



**TREGARTHEN'S HOTEL - ECONOMIC DEVELOPMENT
AND INVESTMENT COMMENTARY**

Prepared on behalf of Tregarthen's Hotel Ltd., Garrison Hill, St. Mary's, Isles of Scilly

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1.0 INTRODUCTION

- 1.1 This report has been prepared on behalf of Tregarthen's Hotel (situated at Garrison Hill, St. Mary's, Isles of Scilly, TR21 0PP) in connection with plans to invest in the hotel in order to safeguard and improve the business.
- 1.2 We understand that this report will be submitted with a planning application for building work at the hotel, including the creation of self-catering cottages. We are instructed to comment on the economic context and economic impact of the proposals on the local economy, as well as the rationale for the investment.
- 1.3 The methodology for this report is based on the following steps:
- Assessment of policy context from an economic perspective
 - Literature review of background reports and tourism data
 - Interviews with the management team of Tregarthen's Hotel
 - Analysis of the funding options for the required investment
 - Consideration of the economic impacts of the proposed development
- 1.4 Each of the following chapters has a "chapter summary" and these are carried forward into the overall summary and conclusions.
- 1.5 This report, combined with other application documents, enables readers to consider the benefits of the proposals for Tregarthen's Hotel in the context of the Council's planning and economic objectives.

2.0 POLICY CONTEXT

2.1 This section of the report refers to aspects of Town Planning policy that are especially relevant from an economic perspective. In all other respects we defer to Jackson Planning on Town Planning issues.

2.2 National policies are considered first before turning to the Council's strategic economic plan.

National policy

2.3 The National Planning Policy Framework (NPPF) encourages a proactive approach to economic growth alongside social and environmental considerations. Strong endorsement is given to economic development objectives and the importance of building a strong economy.

2.4 The NPPF also seeks to address barriers to investment, including a poor built environment. Paragraph 18 states: "The Government is committed to securing economic growth in order to create jobs and prosperity, building on the country's inherent strengths, and to meeting the twin challenges of global competition and of a low carbon future".

2.5 Paragraph 19 of the NPPF says: "The Government is committed to ensuring that the planning system does everything it can to support sustainable economic growth. Planning should operate to encourage and not act as an impediment to sustainable growth. Therefore significant weight should be placed on the need to support economic growth through the planning system."

2.6 Paragraph 20 expects local planning authorities to take a "proactive" stance when faced with the development needs of business. Priority is given to economic regeneration and environmental enhancements.

Local policy

2.7 Examples of local policies related to economic development can be seen in the "Isles of Scilly Local Plan" (2005 - 2020) and "Island Futures - A strategic economic plan for the Isles of Scilly" (May 2014). Local Plan, Policy 4 includes support for:

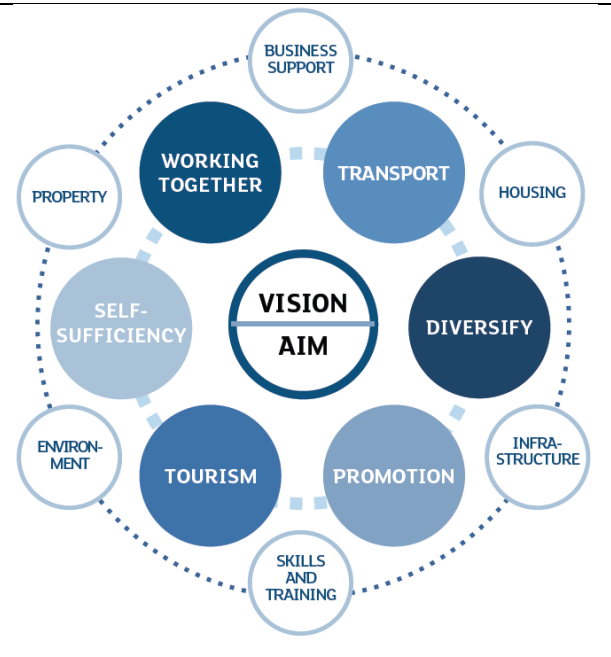
- Tourism development that contributes to diversification and modernisation.
 - Improvement of the quality of existing tourist accommodation or proposals that potentially extend the tourist season.
 - Changes of use to another form of tourist accommodation.
- 2.8 The supporting text (para 34) notes that the intention of the Plan is “to support business development that will benefit the overall community”, “facilitate employment opportunities” and “make the most of the potential offered by islands’ distinctiveness”, overcoming “issues relating to peripherality whilst being compatible with our environment”.
- 2.9 Paragraphs 35 to 36 note the importance of tourism plus achieving “a high quality and distinctive response to changing markets in tourism”; “improving the availability of high quality accommodation and raising the value of the tourism product”.
- 2.10 It is clear from our literature review that the problems of sustaining and developing a small island economy, with seasonal businesses and seasonal staffing requirements, high transport costs and challenging logistics are well recognised. The report, “Island Futures - A strategic economic plan for the Isles of Scilly” (May 2014) states that, “The future of the economy on the Isles of Scilly, and the environment on which it depends, will be challenging.”
- 2.11 That said, the report looks to the future in a positive way, as suggested by the vision encapsulated in its sub-title: “A thriving, vibrant community rooted in nature, ready for change and excited about the future”. However, there is a balance to be struck between preserving the special qualities of the islands and achieving sustainable growth – hence the plan aims “to manage the delicate balance between the often competing pressures of maintaining a status quo and encouraging change and development.”
- 2.12 On the subject of investment, the report notes the difficulty of matching limited public resources to the multiple needs of the islands and states that an innovative approach to investment is often required. This passage from the plan also acts a reminder of the importance of attracting external investment:

- 2.13 “It is rarely possible, when setting out new plans, to satisfy the needs and wants of all partners. This is especially the case in the current economic circumstances, where public investment is limited. It is also the case on Scilly where the small size of the population and the economy limits the amount of local investment. Many of the proposals identified within these plans can be delivered with very little funding; instead they require a change in the way things are delivered and perhaps a change of mindset. Some will secure investment from EU programmes or from central government. Other proposals will require a more innovative approach to investment, bringing private, public and community organisations together to develop solutions.”
- 2.14 The Strategic Economic Plan notes the past successes of the islands in attracting tourists, followed by a decline in numbers; the qualitative expectations of visitors have risen and the process of adapting to this change has been problematic:
- 2.15 “The last few years have seen a steady decline in the number of visitors, as well as a financial crisis, a lengthy recession and a rapid change in social norms. As a result, the Scilly economy has suffered, with many businesses seeing reduced trade and some closing altogether. While incomes have remained steady or declined, costs have risen. At the same time, the expectations of visitors have become more sophisticated and more demanding and some local businesses have struggled to change fast enough.
- 2.16 There is a real risk, as costs rise and services reduce, that more visitors will find other destinations and more residents will decide that life is easier on the mainland. And so starts a spiral of decline.”
- 2.17 This last point is telling and exemplifies the problems faced by Tregarthen’s Hotel – i.e. a “spiral of decline” that the new owners are seeking to reverse.
- 2.18 The report includes data on tourism spend per head of population for Scilly, Jersey, Guernsey, Outer Hebrides, Isle of Wight and Isle of Man. It is striking that the tourism spend per head is very much higher for Scilly. This may suggest that Scilly should diversify its economy (indeed it is part of the strategy to do so by attracting higher value businesses, including knowledge based firms that can exploit new broadband provision); however, the report rightly notes that “tourism remains very significant to the islands’

economy” and “any decrease in overall visitor numbers and their spending has a disproportionate impact on the Scilly economy”.

- 2.19 The economic development agenda for the Isles of Scilly is to some extent a microcosm of the NPPF in the way that economic objectives are given weight alongside social and environmental considerations. Achieving a “more productive” economy is signalled as important and one that is “efficient, competitive and fair”. So the report is clear that the success of the economy is key to underpinning the community:
- 2.20 “Scilly is special. Looking forward, the trick will be finding the right balance between preservation and development. Without a successful economy, it is hard to see how Scilly can continue to support viable communities. Creating a successful economy will require businesses to become more productive, continually adapting to new challenges, and to develop new opportunities. It will also require residents to recognise that their future is completely linked with a strong economy and they need to support change where it is necessary.”
- 2.21 The Council’s objectives include improving transport to the islands as well as the quality and value of the tourism offer. The proposed development of Tregarthen’s Hotel responds directly to the second of these and can, in turn, help support the market for transport services by attracting more visitors. The proposal goes further in seeking to extend the tourist season by providing self-catering cottages which are expected to be popular in the shoulder months of the year, thereby helping to keep the hotel open for longer because the two operations (hotel and cottages) will be interlinked.
- 2.22 The proposed development offers a further benefit to the Council’s objective to diversify the local economy into other forms of “high value” business. Creation of higher quality accommodation would support business tourism and give the islands greater credibility in this market.
- 2.23 Pages 12 and 13 of the Council’s Strategic Economic Plan illustrate the connectivity between subsets of the economy that need to be encouraged and improved, especially tourism:

“Given the location of the Isles of Scilly, an efficient, reliable, year-round transport service is paramount. This provides the lifeline for businesses, visitors and residents alike and should develop to provide easier links to key markets beyond Cornwall. Tourism will always be the largest part of the economy - and so it is especially important that the tourism sector is ready to continually improve its offer, responding to the needs of visitors. If at all possible, Scilly should encourage new businesses in new sectors to set up and move to the islands...”



2.24 The Council’s strategy includes key “objectives”, “essential conditions” and “actions” which are directly relevant to the proposed investment at Tregarthen’s Hotel. For example:

- “To improve the quality and value of the tourism offer”.
- “Provide training for local people and workers to improve skill levels and adaptability” – this is a vital operational consideration for Tregarthen’s Hotel (see management feedback below).
- “Make full use of the new superfast broadband for economic and community benefits” – digital connectivity, online bookings and the development of social media channels are increasingly critical to the hotel industry. Investment and training in these areas will benefit the hotel and its staff (more detail below).
- “Encourage more use of air taxis and heli-charters; explore the option of a limited winter boat service; ensure better and more coordinated off-island links throughout the year” – these transport related improvements all depend upon and support improvement of facilities for tourists; investment in Tregarthen’s Hotel is one of the stepping stones in this process. Attracting the right investment at the right time to both sides of the equation is not easy but the proposed development is a small but important part in overcoming this catch-22; as the strategy rightly

identifies, all of the community has a part to play and Tregarthen's Hotel is responding to this cue from the Council.

- "Improved quality – at all price points" – this is very much the objective of the proposed development. Tregarthen's Hotel recognises that hotel rates are generally quite high with limited scope to raise them; this means that an innovative approach to securing investment is required if the hotel is to win the capital it needs (see Chapter 6.0 below).
- "Support the development of new upmarket accommodation" – again, the proposed development is in alignment with this key action in the Council's strategy.

2.25 In addition, there are several actions related to promotion of the islands. The Council's report states: "This Strategic Economic Plan demonstrates the need to both improve the tourism offer and market that offer more effectively. Similarly, the need to diversify the economy and attract investment and entrepreneurs to Scilly requires effective marketing of Scilly as a whole. Ideally, there should be a single, unified brand under which more specific marketing can be delivered."

2.26 The report then sets out key actions for enhanced promotion. Raising the standard of accommodation is critically important because the "promise" made by stronger promotion of the Isles of Scilly must be matched by the "delivery" of a good visitor experience. The proposed development at Tregarthen's Hotel is aligned with and supports these actions:

- "Create a strong overall brand for all activities on the Isles of Scilly"
- "Develop a number of sub-brands to promote tourism, food, creative products and business locations"
- "Build a marketing campaign using established and new media outlets"
- "Increase the number and range of events on Scilly"
- "Exploit high-profile Scilly 'supporters'"
- "Agree a single set of strong messages to be used across general and specific PR and marketing activities"

- 2.27 So it is important to Tregarthen's Hotel that it lives up to the expectations created in the Council's campaign for stronger promotion of the Isles of Scilly. The proposed development is a firm statement of intent on the part of the hotel "to do its bit".

Chapter summary

- 2.28 National planning policy encourages a proactive approach to delivering economic growth. The NPPF says that the government is committed to ensuring that the planning system does "everything it can" to support sustainable economic growth.
- 2.29 Local policies support tourism development that: contributes to diversification and modernisation; improves the quality of tourist accommodation; potentially extends the tourist season; involves changes of use between forms of tourist accommodation.
- 2.30 It is recognised in local policy that tourism is important and the Isles of Scilly should achieve "a high quality and distinctive response to changing markets in tourism". The future of the local economy is recognised as "challenging" and hence an innovative approach to investment is often required. The response to the challenges needs to be positive and proactive to avoid the risk identified in the Strategic Economic Plan of "a spiral of decline".
- 2.31 The success of the economy is key to underpinning the viability and prosperity of the local community; central to this is tourism and sustaining its market appeal. The proposed investment at Tregarthen's Hotel is consistent with the "objectives", "essential conditions" and "actions" in the Council's strategy - including raising standards, investing in training, stimulating demand and connected impacts such as helping justify investment in promotion and transport.
- 2.32 The proposed development is a firm statement of intent on the part of Tregarthen's Hotel "to do its bit".

3.0 ECONOMIC CONTEXT

3.1 The Cornwall and Isles of Scilly Local Enterprise Partnership (CIOS LEP) echoes the vision of the Isles of Scilly as “a thriving, vibrant community rooted in nature, ready for change and excited about the future”. The Local Enterprise Partnership also says that “the islands offer significant investment opportunity, business potential and training opportunities” and “infrastructure improvements to St. Mary’s Airport, Lands’ End Airport and St. Marys Quay guarantee a future for improved transport provision on the isles”.

3.2 Looking to the future, the Local Enterprise Partnership identifies the following priorities:

- To secure resilient, year-round transport services to Cornwall and further afield
- To improve the quality of the tourism offer
- To promote the Isles of Scilly more effectively
- To diversify the economy
- To create more collaborative opportunities for the islands' businesses
- To make the islands more self-sufficient and more resilient to future changes

3.3 The proposed development is directly related to the second of these priorities (to improve the quality of the tourism offer). However, all of these objectives are interrelated and success in one area is helpful to the others. For example, improving the quality of visitor accommodation reinforces the year-round appeal of the islands and the rationale for investment in transport services. To some extent there is “a chicken and egg” problem – which comes first? Inaction creates paralysis whereas investment in one or the other (preferably both) is to be welcomed as it helps unlock this paradox.

3.4 Tregarthen’s Hotel also faces a seemingly intractable problem – how to move on from the status quo (which is the product of demand and supply) without fresh investment (which depends upon confidence that the pattern of demand and supply will improve). The owners of the hotel believe they have found a solution that involves three key steps:

- 1) Initial refurbishment to help safeguard the business
- 2) Secure capital investment from equity investors in the proposed cottages (a form of joint venture funding described in Chapter 6.0 below)

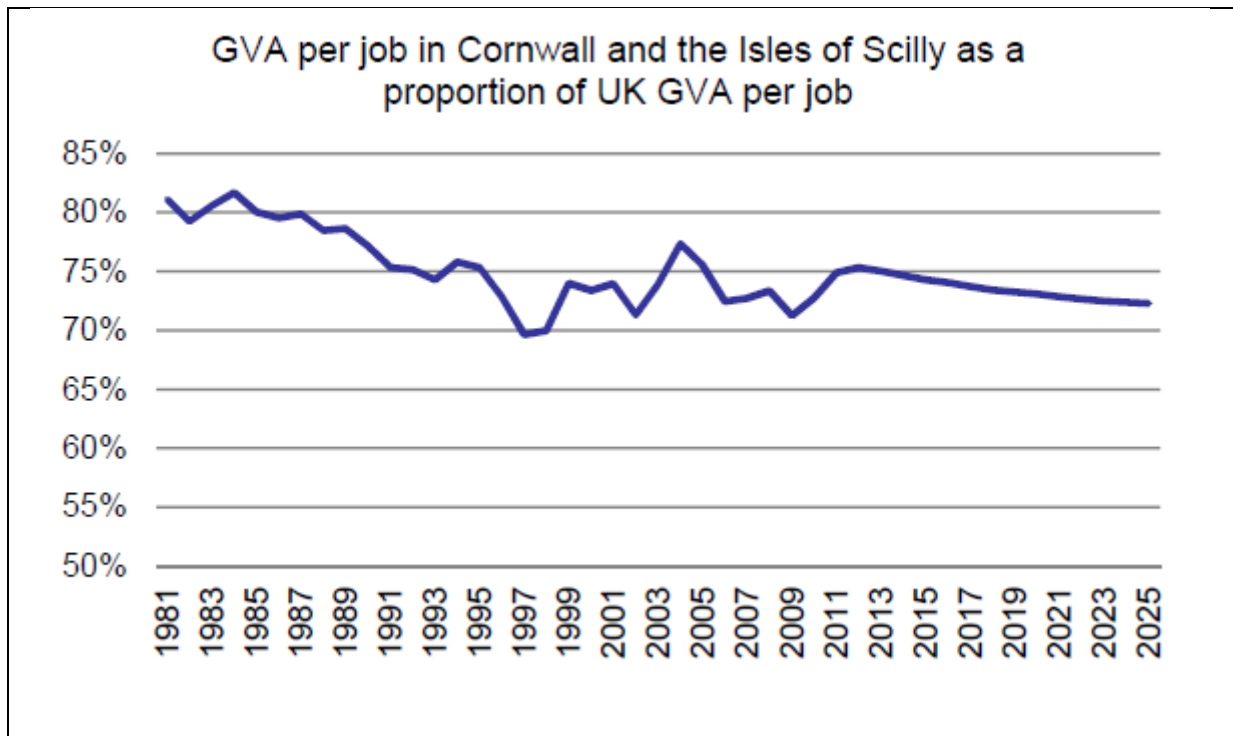
- 3) Then expand the business via the proposed development of self-catering cottages administered by the hotel
- 3.5 In developing its strategy for Cornwall and Isles of Scilly, the Local Enterprise Partnership commissioned a detailed economic evidence base, produced by SQW. One of the fundamental findings of the report, perhaps an obvious statement, is that, “First, it is clear that the “lifestyle” provided by Cornwall and the Isles of Scilly is important. But recognition of its importance is not synonymous with any lack of business ambition. Instead, these businesses (and the people who run them) are benefiting from the lifestyle *whilst also* growing and running internationally competitive businesses”. To a large extent the consultation with business that underpins this statement focused on the mainland but, nonetheless, the important message for the Isles of Scilly is that the “lifestyle” that is so attractive to tourists also has resonance with successful people who might be persuaded to invest in island businesses.
- 3.6 The logistics of running an island based business and, for the Council, administering an island economy are not easy. The transport challenges facing the islands are well known; another dimension of the logistical problem involves utilities. The Local Enterprise Partnership reports that the costs of water, sewerage charges, energy and transport fuels are higher for the average household in Cornwall than the UK average¹; it is likely that these challenges are more acutely felt on the islands compared to the mainland.
- 3.7 The Local Enterprise Partnership’s evidence base refers to the Climate Change Risk Assessment (CCRA) required by the Climate Change Act, 2008 and notes that “there could well be increased demand for holidays in the UK as summer temperatures increase in both the UK and in popular destinations abroad”². This is an important opportunity for which the Scilly Isles is well placed, so long as it can attract investment in facilities that are appropriate for this market.
- 3.8 Evidence from the Local Enterprise Partnership takes stock of the economic performance of Cornwall and the Isles of Scilly. It is reported that³, relative to the UK, the local economy:

¹ CIOS LEP evidence base report 3

² CIOS LEP evidence base report section 5

³ CIOS LEP evidence base 4

- Deteriorated sharply in the 1980s and early 1990s
- Improved (although erratically) between the mid 1990s and late 2000s
- Is projected to decline relatively in the 2010s and 2020s



3.9 The implication drawn by the Local Enterprise Partnership is that “Cornwall and the Isles of Scilly is projected to continue to lag behind in terms of productivity (with implications for, and a relationship to, wage levels)... Cornwall and the Isles of Scilly has underperformed relative to elsewhere, there is little evidence of the “gap” closing – after progress between c.1995 and c.2005, the economy now appears to be moving in the “wrong direction” (on core economic indicators) but some findings are more positive – e.g. LEFM⁴ projects relatively rapid growth in some higher value service sectors (albeit from a low starting point)”.

3.10 The Local Enterprise Partnership reports that, “Links between the Isles of Scilly and the mainland are seriously important for businesses on the Isles of Scilly and there are

⁴ Local Economic Forecasting Model

concerns currently surrounding existing provision". Turning to funding, the Local Enterprise Partnership records a lack of confidence on the part of the banking sector and that "businesses are finding it very difficult to borrow money". As explained later in this report (see Chapter 6.0), it is very much hoped that despite the difficulty of securing investment in these circumstances, the proposed development will be attractive to niche investors.

- 3.11 Focusing on potential strengths is an important part of the Local Enterprise Partnership's strategy. Food, farming and tourism are flagged as "really important to Cornwall and the Isles of Scilly" and "must not be overlooked". It is stated that "around five million tourists visit Cornwall and the Isles of Scilly each year and hence tourism forms a substantial part of the local economy, albeit there are still challenges "relating to the seasonality of employment and wage levels within the sector"⁵.

The CIOS Local Enterprise Partnership plan/strategy

- 3.12 In 2015, having developed their evidence base, the Cornwall and Isles of Scilly Local Enterprise Partnership (CIOS LEP) launched a three year business plan covering the period to March 2018. They repeated their concern that: "The latest GVA⁶ data presents a disappointing picture of output in Cornwall and the Isles of Scilly. Although total output grew between 2013 and 2014, output per person fell to stand at £17,278. Cornwall and the Isles of Scilly had the worst performance of any of the 40 NUTS II regions."
- 3.13 The Local Enterprise Partnership's analysis over a longer period (1999 to 2014) shows an improving trend in output with Cornwall's share of the UK economy up from 0.54% to 0.58% and per capita output up from 65.3% to 70.2% of the UK average. However, much of this improvement "occurred pre-recession and was concentrated on the period 1999 to 2006".
- 3.14 Looking ahead, the Local Enterprise Partnership's vision for Cornwall and the Isles of Scilly is that it will "flourish as the natural place to grow great business". The "Economic

⁵ CIOS LEP evidence base 6

⁶ GVA: Gross Value Added

Growth Strategy for Cornwall & Isles of Scilly” (June 2012)⁷ considers, inter alia, why businesses invest there.

3.15 Key reasons to invest include:

- The environmental assets of Cornwall and Isles of Scilly. They are regarded so highly in terms of lifestyle and quality of life that the Local Enterprise Partnership described them as essentially a “factor of production”.
- The potential for alternative sources of energy including geothermal and wave power.
- Horticulture on the Isles of Scilly, plus tourism and leisure across the board.
- Marine based activities in and around Falmouth.
- The roll out of superfast broadband.
- The ability to combine “lifestyle” and “ambition” (with examples of world class firms and business leaders that increasingly reflect on “what they are working for”).

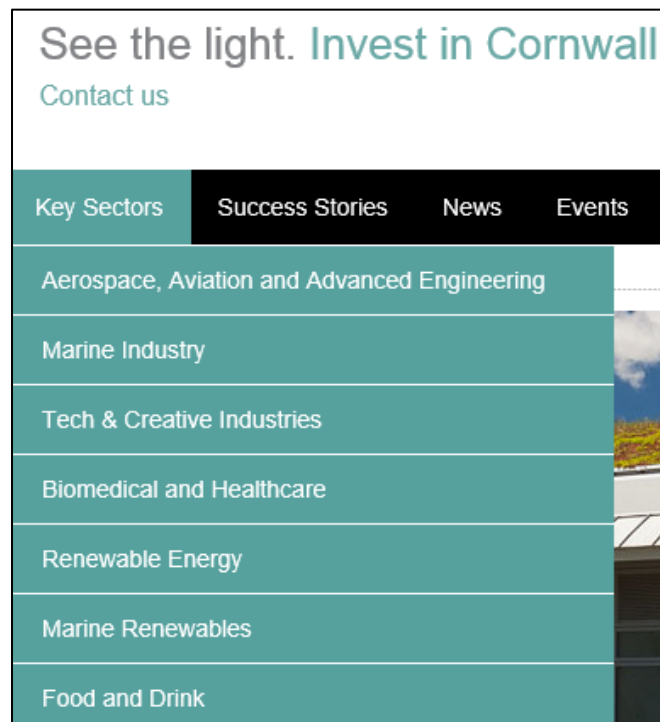
3.16 The Local Enterprise Partnership also comments that “within Cornwall & Isles of Scilly – like any local area – there are businesses that are content with the lifestyle it supports and with little desire to grow further. There are also firms that would like to grow but lack the skills, resources, confidence and/or networks to do so.” Four groups of issues that frustrate business growth are identified:

- Matching skills, labour supply and employment opportunities.
- Having sufficient critical mass to link businesses and the knowledge they need to grow.
- Perceptions of distance and the reality of transport costs.
- Availability of premises, attracting finance and helping firms to be “investor ready”.

3.17 These four issues relate to the proposed development to some extent; the last point is especially critical because the hotel needs to attract investment... The Local Enterprise

⁷ See pages 8, 9, 25

Partnership signposts the “Invest in Cornwall” website which invites readers⁸ to invest in Cornwall but it makes no specific mention of tourism in its list of key sectors, yet we know that tourism is a key part of the Isles of Scilly economy.



Source: “Invest in Cornwall” website

- 3.18 This view of key sectors may appear a little “mainland-centric” and the Scilly Isles will certainly need to develop its tourism offer alongside any further ambition to attract companies from these other sectors.
- 3.19 We have also reviewed the “Smart Islands Energy Infrastructure Plan for the Isles of Scilly” (12th May 2016). Our report is less concerned with this dimension of economic development but we note in particular that the geography of the islands means that physical development and the operation of a business must bear added costs over and above those on the mainland.
- 3.20 The report states that, “The key challenges on the IoS relate to the size of the islands and the environment. As the islands are small and remote, projects cost more to implement.

⁸ <http://www.investincornwall.com/key-sectors/>

Typically, a project will cost between 20% and 50% more to implement on the IoS than in Cornwall.”

- 3.21 Secondly, “There is a lack of appropriate skills on the islands to implement major projects. This is both in terms of the necessary technical skills and the numbers of people required. Thus for infrastructure projects the personnel would need to be imported from the mainland. It is vital that maintenance for systems is provided by people based on the islands.”
- 3.22 There are parallels with the proposed development and operation of Tregarthen’s hotel. Firstly, the cost of construction will be inflated by the transport costs for materials. This adds to the challenge of financing the project and gives rise to the investment proposition detailed below in Chapter 6.0. It also means that the quality of the hotel must rise to match the expectations of the clientele that can afford the exceptional travel costs to/from the Isles of Scilly.
- 3.23 Secondly, the skills required to run a high quality operation can be developed within local people as well as the seasonal workers that may be required. The hotel is already investing in the training of its staff and the development of improved management and IT systems in response to an ever more sophisticated market.

Chapter summary

- 3.24 Research by the Cornwall and Isles of Scilly Local Enterprise Partnership identifies priorities that include improving the quality of the islands’ tourism offer. This links with other priorities such as achieving transport improvements and a wider business base, all of which will help reinforce the year-round appeal of the islands and the rationale for further investment.
- 3.25 Tregarthen’s Hotel has developed its own strategy based on refurbishment for survival, followed by joint venture funding to raise capital for improvement and growth (as proposed by the current planning application).
- 3.26 The “lifestyle” advantages of the islands are attractive to tourists as well as successful business people who might be persuaded to invest in island businesses. But the island

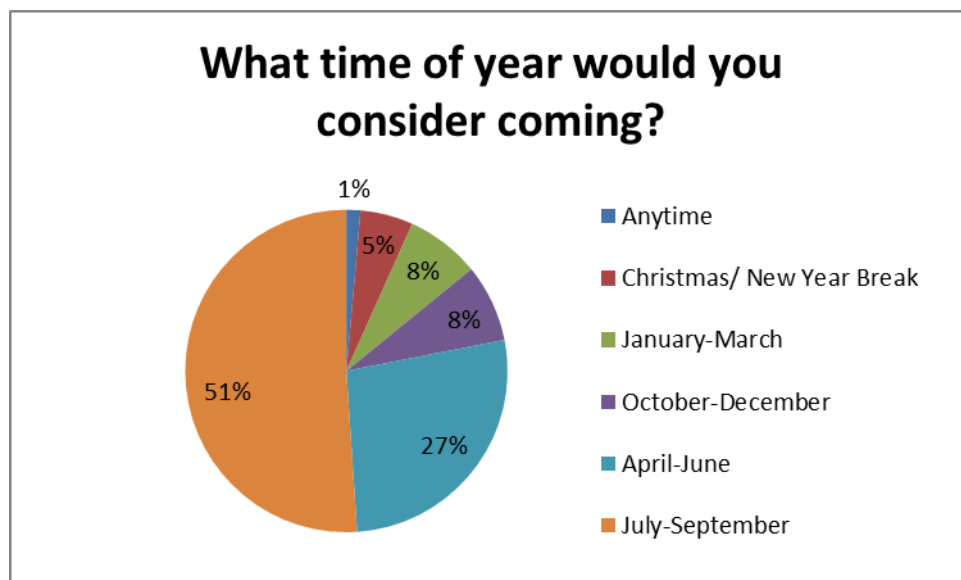
economy has well known challenges related to logistics, utilities, weak trends in GVA and productivity, and raising finance.

- 3.27 Opportunities for sustained prosperity include the natural appeal of the islands and summer temperatures that are attractive to holidaymakers, plus catering for an increasingly discerning tourist market which continues to be an important segment of the local economy. The proposals for the hotel could be attractive to both visitors and investors interested in the lifestyle offered by the islands.
- 3.28 The quality of Tregarthen's Hotel must rise to match the expectations of the clientele that can afford the exceptional travel costs to/from the Isles of Scilly. To respond to this market it is also proposed to upskill and support the workforce through investment in staff training and welfare.

4.0 TOURISM DATA

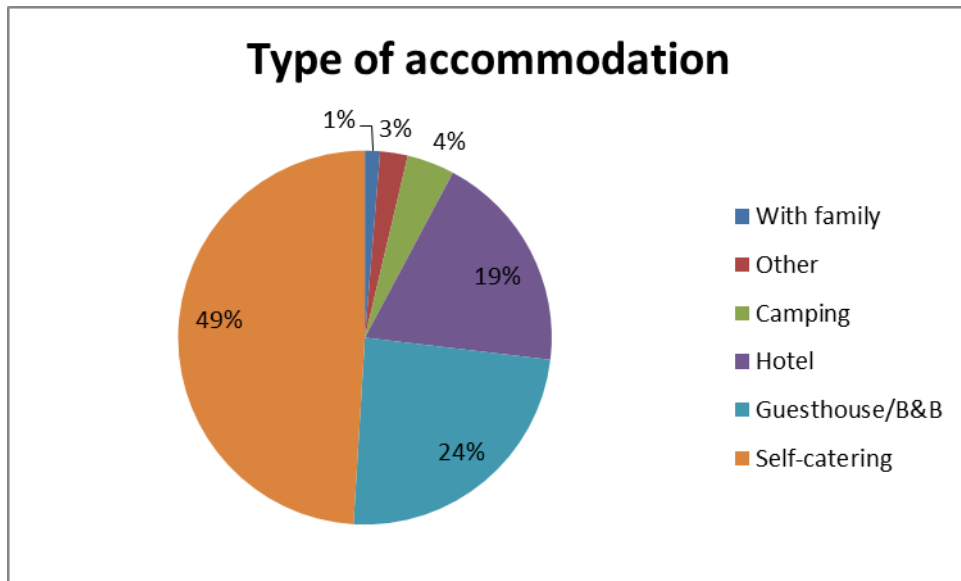
4.1 As part of our research we have reviewed various datasets and tourism reports regarding the Isles of Scilly. According to research by the Islands Partnership the islands attract about 100,000 “staying visits” generating an estimated £33.5m in visitor spending and supporting over 700 full time equivalent jobs (over 90% of all employment on Scilly). So it is clear that the Isles of Scilly are highly dependent upon tourism. Persistent themes emerging from our literature review which are relevant to the proposed development are now set out in this chapter.

4.2 Firstly, the research reports highlight the seasonal nature of tourism on the Isles of Scilly. The Islands Partnership’s “Online Visitor Survey” (2014) states that, “The peak months for visits to Scilly were June and August”. The Blue Grass “Transport Survey Findings” (2013) identified a concentration of visitors in May to September. Similarly, over half (51%) of respondents to the “Tourist Board Visitor Survey” (2012) said that they would consider visiting in July to September, plus 27% in the period April to June:



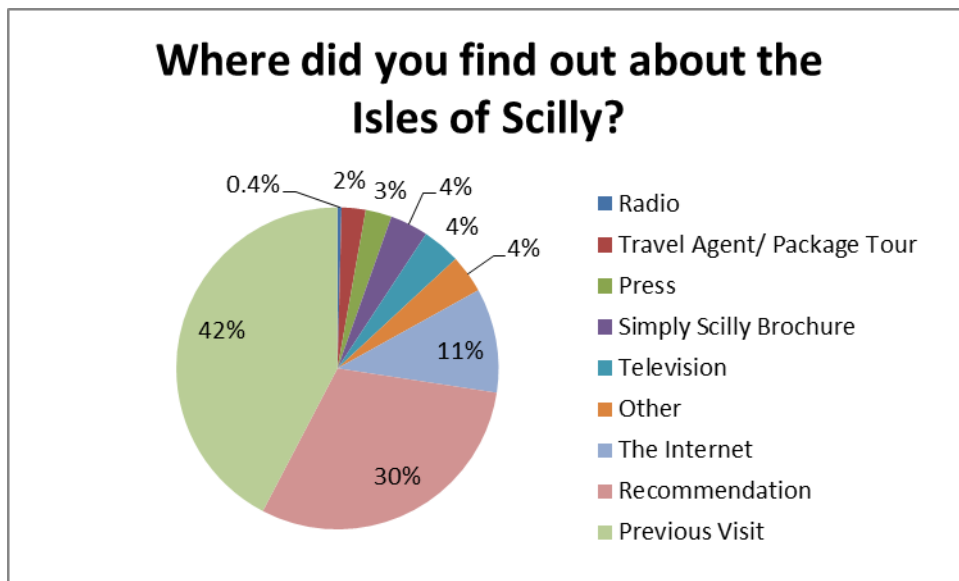
4.3 However, it’s clear from these surveys that there is the potential to attract visitors at other times. Indeed, the Islands Partnerships’ report (2014) identified that “71% of respondents would consider taking a winter break on the Isles of Scilly”. The proposed development at Tregarthen’s Hotel is very much intended to develop this opportunity to extend the season, as well as to consolidate the hotel’s summer business.

4.4 Secondly, the self-catering cottages that are proposed will be a helpful form of diversification. The 2012 study and the 2014 study are consistent in identifying that about half the islands' visitors were staying in self-catering accommodation.



4.5 This is clearly an important sector of the market (49% in the 2012 survey results above) and helps to explain why the owners of Tregarthen's Hotel wish to make good the deficit in their offer of this type of accommodation to the market.

4.6 Thirdly, the channels of communication that lead people to book a holiday on the Isles of Scilly have been studied. According to the 2012 report, the following methods are in play:



- 4.7 This data highlights the importance of repeat business (42% knew of Scilly from a previous visit), but this is known to rely to a degree on a loyal but ageing set of customers - a strength that demography tells us will become a weakness without refreshment of the customer base. Also important are recommendations (30%) and the next largest category is the internet (11%). The 2014 study also found that recommendations and previous visits are important, as well as the internet (illustrated by the fact that the majority (59%) of respondents “used Facebook on a regular basis”). All of these factors work together as reminders that word of mouth (verbal or online) and reputation are critical. Examples of feedback on Tregarthen’s Hotel from the Trip Advisor website are included in the next chapter.
- 4.8 Encouragingly a visitor survey by the Islands’ Partnership in 2015 found that almost a third (30%) of visitors to Scilly in 2015 were new to the islands. However, it also confirmed the seasonal nature of the trade (“peak months for visitors to the islands were June, July and August for longer holidays (8+ days), whilst May and September were most popular for short breaks”). Almost 60% of respondents “felt that a quality star rating was important or very important – rising to 65% amongst first time visitors”. In launching the 2016 visitor survey the Islands’ Partnership commented that “holiday makers are becoming increasingly consumer savvy and more demanding”. This resonates well with the business case that underlies the planning application for Tregarthen’s Hotel.

- 4.9 Internet use and social media activity is increasing and becoming more common as a source of information that drives tourism choices. The global reach of the internet is an important dimension of this trend because it opens up the opportunity for the Isles of Scilly to broaden its customer base. According to the 2014 study overseas visitors included tourists from Germany, the Netherlands, Belgium, Ireland, Norway, Sweden and Hungary.
- 4.10 The 2012 research also reported that 61% of visitors surveyed were accommodated on St. Mary's. This highlights the importance of St. Mary's to the local economy and the importance of ensuring its offer is up to current standards.
- 4.11 The visitor surveys in recent years are consistent with the in-depth research and strategy contained in the "Future of Tourism on Scilly – The Blueprint Report" (April 2011) and the accompanying Technical Paper. For example:
- "Scilly needs to halt – and if possible reverse – the decline in numbers of visitors, and encourage them to stay longer and spend more. It needs to attract and retain many more first-time visitors. It needs to improve the experience so that it meets contemporary expectations. And all this must be done in a way that wins the support of islanders and does not undermine the character of the place."
 - Scilly needs understanding of "what new customers need, and systematically tackling those aspects – of quality and service – that let Scilly down".
 - "Up to now, Scilly has depended on a very high level of return visitors. But now Scilly needs to attract – and keep on attracting – more first-time visitors than before... The generation that became Scilly's 'loyal devotees' is ageing. And the visitors who must replace them are much more widely travelled. They have higher quality expectations..."
 - Competing locations offer "a holiday with guaranteed sunshine and a mix of activities and experiences, plus high levels of hospitality and service".
- 4.12 A key message in the report is that "things need to change" and "Scilly's tourism provision does not always do it justice. Quality and distinctiveness are so important – not just at the luxury end, but at every level, including budget". Furthermore, "not all accommodation is up to scratch - in terms of quality or style."

- 4.13 Looking forward, the report considers subsets of the market and strategies for attracting new visitors. It states that, “Scilly’s ‘new breed’ of potential visitors have low awareness or understanding about where – and what – Scilly is. They are experienced and savvy consumers. They prefer to make holiday decisions based on recommendations from other consumers, independent travel writers and trusted brands”. Again, this emphasises the importance of the quality of accommodation and the way that customer service can act as a brake or an accelerator for future business.

Chapter summary

- 4.14 Published research and tourist surveys are consistent in confirming the importance of “staying visits” (generating over £33m in visitor spending and over 700 FTE jobs). The seasonal nature of tourism on the Isles of Scilly makes it all the more important that investment in the islands’ visitor accommodation is encouraged – a) to safeguard current business and b) to help extend the season. Self-catering accommodation is an important part of this equation (about 50% of trade) and Tregarthen’s Hotel seeks to make good the deficit in its offer of this type of accommodation to the market.
- 4.15 Tourism data also confirms the importance of repeat business and winning new clientele to replace older customers. To broaden the customer base (by age and geography) demands improvements in the quality of visitor accommodation on St. Mary’s, especially as the internet is so central to tourism marketing and is accelerating the proliferation of customer feedback (positive and negative).
- 4.16 The strategy being pursued by Tregarthen’s Hotel is consistent with the tourism data generated over a number of years which shows that the quality of the accommodation and customer service can act as a brake or an accelerator for future business.

5.0 MARKET AND MANAGEMENT FEEDBACK

- 5.1 As part of our research we have interviewed the hotel managers to discuss the strengths of the hotel to build upon, the weaknesses to address, the opportunities to develop and the threats to counter. These discussions have been analysed to draw out key themes and to test the case for investing in the hotel as proposed.
- 5.2 The first and perhaps most obvious strength of the hotel is that it is situated in a very attractive part of the UK! Clearly the natural environment, character and climate of the Isles of Scilly are major selling points for the hotel. However, some of the islands' attributes are double edged – such as its remote location being part of its appeal as well as an added cost for travellers; the climate is benign but can be difficult at times if the islands become fog bound or beset by stormy weather.
- 5.3 Loyalty to the islands and the hotel is perceived to be strong. People tend to book ahead and last minute bookings are not common compared to other hotels. Again, this can be regarded as a positive attribute but the absence of short/medium notice bookings (probably due to a shortage of choice and the difficulties of transport) would be seen as a weakness on the mainland.
- 5.4 The fact that the hotel has “suffered from massive underinvestment but is still achieving quite good rates” is another paradox to unpick. The management team feel that the hotel is at a tipping point where it cannot afford to take its customers for granted; much is being achieved by working hard to deliver good service (overcoming some of the weaknesses in the standard of the facilities) – but failure to invest at this time could threaten its survival...
- 5.5 Priorities include upgrading bedrooms, bathrooms and common areas; fixtures, fittings and lighting all need to be improved (the latter to help make the hotel more presentable and environmentally responsible). Recent investment made last winter has been a defensive measure to justify current rates and is part of the cost of standing still. However, it is a process that eats into reserves and limits the hotel's ability to fund further improvements from revenue. A step change (as proposed) is required.

- 5.6 As identified in tourism data and the “Future of Tourism on Scilly” study published by the Council, there is a demographic shift in play which means that longstanding customers are ageing and new visitors to the islands are required. So whilst repeat business is very important (some guests have been coming in the same week for many years), the list of loyal customers is becoming shorter. This demographic change is another factor that places the hotel in a downward spiral unless action is taken.
- 5.7 Some of the hotel’s problems are symptomatic of island life; being somewhat detached from business at large there are still some firms in the tourist sector that cannot process credit card payments. It has been said to us in the course of our research that “the islands are in a bit of a time warp” in this way. This could be seen as part of their charm but many tourists would consider this particular aspect a weakness; more to the point, it represents a lost opportunity for islanders. Tregarthen’s Hotel is committed to raising its game to meet the expectations of tourists, including day visitors and passers-by. Visits by cruise liner are growing and a greater share of expenditure could be secured for the island by improving the quality of the hotel’s bar/restaurant; attractive accommodation could also be a draw for return visits.
- 5.8 Room occupancy is a critical metric or key performance indicator; crucial margins can be won or lost by managing the hotel efficiently to maximise room use. By investing in a modern booking system, suited to online bookings from multiple websites and agencies, room occupancy can be maximised. This additional capacity and sophistication also means the hotel will be better equipped to handle under/over bookings created by bad weather.
- 5.9 The proposed development of the cottages will add significantly to the capacity and quality of self-catering accommodation on St. Mary’s. The income the cottages generate will also help the hotel to fund the necessary improvements to the hotel.
- 5.10 The aspiration is to raise the quality of the hotel and its service from mid-3 star standard to mid/upper 4-star standard. Generating capital and income to achieve this is critical; the management team emphasised that this proposition is not deliverable by simply raising room rates because the headroom for this is very limited.

- 5.11 If the cottages are let on long leases and administered by the hotel (the preferred funding model) then the hotel will be able to generate capital receipts for investment in further improvements to the hotel, staff training, staff welfare and customer care. This strategy of combining physical improvements to the hotel with well trained staff operating efficiently on a daily basis will raise quality and margins. The management team do not see this as a passive hotel investment that would suit a remote, “deep pocket” investor; it requires local knowledge and active management where the extra margins are earned locally by well trained staff operating efficiently on a daily basis.
- 5.12 The management team is committed to staff training programmes. This is consistent with the work of the Islands’ Partnership which has “delivered accredited Welcome Host training to its valued team of volunteer Meet & Greet Ambassadors and the team of TIC assistants”; it’s clearly important to the Islands’ economy that as many businesses as possible that engage with tourists are pulling in the same direction. Tregarthen’s Hotel has already started to invest in training and will continue to do so in tandem with its planned investment. Examples of training priorities include:
- Customer service training
 - “Train the trainer” sessions to cascade training through the whole team
 - Sponsorship of staff to achieve the HNC in Hospitality Management
 - Front of house and door supervisor training
 - IT training and digital marketing
 - Management of “social media” and online sales
 - Catering skills, including barista training
- 5.13 Another driver for developing the hotel is to raise standards to the level at which reputation and word of mouth works positively to its advantage. The use of “social media” is growing rapidly and the “reputation management” of hotels is key. The Islands’ Partnership recently reported via its website that, “For the first time last year, the use of mobile devices to access the website surpassed those using a laptop or desktop: 53% compared with 48% in 2014/2015. This trend is anticipated to accelerate further and more rapidly in the near future.” Furthermore, illustrating the increasing sophistication and connectivity of different media channels, the Islands’ Partnership has “answered a number of enquiries through the Visit Isles of Scilly Facebook page whilst Urlaub

Cornwall, which specialises in Germany tours to Cornwall and the Isles of Scilly, had 8,000 visits to the Scilly section of its website in the 36 hours following the broadcast” [of a German documentary on the Isles of Scilly].

- 5.14 Websites such as Trip Advisor are increasing influential in customers’ choice of hotels and a negative comment can be catastrophic in diverting business elsewhere. Social media amplifies word of mouth and it is therefore becoming an imperative that hotels raise the quality of their offer, which in turn means having sufficient critical mass and scale to operate at a high level. This is all consistent with the “Future of Tourism” study published by the Council which makes similar observations.
- 5.15 Amongst the good and poor reviews of the hotel on Trip Advisor it tends to be the capital investment items that attract negative comments. Levels of service are considered by the hotel management team to be good and improving but it is impossible to meet the standards required by the market without significant expenditure on the physical fabric, fixture and fittings of the hotel. The proposed development will address these issues in order to meet market requirements. Examples of feedback from Trip Advisor include:
- “I was upgraded to a suite, very nice but the shower was abysmal. The hotel has an excellent chef as the food was all delicious but served in a bright soulless dining room.”
 - “The hotel is a little tired and due for a refit, wifi is only available in the lounge.”
 - “A really expensive hotel. The room was cramped, the decor shabby and the bathroom was not good for our needs. The shower is over the bath and the mechanism to change the water flow didn't work properly so it was hard to get the right temperature.”
 - “There was no internet in the bedrooms so I had to go to the lounge to get online.”
 - “Rooms - tired and small. Only room for one bedside table. Toilet badly stained and bathroom in need of updating. Great view. Corridor carpets worn through and in need of decorating.”
 - “This hotel had run its course. Rooms are tiny, cheap and old.”
 - “Terrible showers in the tiny bathroom.”

- “Unfortunately the hotel, in places, seemed a bit "tired". Painting and updating of the rooms and public places seems overdue.”
- 5.16 This feedback demonstrates both the need for investment in the hotel and the immense power of the internet as a force for change – there is little or no escape from this level of scrutiny.
- 5.17 In developing its strategy for the future, the management team has reflected on lessons from the past. It is felt that that Tregarthen’s Hotel has historically had a strong identity and has been held in high regard. The current mission is to recapture the brand loyalty that the hotel has had in the past – “We need to win back the Tregarthen’s brand and re-establish the reputation of the hotel.”
- 5.18 The management team also sees an opportunity to capture more public footfall, including passengers from cruise liners, to bring business to the hotel lounge and outdoor seating areas.
- 5.19 The objective of these different measures, working in combination, is to set the hotel on an upward spiral. As the Islands’ Partnership says in its “Annual Report and Prospectus (2015/16), “Our competition is improving their product all the time, so to stand still is to go backwards”. The alternative is to fail to catch up with the market and to be left further behind; as one commentator said to us, the stark choice is to “change or die”.

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- 5.20 Market and management feedback has helped to test the case for investing in the hotel as proposed. The special qualities of the Isles of Scilly (including its sensitive environment, seasonal climate and remote location) are double edged as both strengths and weaknesses.
- 5.21 Historically, loyalty to the hotel (like the islands) has been strong but it cannot be taken for granted. The hotel is at a tipping point and failure to invest at this time could threaten its survival. Defensive measures have been taken to refurbish parts of the hotel but this is to “stand still”. The proposed development is a necessary step change to avoid a downward spiral.

- 5.22 The proposed investment will help St. Mary's capture a greater share of trade from day visitors (especially the growing number travelling on cruise liners). Creating attractive bar and restaurant areas, as well as improved hotel and self-catering accommodation will be a draw for return visits. This will be backed up by improved IT systems plus ongoing staff development and training in all aspects of running the hotel.
- 5.23 Tregarthen's Hotel seeks to achieve a mid/upper 4-star standard. If the proposed cottages are let on long leases and administered by the hotel (the preferred funding model) then the management team believes that the required capital can be raised. This cannot be achieved by simply increasing hotel room rates.
- 5.24 Physical improvements will be complemented by active management, including ongoing staff training and promotion. These steps are consistent with the overarching work of the Islands' Partnership and other local stakeholders on tourism development.
- 5.25 Market feedback demonstrates both the need for investment in the hotel and the immense power of the internet as a force for change – with online reviews there is little or no escape from public scrutiny of hotel standards. The management team is striving to recapture the hotel's former brand loyalty. Levels of service are one dimension but it is impossible to meet the standards required by the market without significant expenditure on the physical fabric, fixture and fittings of the hotel. The proposed development will address these issues in order to meet market requirements. There is little choice in a competitive market and the hotel must "change or die".
- 5.26 The hotel's aspirations to extend the season and to improve the quality of its service and employment opportunities resonate well with economic development objectives for the islands. The planning application is a demonstration of the owner's commitment to the project, albeit it absolutely depends upon meeting the market at its needs and being able to develop and operate the cottages in accordance with the application and the proposed investment strategy described below.

6.0 INVESTMENT STRATGEY

- 6.1 Investment in Tregarthen’s Hotel is plainly necessary. We are informed that the owners have invested heavily in response to customer feedback⁹ which, while full of praise regarding service and food, has at times been very critical of the accommodation. Hence an initial programme of investment is required as a defensive strategy simply to “*stand still*”. Further investment of a similar character is planned over the coming winter. Then, in order to be proactive and to “*move forward*” via the proposed development, a third tranche of investment is required.
- 6.2 The owners of the hotel have explored different sources of finance and their respective advantages and disadvantages. The two main options are borrowing from a bank or similar institution and securing investment via a joint venture/shared equity approach. The banking approach tends to be a passive, risk averse arrangement in which the lender seeks a strictly timetabled and pre-calculated return; the JV or shared equity investor takes a more flexible and active interest in the investment and its ethos, especially if they are also a user of the proposed development. These options are summarised in the following table:

Profile of funding models and lenders'/investors' criteria	
<u>Bank finance/institutional lending approach</u>	<u>Joint venture/shared equity approach</u>
Tends to be arms’ length and relatively risk averse.	Investors more involved, more understanding of the risks and appreciative of the workings of the business.
Imposes strict banking covenants (upon threat of calling-in loans).	Shared risk/reward – investors earn a return in proportion to the success of the business.
Strict timetable of regular payments from day one.	Investors take a longer term view and recognise the seasonal nature of the business. More inclined to defer payments according to revenue.
Not motivated by the Isles of Scilly other than as a source of revenue over the period of the loan	Rewarded by use of the cottages (and hotel facilities) as well as a financial return, especially if taking a long lease on a cottage under an administration agreement with the hotel. This strategy also anchors investors to take a long term view.

⁹ See also Trip Advisor

- 6.3 In many ways, the least complex option would be to secure a bank loan and to press on with the development of the hotel, unrestrained by joint investors. However, the reality is that bank finance alone is not sufficiently flexible to overcome the status quo of a dated hotel trying to operate in a highly seasonal market in a location with exceptionally high transport and utility costs, where hotel rates are already high.
- 6.4 This is the reason that the owner of the hotel seeks to fund the required improvements and expansion of the business by means of a joint venture/shared equity type model that creates extra value for investors by enabling them to take long leases on the cottages. By facilitating the ownership of a cottage (under investment lease arrangements) it is possible to generate significant capital for the hotel without the normal constraints of bank finance. We are informed by the owners that for the cottages to be attractive to the market and mortgageable they will need to be offered with leases of say 150 years and a C3¹⁰ planning consent.
- 6.5 Unlike banks or similar institutional sources of finance, the investors will derive additional value from their investment due to an emotional connection with the project that is linked to their appreciation of the Isles of Scilly. This strategy plays to the strengths of the location and puts the interests of the hotel and the investors in alignment. The hotel and its staff will benefit from the additional business of marketing and administering the cottages, as well as the extra footfall they create for the hotel restaurant and bar. This extra footfall will also generate additional custom for businesses on St. Mary's.
- 6.6 This investment model, with development of C3 class self-catering cottages, is the means by which the new owners perceive the hotel can be retrieved from its downward spiral and taken forward in a viable form.

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- 6.7 Tregarthen's Hotel is badly in need of investment – both as a defensive measure to stand still and as a proactive measure to move forwards. All sources of finance are rightly diligent about return on investment; it may be fair to say that this project does not fit well

¹⁰ The proposed development includes “C3 use class dwelling units for restricted holiday letting”.

with traditional lending criteria given the geography of the Isles of Scilly and the very seasonal nature of the business.

- 6.8 This explains why the hotel does not intend to rely on bank finance alone. A joint venture/shared equity model generates more value for those investors that appreciate the ethos of the Isles of Scilly and can derive a benefit from using the cottages with a C3 consent under the hotel's administration. A long lease on each of the hotel cottages, combined with an investment lease agreement, puts the hotel and the investors in alignment by giving them what they require – early stage capital and ongoing income for the hotel; plus an opportunity for investors to complement their investment with visits to the Isles of Scilly.

7.0 ECONOMIC BENEFITS

- 7.1 As the Islands' Partnership says in its "Annual Report and Prospectus (2015/16), "Tourism is vital to Scilly" and it contributes "over £32 million to the local economy and supports more than 1,000 jobs on the islands alone. Its importance to Scilly has rightly been recognised in the Islands' Futures strategic economic plan – and at national level, tourism is also increasingly being recognised as one of the country's key economic drivers."
- 7.2 The report takes encouragement from a recent increase in visitor numbers but also expresses caution: "it is only the start" and "a return to anything like the visitor numbers the islands enjoyed at their peak is still a long way off; it requires a long term, sustained commitment to rebuild the economy and re-establish an Isles of Scilly brand that connects with today's visitor – and, more importantly, tomorrow's".
- 7.3 In this context, of a local economy where tourism is vital and where its contribution of £32m is highly valued, a capital investment plan for Tregarthen's Hotel in the order of £5m should also be valued and welcomed. Not only is this capital expenditure exactly the kind of investment sought by policy and the efforts of stakeholders involved in tourism, it is also a statement of intent to operate the hotel at a higher level that generates ongoing income expenditure.
- 7.4 Literature reviews reveal many reports on the economic benefits of construction work and its multiplier effects through the economy. For example, according to the UK Contractors Group and the Confederation of British Industry (CBI) every £1 spent on construction activity generates a total of £2.84 in total economic activity (i.e. GDP¹¹ increase) and £0.36 in benefits to the public purse. The indirect and induced economic impacts of construction are especially strong because the construction industry uses a wide range of inputs from many industries to produce its goods and services.
- 7.5 That said, we fully recognise that a construction project on the mainland is likely to be far better "connected" to local/regional businesses in its supply chain compared to an island based project that relies on imports and suffers economic "leakage" as a result. However, it remains the case that even if Cornish or other mainland suppliers win business as a

¹¹ GDP: Gross Domestic Product

result of the project, there will still be a need for island based contractors for assembly work, fitting-out, decorating and so on. The investment in Tregarthen's Hotel will therefore generate valuable construction supply chain opportunities for a cascade of regional, Cornish and Scilly based companies and their staff.

- 7.6 More importantly, the economic benefits of permanent “operational” employment and creating a new chapter in the life of the hotel will be felt locally. By operating at a higher standard and by extending the season with self-catering accommodation the hotel will also create a trickle-down effect through the local economy. Evidence of the benefit of investment can be found in the “Cornwall and Isles of Scilly Regional Growth Fund & Growing Places Fund” report dated March 2016 which says that every £1 of public sector investment from the Regional Growth Fund (RGF) and Growing Places Fund (GPF) has levered £4.84 of other funds. This illustrates two key points for the proposed development: firstly, the almost five-fold catalytic value of investment if consent can be secured; secondly, the public value of that investment is all the greater if it does not rely upon the public purse.
- 7.7 Attracting more visitors, making a strong first impression and then generating more repeat business is an important strategy for the Isles of Scilly. The strategy is a good example of how indirect and induced economic benefits can flow from a direct investment such as the one proposed by Tregarthen's Hotel. The Islands' Partnership puts it this way in relation to the cruise ship sector: “Ultimately, our goal is to give cruise ship passengers a really warm Scillonian welcome and the best visitor experience that we can, so that they will be encouraged to return to the islands for holidays or short breaks... Even if they come only for a day, cruise ship passengers contribute a significant additional spend in the local economy through tours, food and drink, shopping and boating but of course, it becomes truly beneficial if they come back for holidays – and, anecdotally, we know that this does happen. Giving them the perfect welcome, gives them the best reason to come back.”
- 7.8 Stepping up demand in this way has the benefit of generating more trade for the Isles of Scilly and encouraging extension of the season. Creating demand in the quieter months will also generate job opportunities that are less transient; this in turn will help employers that have recruitment problems associated with the seasonal nature of demand.

- 7.9 Programmes such as “Scilly Business Week”, which delivers advice to local businesses, as well as a variety of funding opportunities are examples of economic development initiatives that are designed to help businesses grow, to be more profitable and sustainable. The proposed development is a good example of a business endeavour that shares these goals whilst also attracting significant private sector investment. This in turn will help to encourage investment by others, ultimately helping the Isles of Scilly to resolve the “catch-22” of attracting investment in higher quality accommodation (and transport) before the arrival of more visitors.

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- 7.10 The Annual Report of the Islands’ Partnership confirms the crucial role of tourism as being “vital to Scilly” (contributing over £32 million and over 1,000 jobs to the local economy); furthermore, tourism is nationally recognised as a “key economic driver”. Further investment is required to build on this strength and to connect with current and future visitors. In this context it can be seen that a capital investment plan for Tregarthen’s Hotel in the order of £5m (plus ongoing income expenditure) should be welcomed by the planning system.
- 7.11 The construction sector is especially strong at stimulating economic activity and this is well recognised on the mainland where supply chains are well connected. Notwithstanding that a construction project on the Isles of Scilly will rely on the importation of construction materials and products (entailing economic “leakage” to the mainland), the economic benefits will be felt in part in Cornwall and amongst island based contractors.
- 7.12 More importantly, the economic benefits of permanent “operational” employment and creating a new chapter in the life of the hotel will be felt locally.
- 7.13 The “Cornwall and Isles of Scilly Regional Growth Fund & Growing Places Fund” report found that £1 of public sector investment levered £4.84 of other funds. This helps to illustrate the catalytic value of investment, which is all the greater in terms of wider public benefit if it does not rely upon the public purse.

- 7.14 The proposed investment is an example of a project that will stimulate ongoing economic activity through repeat business – the economic multipliers are therefore strong and persistent. The hotel's strategy is entirely consistent with the Isles of Scilly economic development strategy and will play its part in encouraging investment by others.

8.0 SUMMARY AND CONCLUSIONS

8.1 We have assessed the plans to invest in Tregarthen's Hotel from an economic development perspective. We conclude that the proposed development is entirely consistent with the Council's economic strategy and with extensive research into the tourism sector undertaken by local stakeholders.

Policy context

8.2 National planning policy encourages a proactive approach to delivering economic growth. The NPPF says that the government is committed to ensuring that the planning system does "everything it can" to support sustainable economic growth.

8.3 Local policies support tourism development that: contributes to diversification and modernisation; improves the quality of tourist accommodation; potentially extends the tourist season; involves changes of use between forms of tourist accommodation.

8.4 It is recognised in local policy that tourism is important and the Isles of Scilly should achieve "a high quality and distinctive response to changing markets in tourism". The future of the local economy is recognised as "challenging" and hence an innovative approach to investment is often required. The response to the challenges needs to be positive and proactive to avoid the risk identified in the Strategic Economic Plan of "a spiral of decline".

8.5 The success of the economy is key to underpinning the viability and prosperity of the local community; central to this is tourism and sustaining its market appeal. The proposed investment at Tregarthen's Hotel is consistent with the "objectives", "essential conditions" and "actions" in the Council's strategy - including raising standards, investing in training, stimulating demand and connected impacts - such as helping justify investment in promotion and transport.

8.6 The proposed development is a firm statement of intent on the part of Tregarthen's Hotel "to do its bit".

Economic context

- 8.7 Research by the Cornwall and Isles of Scilly Local Enterprise Partnership identifies priorities that include improving the quality of the islands' tourism offer. This links with other priorities such as achieving transport improvements and a wider business base, all of which will help reinforce the year-round appeal of the islands and the rationale for further investment.
- 8.8 Tregarthen's Hotel has developed its own strategy based on refurbishment for survival, followed by joint venture funding to raise capital for improvement and growth (as proposed by the current planning application).
- 8.9 The "lifestyle" advantages of the islands are attractive to tourists as well as successful business people who might be persuaded to invest in island businesses. But the island economy has well known challenges related to logistics, utilities, weak trends in GVA and productivity, and raising finance.
- 8.10 Opportunities for sustained prosperity include the natural appeal of the islands and summer temperatures that are attractive to holidaymakers, plus catering for an increasingly discerning tourist market which continues to be an important segment of the local economy. The proposals for the hotel could be attractive to both visitors and investors interested in the lifestyle offered by the islands.
- 8.11 The quality of Tregarthen's Hotel must rise to match the expectations of the clientele that can afford the exceptional travel costs to/from the Isles of Scilly. To respond to this market it is also proposed to upskill and support the workforce through investment in staff training and welfare.

Tourism data

- 8.12 Published research and tourist surveys are consistent in confirming the importance of "staying visits" (generating over £33m in visitor spending and over 700 Full Time Equivalent (FTE) jobs). The seasonal nature of tourism on the Isles of Scilly makes it all the more important that investment in the islands' visitor accommodation is encouraged – a) to safeguard current business and b) to help extend the season. Self-catering accommodation is an important part of this equation (about 50% of trade) and

Tregarthen's Hotel seeks to make good the deficit in its offer of this type of accommodation to the market.

- 8.13 Tourism data also confirms the importance of repeat business and winning new clientele to replace older customers. To broaden the customer base (by age and geography) demands improvements in the quality of visitor accommodation on St. Mary's, especially as the internet is so central to tourism marketing and is accelerating the proliferation of customer feedback (positive and negative).
- 8.14 The strategy being pursued by Tregarthen's Hotel is consistent with the tourism data generated over a number of years which shows that the quality of the accommodation and customer service can act as a brake or an accelerator for future business.

Market and management feedback

- 8.15 Market and management feedback has helped to test the case for investing in the hotel as proposed. The special qualities of the Isles of Scilly (including its sensitive environment, seasonal climate and remote location) are double edged as both strengths and weaknesses.
- 8.16 Historically, loyalty to the hotel (like the islands) has been strong but it cannot be taken for granted. The hotel is at a tipping point and failure to invest at this time could threaten its survival. Defensive measures have been taken to refurbish parts of the hotel but this is to "stand still". The proposed development is a necessary step change to avoid a downward spiral.
- 8.17 The proposed investment will help St. Mary's capture a greater share of trade from day visitors (especially the growing number travelling on cruise liners). Creating attractive bar and restaurant areas, as well as improved hotel and self-catering accommodation will be a draw for return visits. This will be backed up by improved IT systems plus ongoing staff development and training in all aspects of running the hotel.
- 8.18 Tregarthen's Hotel seeks to achieve a mid/upper 4-star standard. If the proposed cottages are let on long leases and administered by the hotel (the preferred funding model) then the management team believes that the required capital can be raised. This cannot be achieved by simply increasing hotel room rates.

- 8.19 Physical improvements will be complemented by active management, including ongoing staff training and promotion. These steps are consistent with the overarching work of the Islands' Partnership and other local stakeholders on tourism development.
- 8.20 Market feedback demonstrates both the need for investment in the hotel and the immense power of the internet as a force for change – with online reviews there is little or no escape from public scrutiny of hotel standards. The management team is striving to recapture the hotel's former brand loyalty. Levels of service are one dimension but it is impossible to meet the standards required by the market without significant expenditure on the physical fabric, fixture and fittings of the hotel. The proposed development will address these issues in order to meet market requirements. There is little choice in a competitive market and the hotel must “change or die”.
- 8.21 The hotel's aspirations to extend the season and to improve the quality of its service and employment opportunities resonate well with economic development objectives for the islands. The planning application is a demonstration of the owner's commitment to the project, albeit it absolutely depends upon meeting the market at its needs and being able to develop and operate the cottages in accordance with the application and the proposed investment strategy described below.

Investment strategy

- 8.22 Tregarthen's Hotel is badly in need of investment – both as a defensive measure to stand still and as a proactive measure to move forwards. All sources of finance are rightly diligent about return on investment; it may be fair to say that this project does not fit well with traditional lending criteria given the geography of the Isles of Scilly and the very seasonal nature of the business.
- 8.23 This explains why the hotel does not intend to rely on bank finance alone. A joint venture/shared equity model generates more value for those investors that appreciate the ethos of the Isles of Scilly and can derive a benefit from using the cottages with a C3 consent under the hotel's administration. A long lease on each of the hotel cottages, combined with an investment lease agreement, puts the hotel and the investors in alignment by giving them what they require – early stage capital and ongoing income for

the hotel; plus an opportunity for investors to complement their investment with visits to the Isles of Scilly.

Economic benefits

- 8.24 The Annual Report of the Islands' Partnership confirms the crucial role of tourism as being "vital to Scilly" (contributing over £32 million and over 1,000 jobs to the local economy); furthermore, tourism is nationally recognised as a "key economic driver". Further investment is required to build on this strength and to connect with current and future visitors. In this context it can be seen that a capital investment plan for Tregarthen's Hotel in the order of £5m (plus ongoing income expenditure) should be welcomed by the planning system.
- 8.25 The construction sector is especially strong at stimulating economic activity and this is well recognised on the mainland where supply chains are well connected. Notwithstanding that a construction project on the Isles of Scilly will rely on the importation of construction materials and products (entailing economic "leakage" to the mainland), the economic benefits will be felt in part in Cornwall and amongst island based contractors.
- 8.26 More importantly, the economic benefits of permanent "operational" employment and creating a new chapter in the life of the hotel will be felt locally.
- 8.27 The "Cornwall and Isles of Scilly Regional Growth Fund & Growing Places Fund" report found that £1 of public sector investment levered £4.84 of other funds. This helps to illustrate the catalytic value of investment, which is all the greater in terms of wider public benefit if it does not rely upon the public purse.
- 8.28 The proposed investment is an example of a project that will stimulate ongoing economic activity through repeat business – the economic multipliers are therefore strong and persistent. The hotel's strategy is entirely consistent with the Isles of Scilly economic development strategy and will play its part in encouraging investment by others.

Overall

8.29 Our overall conclusion is that the economic impact of the proposed development is strongly positive. This conclusion is driven by the following findings:

- The strategic fit of the proposed development with national and local planning policies is strong.
- The economic and geographic context mean there is little choice for the hotel but to make the proposed investment.
- Published research confirms a vital link between tourism, visitor spending and jobs on which the Isles of Scilly depend, as well as the critical importance of raising standards to meet market needs.
- The hotel is at a “tipping point” and failure to invest at this time could perpetuate a downward spiral and threaten its survival; this represents a high opportunity cost given the upside potential and the ambition to achieve a 4-star standard.
- The hotel restaurant/bar will trade more effectively as a consequence of the proposed capital investment and help to improve the dwell time of day visitors to St. Mary’s.
- The self-catering accommodation will be a draw for capital investment for the hotel that cannot be generated by raising room rates. The cottages will also help the hotel diversify its income by type of visitor and time of year; steps that help extend the season will have wider benefits for others.
- The capital investment plan (circa £5m plus ongoing income expenditure from repeat business) is a valuable injection into the local economy from the private sector that should be welcomed by the planning system.

8.30 The hotel’s strategy is market facing, innovative in terms of raising investment from the C3 cottages and entirely consistent with the Isles of Scilly economic development strategy; its execution will play an important part in encouraging investment by others. On balance therefore, the economic impact of the proposed development is strongly positive

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