



Devolution and exiting the EU

Written evidence to the Public Administration and Constitutional Affairs Committee

Introduction

Centre for Cities is the leading think tank dedicated to improving the performance of UK cities. Our research focuses on the UK's 63 largest urban areas. We are grateful to the committee for the opportunity to submit written evidence to this inquiry.

It would be a catastrophic missed opportunity if leaving the EU led to further centralisation of power at a national level in the UK. Instead, there should be a renewed impetus and refreshed approach to the process of devolution.

Current national policies fail to meet the needs of increasingly diverse cities. Giving local politicians more control over the issues that affect the daily lives of the people they represent would make sound economic sense even if Britain had voted to remain in the EU. That it voted to leave, revealing stark political and economic divides within the country, makes the case for the wholesale devolution of policies to cities compelling.

Cities and the Brexit vote

Our Cities Outlook 2018 report¹ shows that urban Britain today is a divided entity with economic divides mapping closely to the political ones. One of the most common explanations put forward for the EU referendum result was that it was a protest by people in 'left behind' places who felt that they had been ignored by politicians. Increasing economic divides explain at least in part the recent political divides that have opened up across the country.

Mansfield polled the highest percentage of votes to leave the European Union of any UK city in the EU referendum. There is clearly dissatisfaction among its

¹ Centre for Cities (2018), *Cities Outlook 2018* London: Centre for Cities www.centreforcities.org/publication/cities-outlook-2018/

residents, and the city's economic performance suggests why this might be the case. In 2017, resident wages were 19 per cent below the national average, while employment rates were lower than the national average too.

The picture looks very different in Reading where its residents voted to remain in the EU. Resident wages were 18 per cent above the national average and in 2016/17, welfare payments were £1,100 lower for every resident living in Reading compared to Mansfield.

This is a story seen across urban Britain. In the referendum, small- and medium-sized cities on the coast (such as Southend and Chatham) or in the midlands or the north of England (such as Mansfield and Doncaster) tended to poll a greater share of votes for leave.

Cities and the impact of Brexit

Our research produced with LSE last year² which shows that leaving the EU is likely to have a differential impact on the UK cities' economies, depending on what type of deal is struck with the EU after the UK leaves and how this affects trade. That is because the EU is the biggest export market for nearly all of Britain's main urban areas with two thirds trading half or more of their exports to the EU. Even Derby, the city least reliant on EU markets, sells a quarter of its exports to EU countries.

The report shows that cities that voted to remain could be the most negatively affected, but they are also more productive and have highly-skilled workforces so may find it easier to adapt in the longer term. That is because places such as London, Reading and Aberdeen are home to large highly-skilled workforces, significant numbers of innovative firms and strong business networks, all of which are crucial to enabling a city to reinvent or adapt its industrial structure to changing circumstances.

As such, the response to leaving the EU is likely to be similar to the aftermath of the 2008 recession – London and the south east were initially most exposed but they also recovered more quickly and strongly than other parts of the country.

Furthermore, our work to **map out which cities are most at risk of losing jobs to automation in coming years** finds that it is those cities with relatively weak economies in the North that are vulnerable to job losses, with cities in the South at relatively less risk.

Significantly, it also finds that it is the same cities which are most at risk which also voted to leave the EU. The implication is that, if patterns of job creation in the future reflect those of the past, then the political divide illustrated by the referendum result will likely grow wider.

² Clayton N (2017) *Brexit, trade and the economic impacts on UK cities* London: Centre for Cities www.centreforcities.org/publication/brexit-trade-economic-impacts-uk-cities/

Cities and productivity

One of the main reasons for these differences in economic outcomes is the differing productivity – the average output of each worker – across the country. In short, even though we have seen record employment across the country, the quality of those jobs has been uneven, affecting productivity and wages. While the UK's productivity woes have been subject to a great deal of comment and analysis in recent years, there has been much less consideration of how this plays out across the country and the implications for the national picture.

Concentrating jobs and businesses in specific places makes them more productive – a process known as agglomeration. Britain's cities should be leading national productivity but instead it is in UK cities that the UK's productivity problem is most evident.

Our analysis³ shows that the country's productivity problems are the result of the underperformance of many cities outside the Greater South East of England. While cities such as London and Reading are among the most productive in Europe, cities such as Leicester and Sheffield perform well below the European average. This means that a big part of improving the productivity of the UK as a whole will need to address the poor productivity in these cities.

Why devolution?

Strong, clear and accountable leadership is vital to the success of UK cities but city leaders currently lack the power to direct investment locally, or to take decisions that could drive future growth. UK cities and city-regions need more powerful and visible leaders backed by robust governance structures.

One-size-fits-all policies made in Whitehall are less effective than those made by politicians closer to the areas they represent. Variation in outcomes across cities requires variation in policy. This requires the recognition of the crucial role that place plays in this, be that through national policies such as the Industrial Strategy delivered locally, or more local control through greater devolution.

Cities have long been restricted by the centralised nature of the UK, and this has limited their ability to tailor policy to respond to the ongoing changes seen in the national and global economies. The variation seen across the country reduces the effectiveness of blanket national policies which invariably fail to address the different challenges that places face.

Those places with a metro mayor now have the ability to tailor policy to do just this, with some powers over skills, planning and transport in particular. Along with the Mayor of London, they now have a mandate which covers one third of England's population. While their powers are limited, they are already expanding.

Meanwhile, those big cities that have not been able to agree an initial deal, such as Leeds and Nottingham, are increasingly being left behind. We have seen that

³ Swinney P (2017), *The role of place in the UK's productivity problem* London: Centre for Cities www.centreforcities.org/publication/role-place-uks-productivity-puzzle/

the original deals the Government struck with particular areas have opened the door to further rounds of devolution and access to national funding for those areas.

The Budget and Industrial Strategy showed a clear preferencing of metro mayors, for example the direct allocations of money to the mayors from the Transforming Cities Fund, while other cities will have to compete for money, and the invitation to Greater Manchester to be the first place to agree a local industrial strategy.

What should happen next?

The most immediate task for Government should be to prioritise striking devolution deals this year with the remaining big cities that do not have them.

The passing of powers back to the UK raises questions about the level to which they should be devolved, with Whitehall not necessarily being the right answer for all policies. There needs to be a systematic assessment of all UK Government activity, with a working assumption to devolve all policies, funding pots that could be delivered at a city or city region level. The model for this should be the ‘reserved powers’ approach used for the original Scotland Act which enshrined in legislation only those areas on which the Scottish Government does not have competence – foreign affairs, international trade, defence, etc – and it must include fiscal devolution to support local investment.

The goal of devolution must be to pass down economic powers to the geography over which people live and work their lives – that means to cities rather than regions. The areas to which Government devolves significant powers and funding should reflect this – seeking as much as possible to align devolved government in England to the economic geographies of cities and city regions.

This means that the geography to which these powers are devolved is also important – devolving to the wrong geographies risks replicating inappropriate one-size-fits all approaches, albeit over a region rather than countrywide. Recent friction in the North East and Yorkshire has shown the limits to the process of setting geographies from the bottom up.

Government needs to end its current ambivalence on the composition of combined authorities, which relies too much on areas coming forward with proposals based on politics rather than an economic determination. Instead, it should define the areas over which devolution would be economically beneficial. Only by doing this will cities succeed in creating more and better jobs for people.

Contact

Tom Flude, Strategic Advisor - Public Affairs, Centre for Cities
t.flude@centreforcities.org | 020 7803 43028

About Centre for Cities

Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

For more information, please visit www.centreforcities.org/about

Partnerships

Centre for Cities is always keen to work in partnership with like-minded organisations who share our commitment to helping cities to thrive, and supporting policy makers to achieve that aim.

As a registered charity (no. 1119841) we rely on external support to deliver our programme of quality research and events.

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Centre for Cities

Second Floor
9 Holyrood Street
London SE1 9EL

www.centreforcities.org

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