

AFTER THE VOTE TO LEAVE: HOW DEVOLUTION COULD MAKE BRITAIN'S CITIES PLAYERS ON THE GLOBAL STAGE

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Urban Britain today is divided, with its political divides mapping onto its economic ones. On no issue is this divide so pronounced as on the country's European Union membership. The vote to leave the EU is often characterised as a protest by people in "left-behind" places, where voters felt ignored by national politicians (Rodriguez-Pose, 2018).

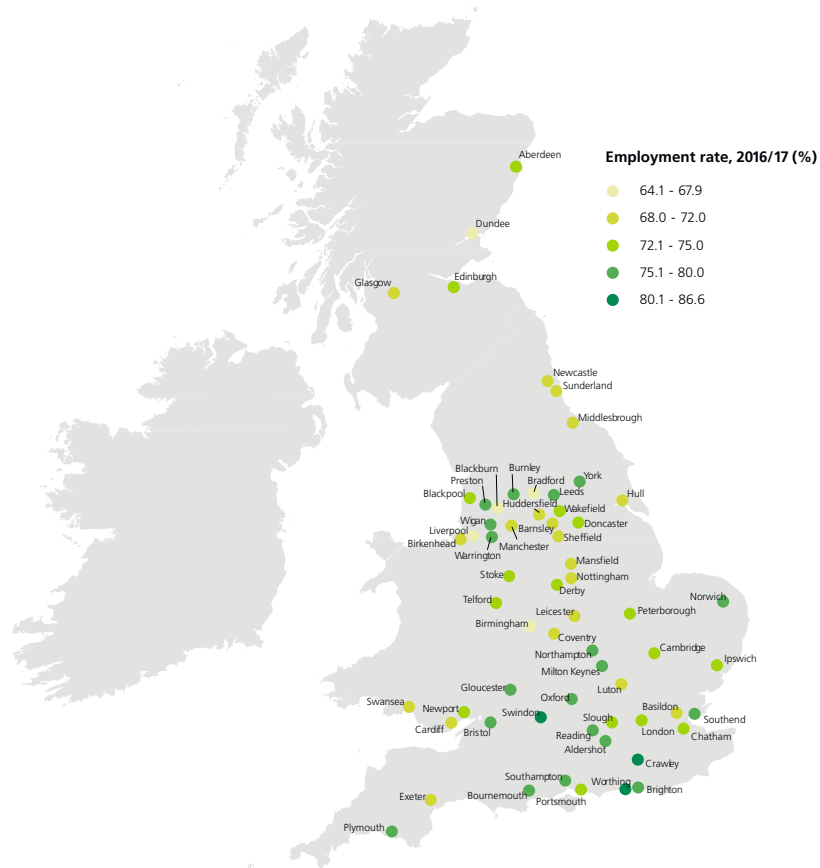
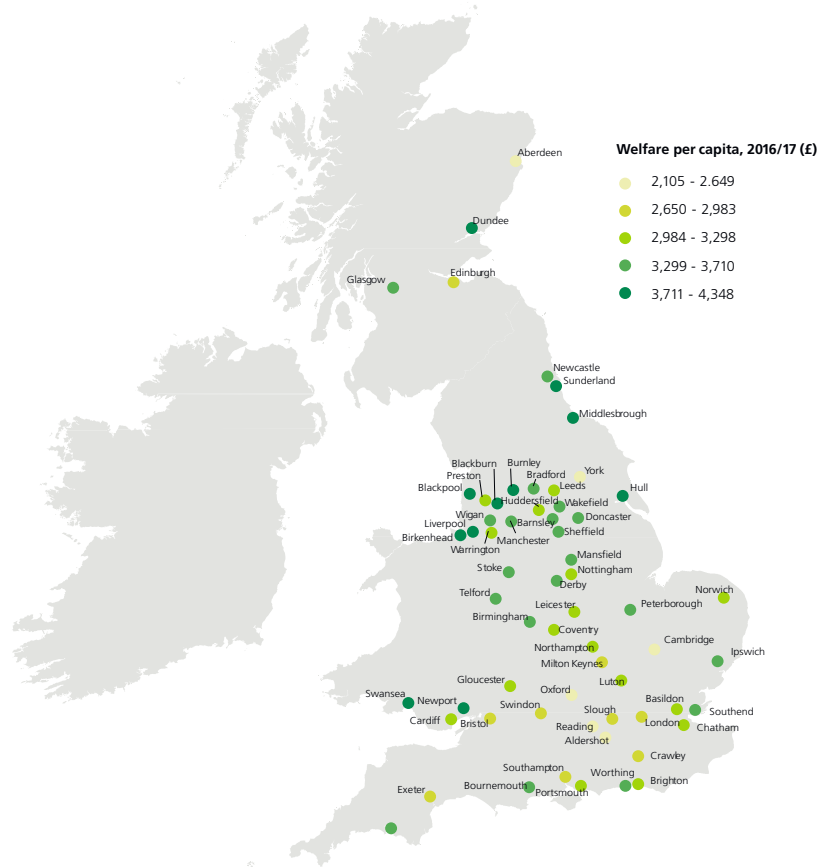
Increasing economic divides – for example in relation to wages, welfare spend per capita and employment rates – at least partially explain the recent political divides that have opened up across the country. Mansfield, a small city in the east Midlands where resident wages in 2017 were 19% below the national average, saw a 70% vote to leave – the highest share of any UK city. At the other end of the spectrum, Reading, a larger city in England's south-east – where resident wages in 2017 were 18% above the national average and welfare payments in 2016/17 were £1,100 lower per person than in Mansfield – voted to remain (Centre for Cities, 2018).

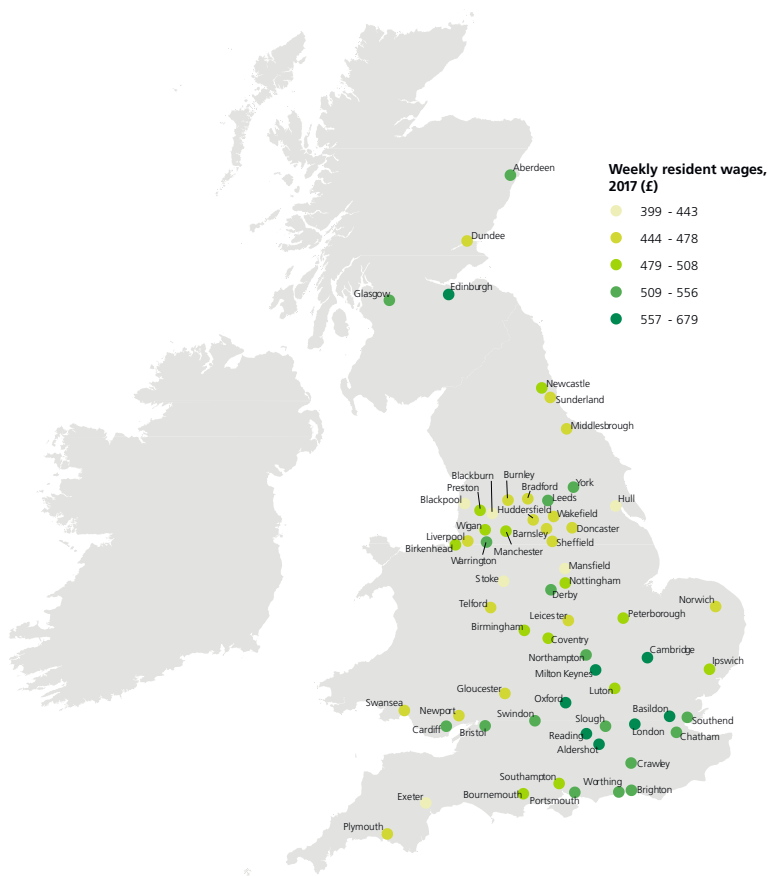
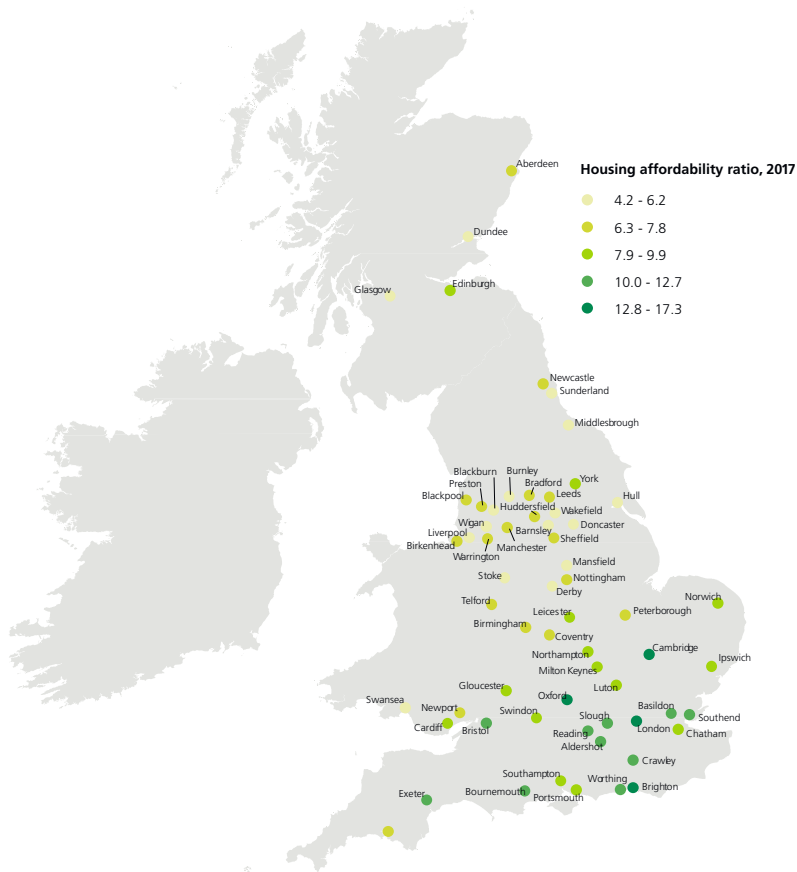
But in practice, whether a city is on the "leave" or "remain" side of the debate, the fact is that Britain's cities have precious little scope to influence their future relationship with the EU now the referendum is over.

The UK's centralised political and economic system means that Britain's cities, unlike cities in most of Europe and North America, are unable to chart their own path. They cannot choose to pursue regulatory alignments with the EU, they cannot offer bridging finance to businesses struggling with Brexit uncertainty, and they have limited capacity, beyond the rhetorical, to establish independent partnerships and alliances with international organisations and businesses.

This article outlines why this centralisation is a problem, and why the UK government, as part of its post-Brexit strategy, needs to devolve more power to its cities. To a large extent, this case is couched in the terms of economic growth but it also has a related political rationale.

Britain's cities cannot and will not become more active partners in international initiatives without having meaningful powers to implement economic policy within their own jurisdictions. If this power is forthcoming then Britain's cities could become real partners in driving forward a global urban agenda.





I. City economies in the UK today

The case for further devolution to Britain's cities, allowing them to engage effectively with global initiatives, must be grounded in the present-day economies of those cities. It is their power – or lack thereof – to influence the local economy that ultimately determines how effective a partner any UK city can be in global policy, regulatory and governance initiatives.

Brexit and city economies today

The EU is the biggest export market for all of Britain's large urban areas, with many sending more than half of their exports to the EU. Even Aberdeen, the city least reliant on EU exports, sends 30% of its exports to EU countries (Whearty, 2019).

Several studies have explored the potential economic impacts different forms of Brexit might have on different parts of the country. Some suggest that a "soft Brexit" customs union style deal might provide some short to medium-term shelter to the manufacturing-intensive parts of the country—mainly in the north and the Midlands—whilst having more immediate negative economic impacts for those places—mainly in the south-east—that rely on service exports to the EU and have a greater share of EU migrants in their workforce. Others suggest that under any Leave scenario, because of the intricate "just-in-time" supply chains that many manufacturing companies rely on it is manufacturing-intensive regions that will be hit the hardest (Clayton and Overman, 2017; Chen et al., 2018; HM Government, 2016).

What all of these studies agree on is that whichever Brexit deal is struck will have a negative impact on future economic growth for all places across the UK in the short to medium term.

What is also not in doubt is that British cities have limited powers and resources to mitigate the negative economic impacts associated with Brexit. For example, British cities are unable to support local businesses with bridging finance when they believe a business is suffering due to Brexit uncertainty. While this type of support should be used sparingly and only where there is a compelling business case, it is still a capability that cities should have in order to support their local economies.

Productivity in city economies today

The economic challenges arising from Brexit are merely the most recent story in a longer-term narrative of economic divergence between Britain's most and least prosperous cities.

One of the main reasons for these differences in economic outcomes across Britain is the differing productivity – the average output of each worker – across the country. Even though the UK has record employment levels 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

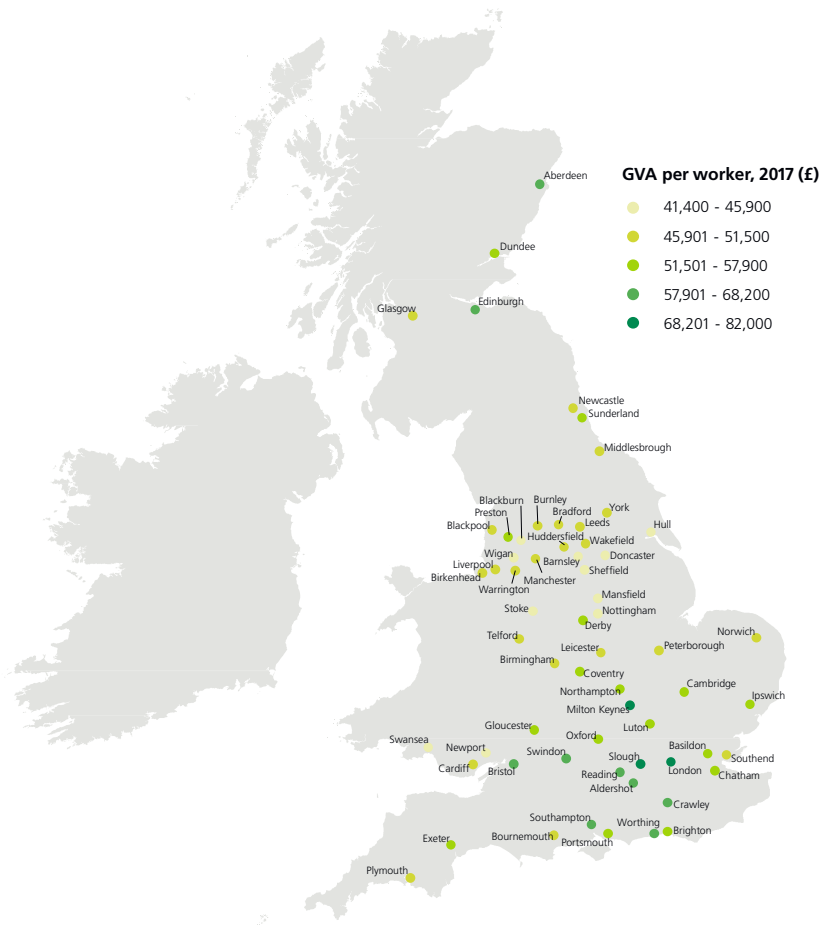
recent years, there has been much less consideration of how these play out across the country, and the implications of this geography for the national picture.

Economic activity in the UK is not evenly or randomly distributed across the country –, it is clustered in cities, where jobs and businesses are concentrated. Great Britain’s 62 largest urban areas account for 9% of land, but 63% of national economic output.

As centres of employment, innovation and trade, cities should be leading the way on productivity. But research shows that the UK economy is being held back by the underperformance of many of its cities outside the greater south-east. For example, in Britain:

48 out of 62 cities were below the national average for productivity (see Figure 1).

Figure 1: Productivity of British Cities (2017)



Of the 14 cities that were above the national average, ten were in the greater south-east. Cities located in England’s greater south-east are 44% more productive than cities elsewhere in the country.¹

In contrast to London’s strong performance, most of the UK’s next largest cities underperform the nation as a whole. As Figure 2 shows, only

Bristol consistently performs better than the national average on a range of indicators. This underperformance is even starker when they are compared to their European counterparts (Bessis, 2015).

Figure 2: Economic performance of Britain' biggest cities

	Gross value added (GVA) per worker 2017 (£)	Employment Rate 2017 (%)	Business start-ups 2017 (per 10,000 population)	Working age population with qualification at NVQ4 or above 2017 (%)	Average weekly workplace earnings 2018 (£)
London	80,538	75	101	51	751
Birmingham	51,533	67	51	29	545
Bristol	59,755	79	50	49	571
Glasgow	47,248	70	45	47	512
Leeds	51,272	77	49	36	540
Liverpool	50,026	68	66	32	539
Manchester	50,437	73	90	36	526
Newcastle	47,922	71	42	34	504
Nottingham	43,933	69	41	33	487
Sheffield	45,888	73	37	37	490
National Average	57,632	75	58	38	555

Note: red indicates below national average performance, green indicates above national average performance.

This means that a big part of improving the productivity of the UK as a whole will be focusing on addressing the below-average productivity performance of most British cities.

II. The future of UK city economies

For many UK cities, their current challenging economic conditions will only be compounded in the future. Even the most advantageous Brexit deal will have a negative impact on future economic growth for all places across the UK in the short to medium term. And over the longer term, places that are already struggling are likely to be worst hit in terms of lost productivity and jobs and lower wages, further exacerbating the country's already unbalanced economic and political geography.

This is because places that are more productive and have highly skilled workforces will find it easier to adapt to economic changes. Cities such as London, Reading and Edinburgh are home to large highly skilled workforces, significant numbers of innovative firms and strong business networks, all of which will greatly assist them in reinventing their economies to reflect changed circumstances.

Furthermore, other research that maps which cities are most at risk of losing jobs to automation in coming years finds that it is cities with relatively weak economies in the north and the Midlands that are most vulnerable to job losses, while more prosperous cities in the south of England will be less affected.

1. These statistics refer to 2017 data; apart from the greater south-east productivity advantage percentage, which relates to 2016.

Significantly, the cities that are most at risk from automation-related job losses also tended to vote to leave the EU. The implication

is that, if patterns of job creation in the future reflect those of the past, the political divides revealed by the Brexit referendum result will likely grow wider. For example, British cities lack the powers to align themselves with future EU regulatory standards that could constrain technology companies and push for a better deal on automation.

III. Why devolution?

The problem

The UK's economic performance problems are both profound and long-standing. British cities have long been restricted by the centralised nature of the UK's political system. For example, in 2009 cities raised just 17% of their income from local taxation, compared to the OECD average of 55%. The level of taxes controlled locally or regionally is about ten times greater in Canada, seven times more in Sweden and nearly six times higher in Germany (Blöchliger and Petzold, 2009). And while British cities are able to raise some funds, strict government rules and regulations mean that this is autonomy more in name than in reality.

The constrained fiscal and policy context of UK cities also means that they tend to be less involved in international initiatives and networks. A case in point is the limited implementation of the UN's Sustainable Development Goals (SDGs) at urban level in the UK, compared to cities in other European countries. While in many European countries, progress towards the achievement of the SDGs has been undertaken on the regional/state and municipal level (GOLD, 2018), this is not the case in the UK, where the implementation of these goals has been led by national, rather than local, policymakers.

Responsibility for the delivery of the goals in the UK appears to rest solely with central government (Department for International Development 2019). As the widespread localisation of responsibility for SDG implementation in other countries suggests, there is nothing intrinsic to SDG implementation that requires such a centralised approach. It is a product of the UK's failure to give autonomy to cities that prevent them from tailoring policy to their own needs.

The solution

It would be a 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, particularly in England.

Giving cities more control over the issues that affect the daily lives of the people that live and work in them would make sound economic and political 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 even more compelling.

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Against this backdrop, England's new metro mayors are a radical innovation with the potential to change England's government substantially. Although the formal powers available to them and the combined authorities which they convene are currently limited, they represent a building block in a potentially bigger edifice.

Places with metro mayors now have the ability to tailor policy to do just this, with some powers over skills, planning and transport, in particular. When the Mayor of London is included, they have a mandate which covers one-third of England's population. Whilst their powers are currently limited, they are already expanding.

What is a metro mayor?

A metro mayor is the directly elected chair of a combined authority that has agreed a Devolution Deal and is voted in by the electorate in the combined authority area. These combined authorities are made up of several local authorities.

A directly elected metro mayor has the powers and responsibilities to make strategic decisions across whole city regions which encompass several local authorities (in the case of Greater Manchester it is ten local authorities) in contrast to existing local authority mayors (which are also directly elected) or local council leaders that only make decisions for, and on behalf of, their local authority.

Eight city regions have either agreed or nearly agreed devolution deals with national government so far, and elected metro mayors. Six were elected in 2017, one in 2018, and another in 2019 (see Figure 3). The geographies covered by metro mayors are varied. Some are focused on the old industrial big cities, including Liverpool, Manchester, Sheffield, Birmingham and Newcastle. They tend to include the city proper as covered by the existing local authority, along with the suburban local authorities on their outskirts. While there are exceptions – North of Tyne excludes the southern side of the Tyneside conurbation – in general, these mayoralties capture the effective reach of their core city's labour markets, ensuring a focus on the needs of the urban economy.

Meanwhile, Bristol's metro mayorality covers both Bristol proper and a significant amount of the surrounding countryside, tying a significant number of commuters with more rural needs, and Tees Valley is a polycentric geography covering multiple smaller conurbations in Middlesbrough, Darlington and Hartlepool. Cambridgeshire and Peterborough's metro mayorality is both polycentric and responsible for a significant amount of rural land. The eight also account for different population sizes: Greater Manchester covers 2.79m people, while Tees Valley only covers 0.67m.

The new metro mayors are a key plank in the government's devolution agenda, which allows combined authorities to take on more functions, over and above those permitted under previous legislation. The Cities and Local Government Devolution Act, which became law in early 2016, states that in order for a combined authority to be given these powers, a metro mayor must be elected for the area.

Figure 4: Combined authority

	30-year Investm fund

Figure 3: England's Eight Metro-Mayors








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The directly-elected metro mayors are responsible for setting out the strategy for growing the city region's economy, and have been given powers over issues including planning, housing, transport and skills. Previously, the majority of these powers lay either with individual local authorities, such as most planning or local transport decisions, or with national government, such as the adult skills budget administered through the Skills Funding Agency.

The exact powers and funding of each metro mayor is determined by the individual deals each of them has agreed with government. Due to different capacities, appetites and abilities to deliver, the deals vary in size and scope across different city regions. The majority of city regions have powers over skills, housing and transport. In addition, Greater Manchester has agreed a devolution deal that also includes control over criminal justice, and health and social care.

Combined authority powers in the different city regions									
		Cambridge-shire and Peterborough	Greater Manchester	North of Tyne	Liverpool City Region	Tees Valley	Sheffield City Region*	West Midlands	West of England
£	30-year investment fund	£600m	£900m	£600m	£900m	£450m	£900m	£1.1 bn	£900m

	Local Industrial Strategy	Leading	One of three 'trailblazer areas'	Leading Developing a 'rural productivity plan'	Leading	Leading	Leading	One of three 'trailblazer areas'	Leading
	Education & skills	Apprenticeship Grant for Employers. Adult Skills Budget. Post-16 further education system. Oversight of Skills Advisory Panels.	Apprenticeship Grant for Employers. Adult Skills Budget. Post-16 further education system. Oversight of Skills Advisory Panels.	Adult Skills Budget. Agree 'Employment Support Framework Agreement' with DWP. Funding for helping people into work. Inclusive Growth Board	Apprenticeship Grant for Employers. Adult Skills Budget. Post-16 further education system. Oversight of Skills Advisory Panels.	Adult Skills Budget. Oversight of Skills Advisory Panels.	Apprenticeship Grant for Employers. Adult Skills Budget. Post-16 further education system	Adult Skills Budget. Post-16 further education system. Oversight of Skills Advisory Panels.	Apprenticeship Grant for Employers. Adult Skills Budget. Post-16 further education system. Oversight of Skills Advisory Panels.
	Housing & planning	£ 170m affordable housing grant. Strategic planning. Mayoral Development Corporations.	£30m a year Housing Investment Fund. Strategic planning. Land Commission. Compulsory purchase powers. Mayoral Development Corporations.	Housing and Land Board powers. Compulsory purchase powers. Mayoral Development Corporations.	Strategic planning. Compulsory purchase powers. Mayoral Development Corporations.	Mayoral Development Corporations. £6m Housing Delivery Team.	Strategic planning. Compulsory purchase powers. Mayoral Development Corporations	Compulsory purchase powers. £6m Housing Delivery Team. £5m construction skills	Strategic planning. Compulsory purchase powers. Mayoral Development Corporations.
	Transport	Consolidated transport budget. Local roads network. Bus franchising. £74m Transforming Cities Fund	Consolidated transport budget. Local roads network. Bus franchising. £243m Transforming Cities Fund.		Consolidated transport budget. Local roads network. Bus franchising. £ 134, Transforming Cities fund.	Consolidated transport budget. £59m Transforming Cities Fund. Bus franchising.	Consolidated transport budget. Local roads network. Bus franchising.	Consolidated transport budget. Local roads network. Bus franchising. £250m Transforming Cities Fund.	Consolidated transport budget. Local roads network. Bus franchising. £80m Transforming Cities Fund.
	Health & social care	Planning for health and social care integration.	Control of £6 billion integrated health and social care budget.		Planning for health and social care integration.				

Metro mayors have been putting their powers and platform to use. The metro mayor of Liverpool has introduced a lower-rate £1 Fast Tag toll for the Mersey tunnels under the city's river, while the metro mayor of Manchester has been responsible for raising the profile of homelessness in his city, helping to draw in funding to ease the issue, and has also introduced a policy of half-priced bus fares for 16–18 year olds. All have pursued packages of extra funding to allow them to deliver on plans in areas such as green growth and digital connectivity.

Metro mayors are also increasingly representing their cities on the global stage. Birmingham's metro mayor has been the public face of the city's successful bid for the 2022 Commonwealth Games, and metro mayors and their combined authorities are increasingly providing representation in international city networks; with Manchester's metro mayor forming part of the METROPOLIS network and Liverpool's metro mayor speaking of the need to create new international city networks. Examples also exist of metro mayors fronting trade missions: Sheffield's metro mayor recently led a pan-northern delegation to China. But they are hamstrung by their present reliance on soft power for international influence.

Over time, it is anticipated that the powers and responsibilities of the metro mayors will increase, as has happened in London. The Cities and Local Government Devolution Act is an enabling piece of legislation that

allows for the devolution of any domestic central government responsibility. The shape and pace of future devolution under this model will ultimately be determined by the willingness and capacity of local and national politicians to reach agreement on what additional functions should be devolved.

What can metro mayors do to soften the impact of Brexit?

Metro mayors presently have limited scope to cushion the likely negative economic impacts Brexit is expected to bring. However, metro mayors are taking steps to safeguard their cities and their inhabitants from the perceived negative consequences of Brexit.

In London, for example, Mayor Sadiq Khan's "London is Open" campaign clearly expresses the city authority's support for migrants and businesses that may be disheartened by the vote to leave the EU. However, this campaign is reliant on the mayor using his "soft" powers – his ability to set the agenda through publicity and lobbying – rather than on any concrete policies the mayor or the London Assembly can enact. Much more of this sort of activity could be done if Metro Mayors were empowered to do so.

On the international level, cities with guaranteed budget settlements from central government tend to be better placed to produce credible public investment plans that provide international investors and companies with confidence when they are looking to locate and invest in that city. Those cities are also better placed to meet the demands of the increasingly globalised economy for highly skilled workers.

The next step in this pursuit of high skilled workers was laid out in Sadiq Khan's planning for a special visa scheme for London, which would have allowed skilled workers from around the globe to work in the capital and contribute to growing its economy. There are some parallels to this sort of geographically targeted scheme in other countries: in New Zealand, visa applicants can gain additional points for working outside of Auckland, and in Australia, some visa extensions are conditional on working outside of major cities. But this scheme for London failed to gain traction with government.

IV. What should happen next?

To build on the progress made on city-region devolution in recent years, metro mayors should be given significantly more control of the total public sector funding spent in their areas, including education, skills, transport, health, aspects of welfare, planning, business support and innovation (in Greater Manchester's case, would amount to roughly £22 billion of funding) to create an area-based "block grant". This would enable metro mayors to set out longer-term investment plans and give them greater influence over how public service reform is integrated with economic growth.

But given the scale of economic changes resulting from Brexit, as well as automation and demography, even these enhancements are unlikely

Metro mayors are also increasingly representing their cities on the global stage.

to be sufficient to deal with the existing and coming challenges many places face. So devolution will need to go much further. Cities should increasingly look internationally for inspiration and investment, learning from the experiences of international comparison cities and sharing expertise.

For their part, central government should seriously consider introducing a more “federal system” for the UK, particularly in England. In the short term, this would give London and the other big English city regions powers equivalent to those currently available to Scotland and Wales, including tax and borrowing powers. The model for this should be the “reserved powers” approach used for the original Scotland Act which enshrined in legislation only those areas where the Scottish government does not have competence – such as foreign affairs and defence.

Over the medium term, we should aspire to a more federal system and learn from the constitutional and fiscal settlements of countries such as Germany, Spain and Canada. Indeed, in Germany the federal states have some limited capacity to strike international agreements with the consent of the federal government. A fully federal UK could see the country’s cities strike legal agreements with other cities, allowing them to take a leading role in global urban governance initiatives.

V. Final reflections

The geography of the Leave vote in the EU referendum symbolises the varied outcomes of many decades of economic and political change in the UK.

In or out of the EU, the fundamental reasons some places have struggled to adapt to economic and social changes will remain. To ensure that the coming decades do not bring a re-run of what we have seen in decades past, there will need to be a concerted push to help places adapt to ongoing change, rather than attempting to fight against it.

If Brexit leads to central government further centralising power in Whitehall, the already difficult issue of adapting national policies to meet the economic and political needs of increasingly diverse places will only get worse.

But if the upheaval associated with Brexit – whatever the final deal – results in more devolution to Britain’s cities, then bridging the economic and political divides in the country looks more possible. Cities will also become valuable partners to international businesses and organisations, being able to plan for the long term and shape local economic policy to match.

Whitehall doesn’t have all the answers. Giving UK cities the opportunity to learn from best practices abroad in urban economic policy, and the powers to match, could help those cities’ economies to grow while at the same time placing them in a position to lead on new international urban policy initiatives.

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