your understanding of the issues and your commitment to work with us to find a solution that provides the Isles of Scilly’s remote communities with public services appropriate to being part of a modern UK. I am grateful for your acceptance of my invitation to visit the islands. I look forward to showing you around and helping to further develop your understanding of the challenges our islands’ uniqueness and isolation bring. Thank you also for pointing out, in response to our comments on the way the Scottish Government supports its remote islands, that in fact there is also particular support for Anglesey from the Welsh Assembly Government.

The Cost of Public Services

The Isles of Scilly are an island community that is 28 miles off the English mainland, inhabited by 2,200 people across 5 separate islands. Obviously we do not have the benefit of a publicly funded road link to the rest of Britain, but what is often overlooked is that neither do we have the benefit of any publicly funded, or even subsidised, alternative transport link. Neither is there a publicly funded internal transport system between the islands within Scilly. This places residents, businesses and the Council at a severe disadvantage in terms of convenience, access to goods and services, and cost, compared to others in England. Scilly relies wholly on commercial transport services which are inadequate, expensive and extremely weather dependent. Our remoteness, when coupled with these transport constraints, has a major impact on the cost of public services delivery, as well as on the manner in which public services are delivered.
The cost of materials and services can be over 40% more expensive than on the mainland. If the service does not exist, or is in limited supply on the islands, it has to be flown in at vastly disproportionate expense and effort. When this is combined with the diseconomies of scale and the lack of competition, and with no alternative other than self-sufficiency, it results in comparatively high unit costs, meaning that the total cost of services is much higher per head of population than for other local authorities. The overall impact is that, generally, the cost of services per head of population is nearly treble that experienced by Cornwall Council. This was supported by a Local Government Association (LGA) assessment a couple of years ago. In specific terms, waste services are approximately 8x higher than on the mainland and fire and rescue services are 10x higher.

It must be emphasised that these costs are not attributable to inefficiency on the part of the Council as audits and inspections have shown. For example a recent inspection showed the fire and rescue service to be of a high standard and cost effective but with inevitably high unit costs.

The cost of delivering public services on Scilly is very different to that on the mainland. To achieve fairness for the community this needs to be factored into the way Government distributes funding to the Isles of Scilly.

Mitigation

The Council has made strenuous efforts to address these problems and financial challenges by rigorously pursuing economies and efficiencies. It has focused on, and thus significantly improved, its financial management and it has instigated new and strong partnership working.

At a strategic partnering level the Council has created an Inter-Authority Agreement with Cornwall Council, demonstrating a willingness to collaborate on a range of services including finance, legal, ICT, building control and fire & rescue. The objective of these collaborative arrangements is to improve effectiveness and efficiency in order to maintain service delivery in the face of significant financial challenge, and where wider incentives aimed at business or housing growth have insubstantial impacts on the Council’s income. The collaboration has improved capacity (and avoided the significant costs that would otherwise have been necessary to achieve this) and resilience; however, it has not necessarily made significant savings.

Another example is the innovative Smart Islands Programme, which takes advantage of the Isles of Scilly’s unique island context to meet economic and infrastructure challenges and provide solutions that are relevant to communities across the UK and beyond. This ambitious and pioneering programme will transform the islands’ communities and businesses to a lower carbon economy and will be delivered by a partnership which includes Hitachi (who are developing a cloud-based Internet of Things platform which will manage energy use and link to the wider electricity grid) and two of the UK’s leading smart home technology companies: PassivSystems and Moixa. Whilst the Smart Islands Programme will deliver huge benefits to the rest of the UK and beyond, as recognised in the Government’s Industrial Strategy, it represents a significant cost to the Council, particularly through the investment of staff resources.
The Council in a National Context

The status of the Council of the Isles of Scilly is unique. It has to deliver all the services that an English Unitary Council delivers and more, as well as cope with the responsibility of having to provide the forum and minor services that a Parish or Town Council provides elsewhere in England. The Council is already defined differently in some ways by Government. Although referred to as a unitary authority it is in fact formally defined as a sui generis single tier authority, having been specifically created by Act of Parliament.

In many ways the Council of the Isles of Scilly does not fit in to the normal fund/grant distribution models that Government currently uses. The demographics of the islands mean that the Council is so far outside of national averages that national funding models are not really appropriate. This can be seen in the facts below:

- Settlement Funding Assessment (SFA) for Scilly is 0.02% of national funding and 13x less than the national average.
- Core spending power for Scilly is 24x less than the national average.
- Council Tax base is 40x less than the national average.
- Business rates total funding is 0.01% of national funding and 30x less than the national average – the majority of Business rates funding is provided by top ups and grants – there is no ability to grow this source of funding on Scilly.
- New Homes Bonus grant was £700 in total.

The Council is still allocated the Revenue Support Grant (RSG), albeit in name only as the method of allocation to the Council of the Isles of Scilly is different to that applied to other authorities. In terms of education funding, the Council was removed from the national funding model a number of years ago and now receives a separate Isles of Scilly Education Grant. Additionally, in terms of other national grants, the Council of the Isles of Scilly is excluded, or get an allocation that is so small it does not show on the allocation tables. Often the cost of administering and complying with the grant is almost as much as the grant itself.

We believe it is self-evident that the Council of the Isles of Scilly does not, and cannot, fit into a national funding model. We think the current Government Fair Funding Review provides an ideal opportunity to address the best way to acknowledge the unique requirements of the Isles of Scilly.

The Way Forward

The Council would like Government to recognise the uniqueness of the Isles of Scilly in that both its cost base and its demographic factors cannot be accommodated in national funding distribution models. We also do not think it should be accommodated, as the model should work for the remaining authorities: we would not want a national model skewed in an attempt to meet some of the needs of Scilly, which could then cause inequalities elsewhere in the country.
We believe the fairest way for all concerned is to actually remove the Council of the Isles of Scilly from all the grant distribution models, both the core funding provided by the Ministry of Housing, Communities and Local Government and the various grants from other Government departments. These could be replaced with a single Council of the Isles of Scilly grant, based on the existing level of grants received, with a small uplift to reflect the current underfunding due to the islands’ high cost base. This would include the RSG, business rates and other annual grants. Allowing for a small uplift, we think this number would be in the region of £5m per annum. We would like to work with Government officials to firm up and agree the final amount, which would need to be uplifted for inflation annually. This Council already only equates for 0.02% of the national Settlement Funding Assessment and we believe the £5m would equate to a similar, or lower, level to all the grants distributed to local authorities. This would not have any impact on any other local authority.

There is a precedent for treating a sui generis authority with an exceptionally small population (although not as small as the Isles of Scilly, and certainly not as remote) differently, in the City of London.

The other major issue that the Council faces is that such a small tax base cannot generate any revenue to support borrowing costs associated with the capital investment required by key services. The airport, for instance, is a critical asset in supporting the limited transport infrastructure and although we welcome your offer to contact the relevant transport ministers to look at how a more sustainable transport network can be provided, there will always be a need for an airport as part of the solution. The fees and charges are already too high in reality, as once combined with the operating costs of the transport provider, it means a family of four have to pay between £500 and £600 just to get to Penzance. The fees and charges barely cover the operating costs of the airport. They certainly do not cover the capital investment that is required to keep the major airport assets operational within the strict Civil Aviation Authority (CAA) regulations. In the fullness of time we would hope that the Government could provide a revenue subsidy that could bring the cost down, but in the short term we require support from the Government towards capital expenditure.

This lack of funding for necessary capital investment is common across Council services and has been one of the ways that previous Councils have coped with a lack of adequate revenue funding. It does, of course, have serious medium to long term consequences, which we are now facing.

There is a similar situation with the fire and rescue service where we receive a very low level of funding from Government towards the actual costs of the service. We have managed to cope by using disproportionate levels of Council Tax to mitigate the shortfall, but this cannot stretch to funding the capital expenditure required to replace critical fire and rescue service assets and equipment.

The islands also have a very low wage level economy which means Council rented properties are barely affordable to the residents who rent them. The exceptionally high cost of major capital maintenance on Scilly cannot be funded from within the level of rents that are deemed to be affordable. Therefore, Government assistance is required to help find a solution to the capital maintenance challenge facing the Council where a significant proportion of its housing stock is in an inadequate state of repair. We understand that there are national initiatives that the Council could bid in for, but the demographics and relatively small numbers (but high costs)

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would count against any bid. In addition, it is the cost and work associated with such bids that the Council struggles to resource within its very small operations.

Airport, fire and rescue and housing services all require a guaranteed regular flow of capital funding. Hence the Council would like to request that, in addition to an annual revenue grant of £5m, a capital grant of £1.5m per annum is provided. The Council could use this flexibly between the services to address the critical issues it faces.

In summary, the Council of the Isles of Scilly welcomes the opportunity to work with Government to remove the Council from the current funding system and introduce a bespoke funding system, outside of the national formula, which delivers the funding it requires to provide the unique and diverse level of services relied upon by our island communities. We welcome your support for agreeing a more equitable, fairer funding settlement as suggested above, and for the Council and Government to have an open dialogue to agree future funding solutions for the islands.

Once again, thank you for your time and interest. I look forward to hearing from you as to how we might take this forward.

Yours sincerely

[Signature]

Robert Francis
Chairman
Council of the Isles of Scilly

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