



New Powers, New Deals: Remaking British Towns after Brexit

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Flourishing Towns

Policy analysis

British Towns and Brexit:
Taking Back Control?

2018



CHANGING MINDS • CHANGING LIVES



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Foreword

Regardless of the details of the UK's departure from the EU in 2019, there is an urgent need to reconsider the place of towns in the UK, their economic development and wellbeing. The Carnegie UK Trust is one of the largest policy and practice institutions in the UK to be based in a town and has for several years made the point that towns matter. Towns are home to two in five of the UK population but they struggle to secure attention in public policy – squeezed between rural and city interests. Towns should not be seen just as service providers for rural areas or satellites of growing, larger cities waiting for some external shock to drive their future. The discussion about towns too often focusses on the past, and invites pessimism with talk of 'saving' or 'preserving' rather than 'progressing' or 'rethinking'. The report argues that Brexit could provide the impetus needed for towns to take back control of their futures. Brexit is not the solution to the challenges these towns face, but it could serve as a catalyst for developing a better understanding and management of towns.

The report's authors argue the state of neglect of Britain's towns at policy level has led to discontent and contributed to the vote to leave the EU. A spatial analysis of the vote demonstrates people who voted to leave were more likely to live in Britain's towns, rather than city areas. Significant leave majorities were in the less prosperous towns in both the North of England and Wales, as well as the prosperous but pressured towns of southern and eastern England. There is evidence that those areas voting to leave the EU will lose more from the Brexit process, which makes it more pressing that policy makers in UK, legislative and local governments develop a radical new approach to towns.

As we found in Turnaround Towns, our previous international research, towns have their own story to tell. Brexit can provide an opportunity to recalibrate the place of towns in the UK. We need to understand the uniqueness of the towns, their local economies, their trading patterns and connections to the EU, and UK governments.

This report makes the case for considering towns' individual and collective aspirations, memories, hopes and needs. The authors recommend that UK, legislative and local governments support locally led development strategies that emphasise inclusive economic growth with resources from all levels. These could be 'towns deals', for smaller places that may need to share capacities and roles, which integrate sectors and services. For too long towns have been subject to decisions made for them, primarily by governments from within the UK, but as new systems and alliances are formed after Brexit, towns should be given increased autonomy to manage and control their own growth and infrastructure.

Regardless of whether Brexit is 'hard' or 'soft' the only certainty for towns across the UK is that change is coming. As this change starts to take effect it offers a real opportunity for towns, their populations and leaders who are flexible, creative and entrepreneurial. To make this possible, policy makers and political leaders at all levels need to support local level action and a new vision for towns.



Martyn Evans
Chief Executive, Carnegie UK Trust

Executive Summary

Towns and Brexit as a Catalyst for Change

1. The report explores how towns can better reduce the risks to and raise the opportunities for their wellbeing consequent to Brexit. It draws conclusions about how UK, devolved and local governments could improve both the economic content of strategies for towns and raise local involvement and autonomy in decision taking. At present, towns have little control over their own destiny. The resources and levers for change required lie primarily within the UK and devolved governments rather than in the EU. Even without Brexit there is a case for a new place in policy and a 'New Deal' in resourcing for UK towns. There needs, with Brexit, to be a much clearer understanding of whether 'taking back control' to Westminster will lead to a subsequent downward cascade of local autonomies to deal with potentially negative local impacts on towns.
2. The report emphasises possibilities for change, and highlights that predicting firm probabilities of specific outcomes for particular kinds of town is near impossible. Leaving the EU will disrupt a whole series of key economic relationships with macroeconomic, sectoral and regional effects. Even if a detailed blueprint for Brexit were available, the past neglect of research on the economic character and performance of UK towns would limit firm analysis. Predictions are further frustrated by the acute political and economic uncertainties prevailing, not just in the UK but in other EU and OECD countries.

Towns Matter

3. Despite these uncertainties, the Brexit debate (UK Government, 2018), and the ways in which Brexit will catalyse change, brings a new, more pivotal role to thinking about towns in UK economic and spatial policies. The past neglect of adverse outcomes in both stagnating and pressured-growth towns has made a demonstrable contribution to the UK leave vote and to electoral 'surprises' in other polities. Governments are re-learning that towns matter in national outcomes and the key issues they face need to be addressed regardless of the final nature of the Brexit 'deal'.
4. Towns should not be seen as smaller, detached places languishing in the shadow of growing, larger cities waiting for some external shock to drive their future. Nations, regions and cities have an economic geography, or spatial structure, that both shapes and reflects major social, environmental and economic outcomes for the system as a whole. Towns are key nodes within the national spatial structure: they are impacted by top-down changes (that may be global, national or regional in origin) but they also create and refashion change that flows outwards and upwards to wider areas. Wellbeing in towns is crucial to national wellbeing too.
5. Policymakers in the UK, at national and town levels, need to grasp these recursive top-down to bottom-up relationships and reduce the dominance of the former in shaping effective local autonomies. The outcome of the Brexit referendum with so many potential adverse and favourable possibilities for different places demands urgent rethinking of place potentials. The UK Government recognises the importance

of ‘local’ responses to Brexit, but, in its announcement of the United Kingdom Shared Prosperity Fund to replace existing regional policies, stresses only ‘opportunities’ and talks little of towns (Ministry of Housing, Communities and Local Government, 2018). A more frank, eclectic recognition of the new difficulties that towns might face following Brexit, and indeed of existing problems, would be a more credible starting point for a new era of policy.

‘Leave’, Discontent and Towns

6. The Brexit referendum resulted in a small majority in favour of leaving the EU. However, there were marked differences in the socio-economic profiles of those who voted to leave or remain (Arnorrson and Zoega, 2016; Becker et al., 2017; Goodwin and Heath, 2016a). Leavers tended to be older and less well-educated than remainers. In relation to electoral geography, there appeared to be spatial identity influences, with Scotland and Northern Ireland joining London as the only regions with remain majorities; across the UK, major cities predominantly voted to remain; significant leave majorities were apparent in less prosperous towns in both the North of England and Wales, as well as in the pressured towns of southern and eastern England.
7. In very broad terms, with cities more inclined to the status quo and towns more likely to vote leave, there is a compelling argument that this was a vote of discontent and protest at being either ‘left behind’ in economic growth (Rodrigues-Pose, 2018) or being unduly impacted by the congestion consequences of fast growth. This dynamic mirrors recent electoral outcomes in some other countries, notably the USA, France and, most recently, Italy.
8. Evidence is mixed, but there is some basis for the belief that over the next decade, the parts of the UK that voted to leave the EU could lose most from the Brexit process.

Brexit as a Multiple, Disruptive Change in Economic Governance

9. The European Union (EU) is a key pan-European government institution with sectoral, structural, environmental, social, fiscal and monetary policies that have significant, complex impacts on each of the 28 countries now involved.
 - Membership of the EU can entail participation in the customs union, the monetary union, the single market, the European legal system, the free movement zone (Schengen) and a range of other significant institutions.
 - Some nations have chosen to remain outside of the Eurozone and the Schengen agreement, though remaining outside the customs union, the single market and the European courts system are not an option for EU members.
 - Non-EU countries have been able to participate in some of the programmes and institutions of the EU on making appropriate payments to the EU budget, but are excluded from political decision processes within the Union; Norway and Switzerland have been the most significant cases of such partial participation.
10. Withdrawal from the EU will therefore have major, systemic effects on the UK’s trading arrangements, as well as having an impact on management of the mobility of labour and other economic policy instruments, including sectoral and regional (spatial) policy programmes that significantly impact towns (Begg and Mushovel, 2018). The possible effects include:
 - The ending of the customs union with no new equally favourable arrangements for EU-UK trade will:
 - mean a reduction in trade with less specialisation, lower incomes and lower productivity growth in Europe as a whole, but especially in the UK.
 - allow the UK to develop its own

tariff arrangements (trade deal) with other international traders, but with a bargaining power reflecting British rather than EU power and market scale.

- The end of the single market will increase non-tariff barriers to trade and will exacerbate reductions in trade, income and growth as costs of trading increase.
- Reduced trade access in the EU for EU-based businesses by either of the above routes will reduce foreign direct investment, seeking subsequent sales into the EU, flowing into the UK.
- The ending of the free movement of people may increase labour supply constraints in the UK economy, and if allied to a fall in the value of sterling relative to the euro, may encourage some portion of the three million EU residents living in Britain to leave.
- The ending of UK participation in the EU budget may have adverse effects for sectors (agriculture and higher education, for example) that are 'town' orientated unless UK policies are evolved quickly to address such issues.
- EU spatial policies that support disadvantaged regions and towns will end (and, unless adequately replaced, will most damage the more disadvantaged towns that voted pro-Brexit).

Many Hard Questions, Few Firm Answers

11. Within each of the likely scenarios from 'soft' to 'hard' Brexit, there needs to be a consideration of a series of effects, or various kinds of shocks, to towns of different kinds. The report does not address all these issues, but identifies the key questions:

a. Macro-changes impacting locally:

- What will be the macro-effects on growth, trade and GDP for the UK macro-economy though the Brexit process and beyond?

- How might this impact fiscal resources for UK policy programmes (and indeed any budget effects of leaving or retaining partial membership of the EU)?
- What are the implications of an ending (or redefinition) of free movement of labour, and flows of people more generally?

b. Impacts on Cities, Towns and Sectors

- Can there be any indications of which regional locations and types of towns are most likely to be affected?
- To what extent are the sectors of trade associated with particular kinds of places most likely to be heavily impacted by growth and/or decline arising from Brexit? This includes finance, agriculture, fisheries, tourism, higher education, steel-making and manufacturing (inter alia).
- What are the implications of disconnecting UK science and UK companies from EU research and innovation programmes?

c. Place and People Policy Effects

- What will be the impact of the curtailment of EU regional infrastructure and European Investment Bank policies (what will be completed of what is already agreed, what will be the 'replacement' policy in the longer term)?
- What will be the implications for programmes for the most disadvantaged areas and people?

Brexit, Trade, GDP and Towns

12. Prior to the Brexit vote, three-quarters of UK businesses took the view that membership of the EU had been beneficial for them with tariff and barrier-free trade to the EU and up to half of global markets (through strong EU trade deals). This allowed them to increase specialisation and productivity that offset the associated regulatory burden (Thompson and Harari, 2013).

- Most independent econometric estimates of costs and benefits of membership concluded that being in the EU had added 2-5% to UK GDP;

- Membership of the EU had raised levels of mobile investment within and into the EU and the UK was a major beneficiary of such flows.
13. Economic wellbeing is not simply a matter of national or regional productivity, but also reflects rewards to workers and decisions in the non-tradeable sectors of the economy, including government spending and services.
 14. Given that EU membership appeared to raise incomes and investment in the UK overall, it can be argued that it was the failure of the UK or local government to deal with growth that was unbalanced by place, sector and income group that drove discontent in towns; arguably those responsible for the UK spatial economy lacked competence rather than control.
 15. The announced effects of Brexit were initially favourable for employment and output as sterling fell by 10-12%, but by the end of 2017, the longer term inflationary and uncertainty effects of depreciation had become apparent and the UK had slipped to the bottom of the growth league for major EU countries (Begg and Mushovel, 2018; city-REDI, 2018). In July, 2018, interest rates had to rise, according to the Bank of England, to offset the effects of labour shortage-induced wage rises outstripping wider price inflation.
 16. Modelled forecasts of medium- to long-term Brexit impacts, with few exceptions, suggest that GDP will be 2-3% (compared to remaining in the EU) less in 10-15 years if the UK remains in the customs union/ single market, 5-7% with a negotiated EU trade deal and 8-10% if it leaves the EU with 'no deal' (Begg and Mushovel, 2018; HM Treasury, 2018a).
 17. Studies of the effects of Brexit upon UK cities, that often include many larger towns, focus upon how Brexit is likely to impact employment in well-defined economic sectors; they suggest that the areas that voted to remain, such as London and Edinburgh, will be major losers (reflecting their service base) and that cities will generally do worse than the rest of the UK (Clayton and Overman, 2017).
 18. In contrast, regional level studies (Chen et al., 2017, city-REDI, 2018) that utilise more detailed data on the global, European and domestic trade flows of particular UK regions suggest a different pattern. Trade-based studies suggest that London will be most resilient because its trade is more global than European, and that it is the more disadvantaged regions of the UK, which voted for Brexit, that are most vulnerable to adverse Brexit effects. More general assessments, considering city-regional innovation capacities tend to support the 'regional' view.
 19. When mapping these broad ideas onto patterns of towns, it becomes clear that the trading system needs to be better understood and their national, EU and global connections unraveled.
 20. The broad impact on towns is likely to be that in the short to medium term, any reduction of growth and immigration into the south and east will reduce growth in service pressures, but any resurgence of growth, from inside or outside the EU, will simply add to pressures fashioned by investment shortages over the last decade. A Growth Strategy for Towns will be needed and if the economy is to grow at rates forecast by the Treasury, immigration levels will need to remain high, even if immigrants do not arrive from the EU.
 21. In the most disadvantaged regions of the UK, reduced income growth and constrained public spending will do nothing to improve the trajectory of long-stagnating towns unless there is a more coherent and economy-led town revitalisation programme. There is a strong possibility that unless there is a new approach to the role of towns in the UK economy, Brexit, or discontented exit, will exacerbate rather than reduce existing difficulties by the medium term.

Ending the Budget Contribution and EU Programme Spend in the UK

22. In mid-decade, the UK was one of 10 net contributors to the EU budget (BIS, 2014; HM Treasury, 2017; SPERI, 2016). HM Treasury figures for the 2014 budget indicate that the gross contribution obligation reduced by the historically agreed rebate for the UK marginally exceeded £13bn and with £4.5bn of EU resources paid to the UK Government for programmes in Britain the net outflow was £8.6bn. Payments from the EU to the UK private sector reduced that net contribution by a further £1bn to around £7.5bn. In weekly terms, the gross contribution minus the historic rebate approximated £234m per week, the net of public programmes amount was £156m and EU payments to the UK private sector left the net weekly flow closer to £140m.
23. The net budget cost to the UK of participating in the EU is substantially lower than most of the independent estimates of the gains from being in the EU.
24. The UK Government has, within broad programme categories, substantial control over how and where EU funds are spent in the UK (SPERI, 2016); control of spending does not need to be brought back, at least to Westminster.
25. The Common Agricultural Policy (the main EU programme) has shaped major benefits for rural Britain and for the market towns that serve the agricultural sector. Regional development funding, the second largest budgetary component, has had a major role in sustaining jobs and incomes in towns in disadvantaged regions of the UK.
26. Ending these programmes is unlikely to help market towns or declining towns unless the UK Government replaces them with policy initiatives that are more intense and more generally supported: the judgement on EU regional policy initiatives was that they helped but were never enough to be transformative. The danger is that regional

policy support now shrinks from not enough to not at all. The UK Government have, just as this report was completed, published plans to replace EU regional policies in England with what is labelled the UK Shared Prosperity Fund (though there is no discussion of Scotland, Wales or Northern Ireland in the paper). The emphasis on Local Economic Partnerships pursuing evidence based economic strategies chimes with the conclusions of this report, but whilst vocal on cities, it says little about towns and the likely scale of resources for future policy initiatives (MHCLG, 2018).

Curtailing the Single Market and Refashioning Immigration

27. The main driver of immigration is economic performance. Brexit's impact on wider economic performance, together with economic developments occurring irrespective of Brexit, is likely to be the main determinant of the number and mix of migrants entering the UK to work. Given the emphasis in the EU Referendum debate on curtailing EU migration, however, we would also expect Government policy to seek to reduce EU migration to the UK, particularly at the low skilled end. This would, in turn, impact on the wider economy. Modelling suggests that the economic impacts from a fall in immigration are likely to be of a similar magnitude to the implications of changes to trade.
28. EU migrants currently make up a significant minority of the UK workforce. They are, on average, younger, more educated and more likely to be in work than the UK-born population and while found at both the high and low-skilled end of the labour market, the economy is particularly reliant on them to fill lower-skilled jobs (Petrongolo, 2016; Broughton, et al. 2016; Institute for Employment Studies, 2017).
29. The impact of any reduction in migration will be felt most strongly in sectors which currently employ, and have become reliant

on, a higher share of EU migrants in their workforce – and via that to the geographic areas in which those sectors are based. The scale of the impact will depend on the extent to which EU workers can be replaced under some new immigration scheme or from the domestic workforce.

30. It would seem prudent for towns to plan on the basis that UK migration schemes will be less open to lower-skilled migrant workers in the future, even if some new schemes are developed. There may be opportunities for employers to recruit more domestic workers from groups currently unemployed or under-employed – which could benefit towns. Some economists argue that reduced migration could also increase wages, but most assessments find that any positive wage effect will be very small overall and outweighed by the broader reduction in earnings growth consequent to Brexit (Clarke, 2016; Petrongolo, 2016).
31. Positive area-based effects are, however, unlikely overall – those local authorities with a higher increase in EU immigrants between 2008 and 2015 did not experience any larger increase in UK-born unemployment or a deeper fall in their wages, even for the less skilled (Petrongolo, 2016; The Migration Observatory, 2017), so a reversal of EU migration is unlikely to generate greater gains in employment or wages.
32. If businesses find it impossible to recruit more workers from the domestic UK labour market, employers could respond by:
 - rethinking their business models – to increase their investment in the skills of their workers and technology (including greater automation and mechanisation) – resulting in fewer but better-paid jobs (and increased productivity), or
 - reducing their footprint in the UK.

This complex set of potential effects of reduced EU migration will create both opportunities and risks for towns and

their local economies and people. It will be important for towns to consider the implications of reduced labour supply, at both the high-skilled end, but particularly at the low-skilled end, for their local economy, and to be encouraging employers to pursue strategies that will benefit local areas, or to work to attract new businesses (and employment) to their areas. Evidence suggests that businesses have been slow to do this, with the Resolution Foundation, for example, finding that firms were “woefully under-prepared” for a significant change in immigration rules in an April 2017 Survey (Clarke, 2017, p.20).

The position of EU workers who remain, or continue to come, to the UK could also change, with implications for the communities in which they live. Following Brexit, EU nationals in the UK will become third-country nationals or foreigners and will not have access to social security benefits, unless they obtain indefinite leave to remain, if no special arrangement is made.

Public Services, Employment and Procurement

33. Towns should also consider the implications of a reduction in EU migration for public service delivery and tax revenues in their area. The public sector employs nearly 5.5 million people and includes many of the largest employers in the UK (ONS, 2017c).
34. There are stark differences across and within regions as to their dependence on public sector employment. While 23% of all employees across the UK worked for the public sector in 2010, there were 12 local authorities that employed over a quarter of the local workforce and in one area, Copeland, 52% of all employees worked in the public sector. Areas such as North and East Ayrshire, the Scottish Islands and Gwynedd all had over 40% of their workforce in the public sector in 2014 (Cribb, Disney and Sibietta, 2014).

35. The reliance of public services on EU workers varies significantly, both across different types of services and across regions. The National Health Service (NHS) provides a good illustration of this variation and complexity. London and the South East has the greatest reliance on EU workers in the NHS, so could be more adversely affected than other regions (House of Commons, 2018).
36. Potential shortages are not, however, just a function of the proportion or number of EU workers, but how this interacts with the supply of domestic workers and with local demand for services. Towns will need to consider the extent to which they are likely to be impacted by the risks of Brexit (reduced supply of EU workers) on the one side, and increased demand due to growth in the older population, on the other.
37. A further key question for towns to consider is whether private sector employment is increasing sufficiently to 'make up' the losses already felt, and projected, of public sector employment.
38. In relation to procurement, at first glance, it may appear that the freedom not to apply EU procurement rules could allow future governments to award contracts, including rail services for example, to British-based companies. In practice, however, the UK is likely to have to continue to adhere to EU procurement laws (Huson et al. 2016).
39. It has also been suggested that Brexit could provide greater freedom for UK Governments to provide state aid to subsidise regions or firms (Oxera, 2016). This would, however, require a significant shift from past practice in the UK. Any gains for UK businesses as a result of this may also be offset by a reduced ability to challenge unfair competition from elsewhere. If pursued, the impacts would fall differentially across firms and sectors, and the regions and towns where they are based.

Implications of Key Sector Changes for Towns: Tourism, Farming and Fishing

40. Tourism is a very significant contributor to the UK economy, but particularly important for some regions, including regions that are amongst the most disadvantaged in the UK, such as Cornwall and the Isles of Scilly, and West Wales and the Valleys. As a result, the Tourism Industry Council argues that:

'domestic tourism is the largest private sector means of redistributing wealth from metropolitan to rural and seaside areas in the UK.'
(Wales Tourism Alliance, 2017).

41. While domestic tourism is the most significant part of the industry by spend, overseas visitors, particularly from the EU, are very important: eight of the top 10 visiting nationalities in the UK are from the EU. The industry is also very dependent on migrant workers, who account for about a quarter of the workforce; of these, 48% are EU nationals. Even with current access to EU workers, the industry currently has significant skills shortages (People 1st, 2017).
42. Towns could expect to benefit from the short-term boost to the tourist industry, arising from the fall in the pound following the EU Referendum. Towns for whom the tourist industry is important, however, should consider how they might mitigate the risks to the industry arising from Brexit in the medium term. These could include:
 - a reduction in overseas tourists – particularly the significant portion of incoming tourists who are visiting friends and relations in the UK and business travellers;
 - serious labour supply challenges given the heavy reliance of the industry on workers from Europe, and particularly Eastern Europe. Labour shortages could contribute to greater wage pressures, alongside other cost pressures likely to arise from Brexit such as increasing food costs, or put businesses at risk if they are unable to recruit;

- uncertainty about whether, or to what extent, the UK Government will replace European development funding after 2020, much of which is spent on infrastructure development for tourism in areas such as Cornwall;
 - reduction in overseas investment into the UK tourism industry;
 - new costs and potential barriers for UK travel/tourism firms operating internationally.
43. Farming and Fishing is of major importance for rural market towns, fishing ports and those places undertaking foodstuffs processing. Even if the sectors directly involve only 1% of UK employment, some 15% of UK workers are involved in food processing. Rural-agricultural areas generally voted to leave the EU.
44. EU membership has radically impacted UK agriculture (with intensive subsidy support as well as extensive regulation) and fishing (primarily with extensive regulation). Hill farming areas in Britain have been extensively supported by EU subsidies and immigrant labour from the EU has underpinned expansion of horticultural and arable farming, especially in eastern Britain.
45. The UK Government has committed to maintaining EU level spending of agricultural subsidies until 2021 (around £3bn annually) thus reducing net savings from EU exit by a significant percentage (Financial Times, 2018).
46. Growing concerns about shortages of both permanent and seasonal workforces for the horticulture sector (ONS, 2018) had led to the proposal of schemes to maintain agricultural worker flows from the EU, and elsewhere: it is not clear how this will reduce public service pressures in the heavily pro-Brexit small towns of Eastern England.
47. Fishing, if still subject to some uncertainties, is likely to expand but remain a small share of overall employment.

Brexit and the Inconvenience and Iconography of Borders

48. Insufficient attention to the effects of Brexit on borders and border points has been apparent in UK debates on Brexit, at least until recent attention to the UK-EU border dividing the island of Ireland (Irish Times, 2016).
49. Costs of queuing and processing at ports, for passengers and goods, raises costs and frictions of travel. In relation to goods, the international nature of modern supply chains and the repeat crossing of components of products back and forward across frontiers as they are 'built' into final products makes frontier crossing costs disruptive.
50. Trade disruption effects post Brexit are likely to be felt not just at UK ports but ports in Belgium, the Netherlands and France and these are in addition to any effects that arise from reduced volumes of goods consequent to new tariff structures (Thissen and Van Oort, 2018).
51. Hard borders are a problem for Irish identities and politics and the key issues have been recognised by the EU and the UK, but no resolution of the issues has yet been found to what is one of the central issues arising from Brexit. The devolved administrations, that include London as well as Scotland and Wales, are watching UK Government suggestions for Northern Ireland with acute interest.

Transforming Economic Thinking for Towns

52. If towns are to manage the differential impacts on Brexit, they will require far more attention from government (UK and devolved) including a much greater focus on their economic futures and purpose. Brexit is only one strand in the complex tangle of changes blowing towards the UK's towns. Regardless of whether EU exit is 'soft' or 'hard', the only certainty for places is that

they will have to change. Towns differ in their capacities to deal with changes, they have different path dependencies and Brexit will bring them different challenges. Whether we like it or not, Brexit is the catalyst for a new take on towns.

53. Whilst evidence suggests that the medium-term effects of Brexit are likely to be significantly negative for the UK economy, and probably worst for the places that were most pro-Brexit in the 2016 referendum (Los, 2017), there is little firm to say about the longer term. There will be plusses and minuses, but the balance and distribution of the overall sum cannot be forecast with any meaning. The real test for governments, and towns and individuals in the UK is not how smart or lucky they are in writing future strategies. It is, rather, how flexible, creative and resilient they are in the face of change and how entrepreneurial they are in pursuing emerging opportunities.
54. The Brexit vote outcome reflected a failure to effectively manage the UK's towns. This is a major, not a minor, critique of UK approaches in regional policies and two major policy failures had been important:
- In towns located within, and between, growing metropolitan regions there had been a sustained state failure in managing the growth of economic infrastructure, including homes, and services, that arguably hampers productivity growth and raises inequalities. That has not simply, or necessarily, been a matter of sluggish local planning decisions but reflects decades of strategic inability or unwillingness of governments to support growth with expanded infrastructure and service provision. Few of the existing city deals in the UK have explicit economic strategies for the towns that lie within city regions and have no audit of or interest in the towns that lie in the broader hinterland, sometimes lying between two separately defined city regions. This is an unacceptable, casual blindness in spatial policy making.

- Despite more than three decades of regeneration and renewal programmes, many of the towns that had seen their traditional economic bases disappear in the 1980's, still persisted as major locations of disadvantage in June 2016. Despite major EU, and other, support for renewal these places had largely voted for Brexit. Governments, at all levels, need to ask what, in economic terms, these towns are for and what they will become?

The lack of attention to the wellbeing of people living in towns, and a sense that the problems of either growth or decline have become endemic, is central to how the UK performs and feels, and votes.

55. This is not the time for regions and towns to lose economic policy resources and technical support and capacity building networks. EU regional and structural funds brought these positive policy shapers to UK regions and towns. They also required matching of EU Funds with UK resources and involved UK regions and towns in important, beneficial, international (within EU) cooperation and professional networking groups.
56. Although a broad 'enterprise partnership' approach was announced by the UK Government in July 2018, there is little sign of what UK regional policies will look like after Brexit. Looking at past failures (that the UK Government now rather gratuitously, and inaccurately, blame on the inadequacies of EU regional policies (MHCLG, 2018), that have often exposed towns to lingering stagnation it clearly requires a new emphasis on economic growth, and inclusion, and that is widely recognised. However, it also requires a much smarter understanding of how the spatial structure of regions or metropolitan areas functions and connect locally, nationally and globally. Growth is in places and should be based on a hard-headed and informed understanding of what places are, economically, for.

57. There needs to be a reassessment of the best balance (and forms) of support provided by national and regional government, and an approach that really seeks to fashion feasible, but more local approaches and autonomies in expenditure and revenues (Airey and Booth-Smith, 2017). Future policy for towns, involves strategically-informed UK and devolved governments supporting, and participating in, locally-led development strategies that involve resources from all levels and that are supported by adequate political and bureaucratic capacities. These are ‘town deals’ that need to be designed, usually, for sets of smaller places that may need to share roles and capacities.
58. The approach to ‘place deals’ needs to improve on earlier local economic partnerships and city deals (MHCLG, 2018). Town strategies require a subtle, informed identification of spatial relationships and not the imposition of crude boundaries based on ancient formal political boundaries. They also require a truly integrated approach, and need to learn from inclusive growth approaches, across multiple sectors and services in public provision. Places need to be managed carefully.
59. Multi-level deals and their governance arrangements need to be articulated within a wider regional-towns partnership that sets the framework of strategic decisions for the settlement system in the region as a whole; more local town-based partnerships have the further functions of ensuring local voice and nuance and business and community commitment.
60. In improving the governance of local economic policies at regional and local town partnership levels it will be important to:
- Clearly frame the economic development challenges and opportunities facing the ‘region of towns’ as well as specific towns and to articulate clear logic chains for major policy action levers.
 - Establish a ‘region of towns’ laboratory for developing policies that assess local economic systems, provide better local economic development databases, understand the trade and global connections of places within the region, and review international practice in relation to successful town economic development experiences.
 - Regularly monitor key aspects of the town economies, with towns benchmarked with similar places within and across UK regions: when towns are succeeding, governments can celebrate; when they are continuing to stagnate, further action needs to follow.
 - Ensure that there are well developed capacities in the private, public and non-profit sectors within regional and town entities to foster local leadership and design and lead change.
 - Ensure that the right institutions, and not just partnerships, are in place to design and deliver local change (what roles for non-profits and development trusts, for example) and to help local communities own and manage assets.
 - Adopt a resolutely international/global approach to identifying trade/investment opportunities and policy approaches.
61. Brexit is not the solution to the difficulties in most of Britain’s towns, but it could serve as a catalyst for developing a better understanding and management of the UK’s towns that are home to a third of the population. They appear to have individual and collective aspirations, memories, hopes, beliefs and needs that differ significantly from those of cities across the UK. The wellbeing of towns and those that live in them has been too low a national priority for too long.

1. Uncertain Times, Changing Places

KEY POINTS

- The neglect of adverse outcomes in both declining and pressured growth towns has made a demonstrable contribution to the UK leave vote and to electoral ‘surprises’ in other polities.
- The report explores how towns can better reduce the risks and raise the opportunities consequent to Brexit.
- It raises challenges to existing policy approaches to the wellbeing of towns.
- The report emphasises possibilities since predicting probabilities of outcomes is near impossible given past neglect of a research base on the economic character and performance of UK towns.
- Firm future predictions are also frustrated by the acute political and economic uncertainties in the UK and other countries arising from the Brexit process. They are also impeded by major uncertainties about trading arrangements across the other OECD countries.
- Economic policy thinking for towns in the UK cannot be left unchanged in the wake of Brexit and the causes of the discontent that have fashioned the present crisis need to be addressed regardless of the final nature of the Brexit ‘deal’.

1.1 Rising Global Uncertainty, More Local Control?

This report aims to understand how Brexit might impact towns in the UK and how they can best mitigate the risks of economic damage and seize new opportunities. The challenges for the UK on leaving the EU are twofold. The first is to at least match the trade and investment outcomes that arise from EU membership to maintain the levels of per capita GDP that would have occurred had Britain remained in the EU. Secondly, UK governments (national, devolved and local) need to put in place the policy mechanisms and resources that will transform national wealth into individual wellbeing and to ensure that as many places as possible, not least places currently left behind in economic growth, enjoy some sense of progress and growing prosperity. For instance, membership of the EU promotes ‘wellbeing’ and not simply income growth in that it, for example, involves the UK in embracing environmental regulations that contribute to sustainable development and by implementing regional economic policies that

facilitate more inclusive growth outcomes. Leaving the EU requires the UK Government and devolved administrations to rethink how they will maintain or enhance these measures that help transform income growth into wider wellbeing.

The paper is primarily an exploration of possibilities, an aid to thinking, rather than an articulation of detailed probabilities with a detailed prioritisation of actions for policy.

Firm assertions about the economies of ‘towns’ in the UK are always problematic. The meaning of ‘town’ is contested, there is no clear economic categorisations of UK towns and there is scant research on what drives their economies, though there is welcome interest in economic thinking for towns now emerging (Pawson, 2018). Further, the present time is one of historically high levels of uncertainty in the UK polity and economy. The UK Government has been involved in complex exit negotiations with the EU27 (the remaining EU states) for almost two years. It does so with no clear publicly-stated vision and timing for

final Brexit, and its intention to clarify aims in the recent White Paper (UK Government, 2018) has been muddled by apparent rejection from EU negotiators. There are no robust agreed Ministerial assessments of likely economic consequences. The Government has also had no overall Parliamentary majority.

Unclear terms of separation and unsettled politics within both the Government and main opposition parties in the UK Parliament have produced a babble of confusing messages for those outside the inner circles of the UK Government. There is also 'noise' in the European reactions to British proposals. Within the EU, some member states are anxious to avoid disruptive effects on their economies and lean towards a softer agreement with cooperative bargaining, whilst others see sectoral competitive advantage for themselves consequent to UK exit on 'hard' terms or with no agreement.

In early August 2018, as this report was being concluded, the Prime Minister is facing calls from leaders of devolved administrations, local authority leaders and business with three-quarters of firms reporting a crippling lack of clarity in making employment and investment decisions (Scotsman, 2018; Fraser of Allander Institute, 2018). Whilst the overall Cabinet stressed the importance of making some deal with the EU in their mid-July White Paper (UK Government, 2018) the Business Secretary briefed the press two weeks later that he believes

there is now a 60/40 chance that the UK will leave the EU without an agreed set of post Brexit arrangements. Serious commentators and serious press outside the EU, with no 'bargaining' interest to pursue, for instance the *Globe & Mail* (2018) and the *New York Times* (2018) are now widely reporting that the UK has a strong probability of facing food shortages, shortages of key medical supplies and disrupted international airline travel after March 2019.

Whatever the ultimate outcomes the Brexit process has sharply reduced the reputation of the UK for competent, stable government not only in the eyes of international commentators but also of individuals, business and sub-national governments. The present administration has shaped an environment of profound uncertainty regarding the immediate and longer-term prospects for the UK economy. These uncertainties are driving UK regions, cities and towns to seek more control, not for the UK Parliament, but for themselves.

Recent 'surprises' in electoral events have not been confined to the UK. They usually involve well defined geographic and generational voting shift away from traditional parties and candidates to candidates promising a return to better 'former times', a renewed focus on national success, increasing border security and restrictions, a de-emphasis of environmental relative to economic goals and a strong preference for domestic production over trade. These outcomes raise domestic political uncertainties, they change the transformation of income growth into wider wellbeing and they have also been reflected in attitudes to international trade. Uncertainty has become the hallmark of these times and 'surprises' have disrupted the North American Free Trade Agreement, the Trans-Pacific Partnership and the trading arrangements of the European Union, with, for example the recently formed Italian government intimating it will vote against ratifying the near complete Canada-EU trading arrangements that have been crafted over the last eight years. Researchers, and citizens, alike are left unsure both as to what their governments might do and what the consequences of actions will be.



The broad settings for economic policies that have prevailed over the last four decades are now being rejected by places and people that have seen little improvement in real living standards as their older economic bases have contracted or seen public resources shrink as populations have grown. Towns with static or declining economic bases lie at the heart of such issues whether in West Virginia or West Wales. At the same time, growing towns and villages at the edge of expanding metropolitan regions, with fast rising population, immigration and housing costs (but static public resources to meet growing service demands), are equally apparent in the regions around eastern London and Paris.

Andres Rodrigues-Pose (2018) has recently argued convincingly that we are witnessing an emerging *'revenge of the places that don't matter'*. He noted that:

'Persistent poverty, economic decay, and lack of opportunities are at the root of considerable discontent in declining and lagging-behind areas the world over. Poor development prospects and an increasing belief that these places have "no future" – as economic dynamism has been posited to be increasingly dependent on agglomeration economies – have led many of these so-called "places that don't matter" to revolt against the status quo. The revolt has come via an unexpected source: the ballot-box in a wave of political populism with strong territorial, rather than social foundations. He concluded that 'better, rather than more, place-sensitive territorial development policies are needed to find a solution to the problem' and

'..if they are to be successful and focus on tapping into untapped potential and on providing opportunities to those people living in the places that 'don't matter'.'

More careful spatial policy and a rethinking of real devolution in the UK, that shifts control away from the highly centralised control of the UK Parliament and to regions, cities and towns, may be desirable now for UK towns, but they will be

imperative if places are to cope with the adverse effects of Brexit.

This is a tough, uncertain time to talk firmly about prospects for towns. However, it is also a time to recognise that the marginalisation of towns in UK economic, spending and spatial policies lies at the core of not only understanding how 'the revenge of places' has edged the UK towards Brexit but also what needs to be done to shape better future towns.

Early analysis of voting patterns in the Brexit referendum, discussed further below, suggest that the majority of those who voted to leave did so primarily because either they had some sustained discontent with long term economic processes and politics in the UK or embraced some notion of wanting more direct 'British' control over immigration. The bigger economic arguments for and against leaving were argued to have played relatively little role in voters' choices though that view is now challenged by recent research (Los et al., 2017) and this paper puts emphasis on potential economic effects. It is also now apparent that the unmet pressures for homes and services in growing southern towns and the unfulfilled goals for reinvigorating the larger set of economically stagnant and deprived towns of northern England and Wales influenced the propensity to vote to leave the EU. The important point is this, that by neglecting economic change in the Britain of ordinary towns, the broad thrusts of UK social and economic policy of recent decades have fashioned extraordinary discontent. Discontent has triggered Brexit. But will Brexit will resolve the issues of more deprived towns and will it, without major changes in UK devolution and local finance policies, give 'control' back to towns?

1.2 Framing the Economic Questions on Brexit

Policy analysts would require a heroic mix of courage and folly to offer firm predictions about what leaving the EU will mean for the overall UK economy let alone towns. Relatively accurate predictions about the impact of a policy change can be made when the concern is restricted to short-term effects, confined to an unimportant sector of

activity, not framed in terms of place effects nor introduced into a strongly growing economy.

Brexit proposals meet none of these criteria. Brexit proposals remain unclear. It is a major policy change in both scale and complexity and it will have systemic as well as sectoral effects. There will be a complex geography of impacts not just in relation to immediate incidence, but about an extended medium term of adjustment to some longer-term framework for trade and mobility. In the long-run, for the collective of British places, anything is possible. The Brexit decision may, in many regards, be revolutionary, but the economic consequences will be long and evolutionary.

These features of Brexit mean, especially at more local scales, that there is little that economic forecasting can firmly predict. How can decision-makers in towns deal with this? The economic conversation for towns requires more reliance on two decision-making approaches. The first is: to review all the arguments made for change; critique forecasts and understand their limits; assess whether economic propositions are well informed and evidenced; and, make a risk and possibility assessment. Worst possibilities as well as probability likelihoods need to be explored. Towns need more economic expertise to do this. The second is: to recognise that decisions can be no more than ‘best first moves’ when future contexts and outcomes are riven with uncertainty. This requires a willingness to be alert to how change is unfolding and to have the capacities to identify and implement the needed changes of strategy or policy. For towns, this means less waiting to hear the top-down plans of governments and more proactive decisions as locally important but nationally invisible circumstances emerge. New economic governance capabilities and decision-making powers need to be designed for towns and sets of towns in the UK. There needs to be a reality, and not just a rhetoric, of appropriate economic competences at sub-regional scales in the UK.

1.3 Moving Forward

This report notes recent work on the already occurring effects of the Brexit process on the UK and discusses views on the likely short-term impacts of the major different possible versions of Brexit outcomes and consequent medium-term effects of, say, up to five to 10 years ahead.

The UK Government, at the time of writing, does not have a clear blueprint of the policy changes required for UK towns to thrive in the wake of Brexit. There is a likelihood that the UK Government will not get to grips with these issues soon. Towns, of all sizes, are going to have to develop their own adaptive strategies and to strengthen their own cases to protect their collective interests. In that regard, this report is intended to stimulate the understanding of what kinds of impacts EU exit may have and the possible kinds of strategic responses to the new threats and opportunities emerging.

The next section of the report, Section 2, discusses what is meant by ‘town’ and economic change in the UK. Section 3 explores some of the key features of the leave vote and its associations with towns and Section 4 outlines what membership of the EU means and what exit from the EU may entail. The likely implications of Brexit for the economy are explored in Section 5, the effects of removing the EU budget are outlined in Section 6 and the consequences of leaving the EU on labour mobility are considered in 7. Illustrations of specific sector policy changes are presented in Section 8. Section 9 looks at likely implications of change for towns and brings together conclusions for towns strategy and policy.

2. Framing Notions of Towns and Economic Change

KEY POINTS

- Nations, regions and cities have an economic geography or spatial structure, and that structure shapes and reflects major social, environmental and economic outcomes.
- Towns are key nodes within the national spatial structure, they are impacted by top-down changes (that may be global, national or regional in origin), but they also create and refashion change that flows from towns to wider spatial areas.
- Policymakers at UK, devolved and local levels, need to grasp these recursive top-down to bottom-up relationships and to reduce the dominance of the former in shaping effective local autonomies.
- Researching UK town economies is impaired by an absence of clear classifications of UK towns and of research on what drives successful town economies.
- Towns of different kinds, for instance those based upon a physical location attribute (castles, harbours, bridge towns) or well situated as central places or located at the edge of a growing metropolitan region, need to be understood and managed in quite different ways. Capturing the overall shape of this variety in the UK is difficult and, in consequence, firm generalisations about the future for towns are misleading.

2.1 Places and Prospects: Towns

Cities and towns are key nodes in the spatial structure of a nation. They are differently sized concentrations of people and property that both reflect and shape the social, cultural, political and economic trajectories of the regions and nations within which they are set. They connect, co-operate and compete.

The national economy is not a summary aggregate set of processes and statistics, but is an evolving system of connected places. National economic policymakers need to look beyond national aggregates to best shape structures and flows within nations and regions. Those with more local responsibilities will usually focus on more specific sub-systems or localities to understand the operation of local economies. However, having understood more about the local, it is important for town leaders to reset that local understanding within wider, recursive connections

to the region, nation and wider world. Good economic policy making requires an integration of top-down and bottom-up perspectives. This is particularly the case when localised systems or sub-systems are subjected to external shocks. Brexit, as suggested below, should not be seen as simply a top-down managed process that small towns must now endure or enjoy but as a key change rooted in unaddressed, unsatisfactory socio-economic outcomes in many of the towns of Britain.

We highlighted above how the absence of transparency regarding Britain's intended Brexit arrangements means that unravelling likely implications about classes of towns and the efficacy of existing 'town' strategies within the UK is difficult. In recent years, the UK has been struggling towards a better understanding of what is happening within the diversity of towns, but the research base remains relatively weak. Forecasting the economic futures of quite large

regions is not unproblematic and any formal forecasting for either individual smaller towns, or classes of towns, is even more so given the openness of the local economic systems involved. Defining and identifying classes of towns is also incomplete in the UK. Policy diversity and change is already occurring across and within the devolved administrations of the UK as in the regions of England (with city and regional deals adding new local variations in resources and approaches).

A firm identification of likely, specific policy impacts for kinds of towns is not presently possible. However, it is useful to set out a framework for how individual towns, regions and devolved administrations, as well as the UK Government might begin to think through place impacts of Brexit policies. This report is essentially about framing questions for towns to ask and for questions to be asked about towns. Brexit is often described as action 'to take back control' of British affairs from the European Union (implicitly to Westminster). However, the imperative of a more local perspective has been recognised by some Ministers, with Greg Clark noting (2016) that:

'The response to leaving the European Union has to be a radically expanded role for local government. When we are transferring powers from the EU to Britain I think it is essential that Whitehall is not the default destination for them.'

The devolved administrations (with much acrimonious debate between Westminster and Edinburgh and Cardiff) are already lobbying for pass through of fishing and farming policy to Edinburgh, Cardiff and Belfast (and the UK Government stress that is their ultimate intention once powers are restored to Westminster). Cities and local authorities, concerned that they will have to face adverse Brexit effects with already declining policy resources, increasingly see Brexit as a prompt to real devolution within England. EU exit may reinforce an already long process of constitutional change (and reinvigorate calls for Scottish independence) and shifting policy autonomies within the UK. Two questions immediately arise. First, whether returned 'formal' autonomies will shape very different

strategies with implications for towns. Secondly, whether wider economic changes will reduce or enhance public and private resources available to towns, and the nation, and reshape 'real' autonomies or abilities to make choices. How can we begin to unpick these issues?

2.2 Town Definitions, Diversities and Drivers

There is also the question of how to define 'town'. We simplify matters by accepting the standard approaches in the UK, that differ across the devolved administrations, but that usually define towns based on formal political geographies (rather than functional economic areas). The classification of urban settlements changed between the 2001 and 2011 censuses. In England, in 2011, some 46% of the population lived in cities with a population exceeding half a million people, and a further 13% in the size class 150,000-250,000. Some 32.5% lived in settlements ranging between 1,500 and 100,000 and most of these localities would, by most definitions, be towns and these places often play key roles in the lives of the 10% truly rural population. In broad terms, one person in three in the UK lives in what can be classed as a town.

This is confirmed by recent survey research by IPSOS Mori for CUKT which found that 38% of those across the UK self-identify as living in a town (Carnegie UK Trust, 2018).

The roles of towns differ, and they are intimately related to past economic trajectories, current wellbeing and wider geographical connections. Nucleated settlements of substantial sizes, clearly spatially separated from settlements of similar or larger sizes, exist for several reasons. Some towns exist because there is a specific geographic point or location that situates population in place such as defensive sites, river crossings, the location of mineral deposits etc.

Other towns emerge not because of the embedded physical site characteristics, but because of their situation as central locations to collect materials from a surrounding area or, more commonly, to serve as a central place for the sale of goods and services and the administration of public services.

The spatial economics of retailing and production lie at the foundation of geographers' explanations of the size and spacing of 'central places'. Of course, 'specific sites' and well-situated places may become large enough to generate significant local markets and demands for supporting services, and some can attract manufacturing and processing industries.

Towns have also demonstrated quite different capacities to withstand economic shocks and to be innovative in the face of adverse change. Some towns have greater capacities for creativity and flexibility than others. Places may create, or indeed, lose their own momentum through diversification and innovation. These institutional, organisational and cultural aspects of towns have important roles to play in adapting to Brexit.

These notions of towns see them as economic-social-cultural systems that are a mix of locally-rooted people and activities, and flows of people, capital, information and goods to and from the town to regional, national and global markets. Independent (or freestanding) towns are relatively 'closed' local systems in relation to housing supply and employment generation but they are open to trade (and the shocks that are associated with shifts in trade) and flows of migration and ideas. Town and village connections from the UK's small and larger towns do not all flow up through a UK hierarchy to move internationally. Residents, and some businesses, in Scottish towns have direct contacts with their own diaspora in towns of Ontario. Northampton has direct communication flows with South India.

A further important consideration is that over time, an independent town (with relatively

closed local labour and housing markets) may become subject to growth (or decline) impulses from adjacent growing or larger places. In this context, the town either no longer relies on local employment for growing numbers of residents who commute out to work in adjacent localities (the dormitory town) or alternatively it is host to businesses of some scale who rely on attracting in commuting workers who are resident in surrounding localities (jobs town). Growth in online shopping and in working at home (through electronic connections), allied to the soaring housing costs of metropolitan markets, is currently shaping new forms of independence in many UK towns.

Even within quite small towns, a multiplicity of locational influences can come into play. The Carnegie UK Trust is located in Andrew Carnegie's birthplace, the town of Dunfermline. The town was a historic centre of feudal and religious power, it served as a market town for a relatively prosperous agricultural region and longstanding fishing villages that also became popular holiday resorts, and then was impacted by the industrialisation of Fife based on the local coalfield. As the traditional economic base of Fife towns stalled after the 1960s, it has increasingly become home to many who work in the growing, pressured metropolitan area of Edinburgh. To be specific on the likely consequences of Brexit, a relatively precise, recent classification of UK towns in terms of their economic bases, functions and connections would be required. In the absence of such classifications, some more limited classifications of English and Welsh towns are used to illustrate some likely patterns of Brexit impacts on towns.



3. The Leave Vote and Learning from It

KEY POINTS

- The Brexit referendum resulted in a small majority, of those who voted, for leaving the EU.
- There were marked differences in the socio-economic profiles of those who voted to leave or remain: leavers tended to be older and less well-educated than remainers.
- There were regional identity influences, with Scotland and Northern Ireland joining London with remain majorities; major cities predominantly voted to remain; significant leave majorities were apparent in less prosperous towns in both the North of England and Wales as well as in the pressured towns of southern and eastern England.
- The spatial differences, with cities more inclined to the status quo and towns supporting the 'populist/protest' position, mirrors recent electoral outcomes in some other countries, notably the USA and France.
- Evidence is mixed, but there is some basis for the belief that the parts of the UK that voted to leave will lose most from the Brexit process.

There is now a considerable literature 'explaining' the socio-economic influences on the choices made in the EU Referendum. It is worthwhile reflecting these voting influences as they suggest not just what voters were seeking to change, but also whether Brexit could ever be expected to achieve such changes or, indeed, exacerbate existing difficulties.

3.1 The EU Referendum Result

The June 2016 referendum result was that 52% of the 72% of the UK electorate who 'turned out', or 37.5% of the electorate, voted to leave the EU. The geography of the leave vote has been analysed, inter alia, by Harris and Charlton (2016), Clarke and Whittaker (2016) and Manley et al. (2017). Three major patterns are apparent. First, the areas where the leave vote was strongest are of relatively low population and we infer that smaller towns and rural populations are likely to be important in such areas. Second, voting areas with higher population voted in both directions, though most cities with populations in excess of half a million people voted to

'remain' the majorities were not particularly strong (except for central London). We can infer that cities were, in the main, more pro-remain than towns. Third, except for London, the areas which voted to remain particularly strongly are mostly in Scotland (and in Northern Ireland, not included in his mapping) and are generally the areas of higher population density than their surroundings. At a more aggregative regional level, although Scotland, Northern Ireland and London were regions voting to 'remain' by strong margins, the Leave majority prevailed in all the other regions. The contrasts were marked with the West Midlands having the highest vote share for Leave, with Scotland highest for Remain.

Regional level vote shares concealed significant differences between settlement sizes. Often major cities voted to remain. The BBC (BBC, 2016) reported vote shares at the local authority level and clearly differences in local feelings were more pronounced than at more aggregate scales. Within the UK, some nine local authority areas recorded a leave vote that exceeded 70%, and localised discontent was particularly evident in eastern England (Boston, South Holland, Castle

Point, Thurrock and Great Yarmouth all had vote shares for exceeding 70%). Both regional and town level influences appear to be at play.

3.2 Explanations of the Leave Vote

Initial ‘explanations’ of the geography of the exit vote tended to focus on single variable analyses. The BBC, usefully, highlighted that of the 30 local areas of the UK that had the highest shares of elderly population, the highest proportions expressing strong ‘English’ identity and lowest shares of graduates in the population they were, with few exceptions, pro-Brexit (see for instance Coyle (2016), Goodwin and Malazzo (2017), Hobolt (2016), Arnorsson and Zoega (2016), Becker and Fetzer (2016) for informative comments on Brexit determinants). Older age and low educational attainment have featured in all the explanations of strong local propensities to vote leave. Subsequently there have been a growing number of statistically more sophisticated analysis on the patterns observed (Goodwin and Heath, 2016a, 2016b; Liberini et al., 2017; Becker et al., 2016; Langella and Manning, 2016; Clarke, Goodwin and Whiteley, 2017).

A JRF research report on Brexit voting reported:

‘Age, income and education matter, though it is educational inequality that was the strongest driver [but] support for Brexit varied not only according to the type of individuals but the type of area. Those with all levels of qualifications were more likely to vote Leave in low skill areas than in high skill areas. The biggest difference across types of area was for those with A-levels or a degree. In low skill areas, the proportion of A-level holders voting leave was closer to that of people with low skills, in high skill areas their vote was much more similar to graduates. Whereas over 70 percent of people in low-skilled communities like Tendring (which covers Clacton) voted for Brexit, over 70% of people in very highly-skilled communities like Cambridge voted to remain in the EU.’
(Goodwin and Heath, 2016a)

Clearly the nature of places, including the characteristics of towns, mattered.

The University of Warwick (Becker et al., 2016) have produced a more sophisticated statistical analysis of the voting pattern. Their analysis focused on the statistical correlations between different socio-economic variables and voting outcomes and they observed that there was a very strong correlation (0.92) between Leave votes and votes for UKIP in the 2014 UK Parliamentary Election. They then grouped their explanatory variables into categories. In the socio-economic category, they reinforce JRF’s observations that age and education shaped voting patterns (explaining 80 percent of the Leave vote share). The underlying economic structure of constituencies, proxied by share of manufacturing, unemployment and wages explained some 70% of the vote leave share. Los et al. (2017) also report a higher propensity to vote Leave was observed for older, lesser educated, or socially conservative or lower paid individuals (Clayton and Overman 2017).

Becker and Fetzer (2016) also combined variables indicating ‘exposure’ to the European Union, such as local authority (using regional proxies) exposure to EU trade, immigration and receipt of EU structural funds. They found that actual experience with Europe explained less than a half than the variation in the leave vote share though they noted that the growth rate of immigrants from the 12 EU accession countries that joined the EU in 2004 and 2007 is linked to the Leave vote share. This stands in contrast to migrant growth from the EU 15 countries or elsewhere in the world. It suggests that migration from predominantly Eastern European countries influenced voters. They also provide a first attempt to study the causal impact of migration on the evolution of anti-EU voter preferences and find a relatively modest but statistically significant association between immigration from Eastern Europe and growing anti-EU sentiment proxied by support for UKIP across European Parliament elections between 1999 and 2014. They also report on the effects of fiscal cutback and consolidation after 2009/10 until 2014/15, a period in which average local authority spending per person in England fell by 23.4 percent,

but with cuts ranging from 46.3% to 6.2%. The extent to which councils receive central government grants reflects local deprivation. In consequence cuts are also likely to proxy deprivation patterns. They found that falling local government spending was significantly related to voting to leave, but reported that the pattern might more likely represent prior levels of deprivation.

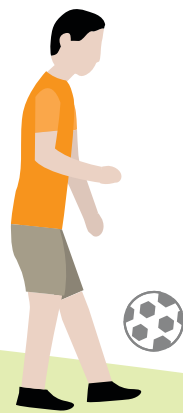
Reflecting across these patterns of correlations, Becker and colleagues (2016; 2017) observed that it was long term, slow moving processes of demographic, educational and economic outcomes that correlated most strongly with the Leave vote rather than EU exposure and fiscal consolidation. These observations give some substance to Rodrigues-Pose's (2018) claim, noted above, that governments are experiencing the 'revenge of poorer places'.

There are two important implications for towns policies in these observations. The first, as Becker notes, is that it has been long, slow-process failures, largely independent of EU membership and exposure that most shaped the Leave vote and these secular change patterns will continue even after Brexit unless there is some radical policy shift to deal with them. If Brexit has been the voters answer it is not, however, the likely route to resolving the underlying economic

questions. Second, reversing local cuts may help that change process. Leaving the EU is, see below, likely to reduce the growth of fiscal capacity in the UK and prolong the resolution of key difficulties in towns. Change for the better in northern England and Wales might have been concentrated more effectively on reshaping deprived towns rather than reshaping British trade.

The importance of 'place' in shaping the leave vote has been reinforced by significant studies of how UK economic geography impacted the leave/remain vote. Los and colleagues (2017, p17) summarise the major change patterns as:

'Within England there were marked geographical differences in voting patterns. Remain votes dominated in London and in many parts of the home counties – a western arc around London from Cambridge to Oxford and down to Surrey – along with some of Britain's major cities such as Leeds, Manchester, Cardiff, Leicester, Bristol, Liverpool, Edinburgh and Glasgow. In addition, pro-remain voter preferences in both Scotland and Northern Ireland displayed markedly different patterns to those in England and Wales, suggesting that 'national' identity is also open for discussion.'





Los et al., (2017) whilst emphasizing issues of identity and culture may explain differences between Northern Ireland and Scotland (*vis-à-vis* England) the key explanation of differences within England reflect economic geography. This is consistent with the findings of Becker et al. (2016) who observed that the regions most likely to vote leave were those with larger shares of lower-skilled or manual employment, a greater historical role in manufacturing, and higher levels of unemployment.

As such, the regions and localities that were perceived to have most benefited from globalization, immigration and trade tended to vote remain, while those regions and localities that were perceived to feel most threatened by these phenomena voted leave.

The geography of deprivation and prosperity both interacted with, and overlaid, each of the other individual-specific explanatory variables. The interaction between individual-specific characteristics and the local economic characteristics revealed a pattern reflecting a

'geography of discontent'. In the most marked cases, many of the regions receiving the highest level of EU regional funds voted leave (SPERI, 2016).

On face value, the voting patterns appear to support the idea that it was indeed the 'metropolitan elites' who most benefited from the EU and globalisation. Los et al., (2017), however, provide important evidence and analysis that suggest this view of 'metropolitan elites' gaining from the EU and globalisation is misleadingly inaccurate and we discuss it further in the next section that looks at how Brexit may impact different kinds of places. The Clayton and Overman (2017) study modelling the likely impacts of hard and soft Brexit on GDP growth by regions, cities and local authority areas, discussed further below, also related measures of likely impact in area to their voting pattern and demonstrated clearly that areas most likely to be hit hardest by Brexit voted to remain. Past economic losses appear to have driven the 'leave vote' in the towns of northern England and Wales and fears for future losses the remain votes in every major British city.

4. Leaving the EU: What Changes?

KEY POINTS

- The EU evolved from a post-war reconstruction of six West European coal and steel industries (ECSC) to become a pan-European government institution (with 28-member states) with sectoral, structural, environmental, social, fiscal and monetary policies.
- Membership of the EU can entail participation in a customs union, a monetary union, the single market, a European legal system, a free movement zone (Schengen) and a range of other significant institutions.
- Some nations have chosen to remain outside of the euro-zone and the Schengen agreement, though remaining outside the customs union, the single market and the European courts system are not an option for EU members.
- Non-EU countries, notably Norway and Switzerland, have been able to participate in some of the programmes and institutions of the EU on making appropriate payments to the EU budget but are excluded from political decision processes within the Union.
- Withdrawal from the EU will have major, systemic effects on the UK's trading arrangements, as well as affecting the mobility of labour and other sectoral and regional (spatial) policy programmes that significantly impact towns. The possible effects include:
 - The end of a customs union with no new equally favourable arrangements for EU-UK trade will mean a reduction in trade with less specialisation, lower incomes and lower productivity growth in Europe, but especially in the UK.
 - Ending of the custom union will allow the UK to develop its own tariff arrangements (trade deal) with other international traders, but with a bargaining power reflecting British rather than EU power and market scale.
 - The end of the single market will increase non-tariff barriers to trade and will exacerbate reductions in trade, income and growth as costs of trading increase.
 - Reduced trade access in the EU for UK-based businesses will probably reduce foreign direct investment in Britain.
 - The ending of the free movement of people may increase labour supply constraints in the UK economy, and if allied to a fall in the value of sterling relative to the euro, may encourage some portion of the three million EU residents living in Britain to leave.
 - Further depreciation of sterling may erode investment and confidence.
 - The ending of UK participation in the EU budget may have adverse effects for sectors (agriculture and higher education, for example) that are 'town' oriented.
 - EU spatial policies that support disadvantaged regions and towns will end (and, unless replaced, will most damage the more deprived towns that voted pro-Brexit).

4.1 Being in Europe

Membership of the European Union has multiple attributes and rules and different countries have joined with different mixes of membership attributes, so even the most basic terms 'member of' and 'leaving' the EU need to be quite carefully defined. Brexit does not mean anything until terms of exit are defined.

The European Union has had a long evolution from the postwar European Coal and Steel Community (ECSC) of six countries (Belgium, France, Netherlands, Luxembourg, Germany and Italy). The Treaty of Rome, in 1958, transformed the ECSC into the Common Market that had an early emphasis on food production and agriculture (the Common Agriculture Policy). The UK joined the Common Market, from then on known as the European Union (EU), in 1973 along with Denmark and Ireland. New interests in regional development and infrastructure expenditures with structural funds came to play a larger part in budgets and spending. Through the 1970s, the influence of the European Parliament grew vis-à-vis the Commission bureaucracy, and elections to the Parliament were held first in 1979 and areas of competence extended into environmental policies and regulation. By 1986, Greece, Spain and Portugal had joined the EU and, reflecting UK pressures, the Single European Act, fashioning the 'single market', was introduced in 1989.

The change process continued through the 1990s. First, the Treaty of Maastricht (1993), revised in the Treaty of Lisbon of (2009), fashioned the European single currency project. The European Central Bank, the formation of the euro, and the budgetary policy requirements required to operate the single monetary policy led to significant shifts in macroeconomic policy arrangements. The Schengen agreement, arising from the treaty of Amsterdam in 1999, reduced constraints on movement across national boundaries in the EU, further expanded by the accession of Austria, Finland and Sweden in 1995. With 10 former Warsaw pact territories joining the Union in 2004, and Bulgaria and Romania completing membership in 2007, the EU became more widely involved in monetary policy/banking stability activities, post the GFC in 2008, and has become

increasingly involved in security, terrorism and refugee issues on its eastern and southern borders.

By 2016, the sectorally focused ECSC of six core West European nations had transformed into the EU as a form of supra-national, intergovernmental governance. The 28 states in the Union, by 2015, were home to a population of 510 million people who produced approximately a quarter of global GDP. The EU had not only grown but also become a complex government structure. These include the government mechanisms of the European Parliament, located at Strasbourg, the European Commission (Brussels), the European Council (Heads of State and President of EC) and the Council of the European Union (Ministers from nations). Key institutions include the Court of Justice of the EU, the European Court of Human Rights (ECHR), the European Central Bank and the Court of Auditors.

The different core strands of economic policy autonomies, where nations had ceded power and influence upwards to the Union, included:

- A customs union, involving no internal tariffs between EU countries and the setting of common tariffs across all countries of the EU for trade external to the union.
- A single EU market, with extensive regulation relating to the quality, pricing and trading of large numbers of goods and services, applying to all members (though Norway and Switzerland have bought into this arrangement without becoming EU members).
- A single zone of mobility in factor markets with free mobility of labour and capital (that applies to all EU and non-EU members of the single market).
- A currency union, with the use of the euro, involving most EU members and with related budgetary policy interests.
- Major programmes of regional and structural adjustment to facilitate convergence and integration across the EU (all EU members).
- Budget holder and allocator for key EU programmes.

Membership of the Union, to share in the institutions and mechanisms outlined above, required not only that nations ceded sovereignty ('control') upwards to the EU, but that they made a budget contribution to the EU that was negotiated and based on general economic wellbeing and national scale. Leaving the European Union means, in effect, either fully or partly leaving some or all the above EU institutions and negotiating any ongoing budget commitments. There is no simple cut of a Gordian knot that frees Britain to float freely into the Atlantic. That negotiated withdrawal process means dealing with the EU and the reality that quite different 'mixes' of Europe already exist. That variety arises because:

- Members differ in their record of adherence to treaty rules: the UK has had an exemplary record of implementing rules and directives.
- Some countries are Members of the Eurozone (with the euro as their currency and fiscal rules and monetary policy shaped by the European Central Bank); the UK was not in the Eurozone and this will considerably simplify withdrawal.
- Some countries are Members of the Schengen Area (open borders for EU citizens); Britain was not party to the Schengen agreement.
- Since 2004, all countries acceding to the EU have been required to both join the Eurozone and sign the Schengen agreement.

At first blush, the UK's absence from the Eurozone and the Schengen Agreement would appear to simplify exit processes. However, it is important not to overlook the strong arguments that are being made, though they may yet come to nothing, in Scotland and Northern Ireland to negotiate either separate deals for these parts of the UK or to reconsider their membership of the UK union. If Scotland or Northern Ireland were to retain EU membership it is difficult to envisage how that might be brokered with entry conditions different from other recently joining nations. We leave this consideration to our concluding section.

If, for European nations, there is no unitary definition of being 'IN' Europe there is also no uniform EU status for nations that have

remained outside. Such nations, notably Norway and Switzerland, are not only members of trade blocs such as European Free Trade Agreement and the European Economic Area but may also, at an agreed buy-in budgetary contribution, have access to some of the mechanisms of the EU. Norway is not a member of the EU but is a member of the Single European Market and the Schengen agreement. Advocates, including the City of London and at least three out of four UK businesses, of 'soft' Brexit are essentially seeking 'Norway-style' arrangement that would minimise disruption of UK-EU trade. It would require, however, that the UK be subject to ECHR rulings and to continue to allow free movement of labour (with the hope that France and Germany might, given their own difficulties with immigration, might seek to redefine this concept to movers with a job or job permit).

Although there is a sustained advocacy of single market membership from UK business and finance sectors and the devolved administrations the public stance of the UK Government is that it is resolved to leave the customs union, the single market and the ECHR although participation in some joint programmes was being considered subject to an acceptable ongoing budget contribution. This is called 'hard' Brexit. If UK-EU negotiators fail to reach an agreement by March 2019, then the 'no deal' would see the UK leave the EU without an active trade deal. At that point, the UK would have to trade, not just with the EU but internationally, under World Trade Organisation (WTO) rules until it had negotiated bilateral trading negotiations with countries across the globe and the EU. WTO rules that do not apply to services (a key component of UK exports) involve tariffs that compare unfavourably with most trade deals and existing EU arrangements. A WTO regime would set tariffs of between 2% and 3% on many industrial goods but be much higher in other sectors: 10% for cars and 20% to 40% for many agricultural products. Some sectors will be particularly hard hit by 'no deal', with Demos arguing that UK producers of dairy products (that would face a tariff of 33.5% on exports into Europe), alcohol, confectionery and tobacco the hardest hit. It is widely believed that trading under WTO rules would reduce UK trade and

incomes substantially, but bilateral national trade deals may generate a range of outcomes, after likely lengthy negotiation periods, from success to failure that are all extremely uncertain. The broader economic effects of these different 'leave' scenarios are noted below.

The complex system effects of Brexit are likely to be driven by several separate influences arising from 'leaving' the EU. Briefly:

- The end of a customs union with no new equally favourable arrangements for EU-UK trade will mean a reduction in trade with less specialisation, lower incomes and lower productivity growth in Europe, but especially in the UK.
- Ending of the customs union will allow the UK to develop its own tariff arrangements (trade deal) with other international traders, but with a bargaining power reflecting British rather than EU power and market scale.
- The end of the single market will increase non-tariff barriers to trade and will exacerbate reductions in trade, income and growth as costs of trading increase.
- Reduced trade access in the EU for EU-based businesses by either of the above routes will reduce foreign direct investment, seeking subsequent sales into the EU, flowing into the UK.
- The ending of the free movement of people may increase labour supply constraints in the UK economy, and if allied to a fall in the value of sterling relative to the euro, may encourage some portion of the 3 million EU residents living in Britain to leave.
- Further depreciation of sterling may erode investment and confidence.
- The ending of UK participation in the EU budget may have adverse effects for sectors (agriculture and higher education, for example) that are 'town' oriented.

- EU spatial policies that support disadvantaged regions and towns will end (and, unless replaced, will most damage the more deprived towns that voted pro-Brexit).

These are complex interacting strands. We can't convincingly model these recursive processes for towns, and perhaps not even the national economy. What shall we do?

4.2 Shaping a Narrative, with Evidence

We are facing the think-problem, how will Britain's towns be impacted by Brexit processes and outcomes? We have stressed the fuzziness of the definition of towns and the absence of an economic classification of towns. There are, in addition, two further difficulties in considering town challenges arising from Brexit. The first is that quite major programmes and autonomies are being changed that will impact at different spatial scales and with different sectoral intensities. Brexit, however defined, will be spatially unbalanced in its impacts. The second is that it is difficult to anticipate precisely where, and when, the UK will be positioned anew relative to EU institutions and mechanisms. Presenting 'hard' and 'soft' Brexit options also has limitations in that there remain huge variations within these options and a significant number lying between them.

Within each of the likely scenarios we need to consider a series of effects, or different kinds of shocks, to towns of different kinds. The key questions are then about:

Macro-changes impacting locally:

- What will be the macro-effects on growth, trade and GDP for the UK macro-economy though the Brexit process and beyond?
- How might this impact fiscal resources for UK policy programmes (and indeed any budget effects of leaving or retaining partial membership of the EU)?
- What are the implications of an ending (or redefinition) of free movement of labour, and indeed flows of people more generally?

TOWN CENTRE PLANNING MEETING



Impacts on Cities, Towns and Sectors

- With research on impacts for UK cities and regions and some earlier classifications of smaller towns and studies of kinds of towns, such as coastal towns, which regional locations and types of towns are most likely to be affected?
- To what extent are the sectors of trade most likely to be most impacted by growth and/or decline arising from Brexit, and this includes finance, agriculture, fisheries, tourism, higher education, steel-making and manufacturing (inter alia), associated with kinds of places?
- What are the implications of disconnecting UK science and UK companies from EU research and innovation programmes?

Place and People Policy Effects

- What will be the impact of the curtailment of EU regional and infrastructure and European Investment Bank policies (what will be completed of what is already agreed, what will be 'replacement' policy in the longer term)?
- What will be the implications for programmes for the areas and people experiencing most disadvantage?

The following sections of the report seek to address these issues.



5. Brexit, the Economy and Towns

KEY POINTS

- Three-quarters of UK businesses believe that membership of the EU has been beneficial for them with tariff and barrier free trade to the EU and half of global markets (through strong EU trade deals) inducing increased specialisation and productivity that offset the associated regulatory burden.
- Most independent econometric estimates of costs and benefits of membership have concluded that being in the EU had added 2 to 5% to UK GDP.
- EU membership raised levels of mobile investment within into the UK.
- As EU membership appeared to raise UK incomes and investment there is a case to see UK or local government decisions as the drivers of local discontent by failing to deal with growth that was unbalanced by place, sector and income group; arguably those responsible for the UK spatial economy lacked policy competence rather than control.
- The announcement effects of Brexit were initially favourable for employment and output as sterling fell by 10-12%, but by the end of 2017 the longer term inflationary and uncertainty effects of depreciation had become apparent and the UK had slipped to the bottom of the growth league for major EU countries with business investment and confidence falling in the UK into the summer of 2018 and sterling starting to fall against major currencies.
- Modelled forecasts of medium to long-term Brexit impacts, with few exceptions, suggest that GDP will be 2-3% (compared to remaining in the EU) less in 10-15 years if the UK remains in the single market, 5-7% with a negotiated EU trade deal and 8-10% if it leaves the EU with 'no deal'.
- Medium-term studies of Brexit effects on the employment structures of cities (that include many larger towns) suggest that the areas that voted to remain, such as London and Edinburgh, will be major losers (reflecting their service base) and that cities will generally do worse than the rest of the UK. In contrast, regional studies that consider global, European and domestic trade flows indicate a different pattern suggesting that London will be most resilient because its trade is more global than European and that it is the poorer regions of the UK, that voted for Brexit, that are most vulnerable to adverse Brexit effects.
- Mapping these broad ideas onto patterns of towns it becomes clear that the trading pattern of towns needs to be better understood and their national, EU and global connections unraveled.
- The broad impact on towns is likely to be that in the short to medium term the reduction of growth and immigration into the south and east will reduce growth in service pressures but any resurgence of growth, inside or outside the EU, will simply add to pressures fashioned by investment shortages over the last decade. A Towns Growth Strategy will be needed.
- In the most deprived parts of the UK, reduced income growth and constrained public spending will do nothing to improve the trajectory of long stagnating towns unless there is a more coherent, and economy-led town revitalisation programme.

5.1 EU Trade Successes, UK Wellbeing Difficulties

Prior to the EU referendum, three out of four British businesses believed that EU membership had facilitated their enterprises and grown the economy. A broad range of estimates (Thompson and Harari, 2013) suggested that EU membership added 4-5% to UK GDP. Tariff and barrier free trade had shaped new patterns of specialisation within Europe (with two-thirds of exports from the UK destined as inputs to European production) and larger volumes of overseas trade (with EU membership allowing access to between a quarter and a half of global trade potential through strong trade deals).

Specialisation and scale in trade had facilitated productivity growth and with two thirds of larger firms and a half of smaller enterprises valuing access to EU origin workers, labour market movement was seen as fostering growth and productivity. Since the formation of the single market flows of investment around Europe had doubled and the EU was a strong attractor of inward investment from EU countries (half of the UK total) and from overseas companies seeking a UK base. Firms were less fond of EU regulations on labour markets and product standards but tolerated these issues to secure trade and growth gains.

In reviewing a wide range of UK sectoral, regional and local economic commentaries we found few economic strategies that have argued that leaving the EU would improve local economic outcomes (with the singular exception of a small number of fishing towns). Prior to the UK's decision to leave, UK level studies of the impact of the UK being within the EU, noted above, generally converged with those of business bodies, such as the CBI, and demonstrated clear positive effects on GDP per capita both for UK and EU citizens. A small minority of studies, usually associated with Leave lobbies, argued that effects were either weak or negative.

There is little doubt that, as a mechanism for enhancing trade and the economic efficiency of production and labour markets, membership of the EU was a strong positive for the UK economy. However, the economy is not simply

about producers, but consumers too. And the economy comprises non-tradeable and public sectors as well as internationally trading sectors. Congestion and shortages in the delivery of public infrastructure and services and rising costs for housing in growing locations all played key roles in shaping consumer and voter discontent with wellbeing of households. None of these difficulties could be attributed to membership of the EU but, rather the expenditure and planning decisions of the UK government and local authorities. At the same time, whilst aggregate UK growth has been moderately strong since the UK joined the EU, there has been little attenuation of the significant, longstanding regional imbalances within the UK. Many towns that saw older economic bases contract between the 1970s and 1990s have endured long deprivations exacerbated by growing austerity measures since 2011. These regional imbalances predate the UK's membership of the EU and have persisted despite significant EU efforts to actively promote regional restructuring.

These summary points are made because they emphasise that the prolonged deprivation of towns experiencing poorer outcomes and the service and housing congestion costs in growing places arose not from the gains from EU induced trading, growth and investment but from UK Government inability to manage and gain from these processes (Rodrigues-Pose, 2018; Chen et al., 2018; Lora, 2016). And that inability included a sustained lack of attention to the spatial outcomes of economic change, and especially in UK towns. Put starkly, a strong case can be made that the growth-trade-mobility project did not fail, but the mechanisms, largely at the hand of UK governments, to transform rising GDP into fairer outcomes and faster infrastructure provision did.

We return to these policy challenges for towns in the final sections of the report and focus here on casting some light on what Brexit will mean for the UK's towns. The remainder of the chapter reviews emerging evidence on the likely overall impacts of Brexit on the general UK economy, both through the Brexit process and thereafter, and on the effects of changes in EU budgets and free movement of labour, and then considers implications for towns.

5.2 Announcement, Process and Long-Term Effects

The sections below make a distinction between ‘announcement/process’, medium term and long-term effects. The ‘announcement’ of the UK’s intention to leave the EU had immediate economic effects, not least the fall in the value of sterling and its subsequent consequences, discussed below. The protracted processes of shaping Brexit from a government slogan to a set of defined trading relationships will ensure that there is a continuing series of such effects through, at least, 2019. Each major communique on how negotiations are progressing, or not, will set in train adjustments that have immediate and short-term effects on the economy. For example, the lukewarm reaction of the EU to the UK Government White Paper of July 2018 saw sterling start to fall with financial sector commentators predicting that, *ceteris paribus*, position would continue until key EU-UK meetings in October. However, there are longer term implications of financial sector reactions (driven by the concern over the loss of ‘passporting rights’ that facilitate free trade in financial services across the EU) with Deutsche Bank and Credit Suisse announcing the transfer of functions and staff from London to Frankfurt and the Edinburgh based Baillie-Gifford selecting Dublin as a significant employment locus post Brexit. When these ‘Brexit process’ effects have run their course, the likely medium-term trajectory of the economy will be driven by what is decided about (rather than expectations about) tariffs/customs union, participation in the single market and labour mobility. The length of this medium term will be defined by the length of time (and that may be up to a decade) that it takes the UK to develop key trade deals that might offset trade reductions arising from new tariff and, especially, non-tariff barriers with the EU. The long-term is what lies beyond these complex and unpredictable processes. How does this help towns understand the raft of Brexit impacts research that has emerged in the last two years?

There is evidence that the ‘announcement’ effects of the June 2016 referendum lowered

sterling in ways that had a positive effect on employment and incomes, not least in boosting manufacturing and tourism, that, allied to further quantitative easing and supportive monetary policy forestalled a possible recession. As four-fifths of the earnings of the FTSE are earned outside of the UK, falls in the value of sterling increase the value of shares substantially, and the stock market rose with Brexit announcements. It is also believed that firms have met rising demands not by investing, as they are uncertain about the future, but by increasing employment. However, by mid-2017, the widely predicted effects of the devaluation of sterling (by 10-12% for most of the period since June 2016) on import costs for producers, and continuing uncertainties appearing to depress UK investment, have set an emerging context of rising inflation and the lowest growth rate in the major economies. UK investment performance, into 2019, is expected to fall further. After an initial post-referendum rise, high street sales, and measures of consumer and investor confidence are all now falling.

Reduced growth means lower income growth and sluggish fiscal revenues and if the present low rate of UK output and productivity growth is sustained through to 2021 then the Government’s aim to move from budget deficit to surplus will be frustrated. In the discussion below it is argued that reductions in public expenditure since 2010 are likely to have damaged UK towns more than trade, migration and regulation effects from the EU. Yet, through the Brexit process, more austerity and tighter monetary policy is likely to be the context for launching post-Brexit Britain.

The nature of these numbers suggests that the UK, regardless of the final agreed version of Brexit, will face major difficulties in economic management arising from and through the Brexit process. The fiscal position to launch new government spending programmes, either to replace EU programmes or to restructure economies to meet new trading opportunities is likely to be curtailed. If UK towns want a ‘new deal’ the fiscal constraints will be severe. But what are the medium-term prospects?

5.3 Brexit and the Medium Term

As pre-Brexit studies tended to show a positive effect on UK trade, productivity and incomes it is unsurprising that most of recent studies (see Begg and Mushovel, 2018, HM Treasury, 2018a), suggest that the medium-term impacts of Brexit are likely to be negative. A concise review of the range of estimates by leading economic institutions commentators is available in Begg and Mushovel (2018). They note:

‘The range of estimates is large, from a loss of GDP of nearly ten percentage points (in the least attractive trade and inward investment scenarios modelled by the Treasury, NIESR and the Centre for Economic Performance at LSE) to a gain of four points (Minford, for Economists for Brexit) – a clear outlier.’

It is important to note that generally negative, and significant, effects of Brexit have been identified (Chen et al. 2018; McCann, 2017) not just for the UK but for the EU, and especially Ireland, the Netherlands and Belgium. Fuller (2018) reports expected regional impacts (examined further below) to range, in the most adverse scenarios of hard Brexit, from 10 to 17% of GDP in the UK, from 4.5 to 6.4% in German regions, between 3-5% in Dutch and Belgian regions. The impact on Ireland, for this scenario by 2030, is a significant 10% reduction in GDP with that number falling to around 1% in the Mediterranean countries. The overall Brexit risk estimated for the UK is 12.2% of GDP and 2.6% for the EU as a whole.

Experts, despite counter views by selected government Ministers, have predicted short-term Brexit effects quite accurately, and with broadly similar results to UK Treasury estimates (HM Treasury, 2018b). The same, or similar, experts also have a fairly clear view of the likely medium-term effects of different hard and soft Brexit scenarios, namely: ‘soft’ Brexit, with the UK remaining in the single market; ‘hard’ Brexit with

the UK outside of the EU single market and with trade agreements to be made globally but with a negotiated EU trade deal in place; and, finally, the ‘no-deal’ scenario where the UK reverts to WTO tariffs until, if, it negotiates trade deals with major trading partners.

Although Brexit supporters and Ministers were initially confident that major deals could be struck with significant trade partners within a year or two (and none have materialised in the last two years) the observations of those involved in recent Canadian trade deals (NAFTA, the EU-Canada deal) suggest that deals may take five to 10 years to develop, even with goodwill on all sides. The ‘medium term’ may then last five to 10 years. There is a near unanimity across UK and other forecasters that the post-Brexit trade reshaping period for Britain, and the EU, will be a difficult period with significant trade and income losses. Domestic UK forecasters have indicated possible GDP losses of up to 10% per annum. Recently, some European banks (Rabobank, for example) predict losses around double that magnitude. More control, in Westminster terms, will mean less real choice for governments and households in the UK.

A loss of 8% in GDP, let alone 20%, is likely to have such transformational effects on the political economy of the UK that hard forecasting the future beyond that period becomes fruitless. The medium term will destroy certainties about the long term. And there is in this debate no road map offered by government, and others, towards more prosperous futures for towns. There is no prior evidence to suggest that towns will be exempt from Brexit losses, nor that they will suffer disproportionately. However, even if lost GDP is split equally between the public and private sectors the losses to the UK Treasury will greatly outweigh the gross, let alone net, costs of contributing to the EU budget. Neither private demands nor public resources seem set to drive a renaissance of Britain’s more disadvantaged places, whether cities, towns or villages.

5.4 Places in the Medium Term: Cities and Towns

'Place', despite the nature of places shaping Brexit vote outcomes, has played little role on policy debates on leaving Europe. There has been little UK Government discussion of regional patterns of change, aside from the Northern Ireland Border question, or indeed of how cities and towns might be impacted, despite both the 'leaked' government figures (Islam, 2018) that some regions, such as (pro-Brexit voting) North-East England could lose 16% of GDP by 2023 (in the worst case no-deal scenario) and the earlier observation that Ministers see more devolution as an important post-Brexit emphasis for all the UK. Studies by the devolved administrations for Scotland and Northern Ireland have echoed the acute concerns of academic and commercial sector forecasts and really needed to be repeated across the regions and cities of the UK. The City-REDI group at the University of Birmingham has produced coherent and extensive summaries of the likely impacts on devolved administrations (City-REDI, 2018) and, where possible, other regions.

There is little suitable data to model local effects over long periods. There are, however, academic studies that make some progress in sharpening the spatial questions that need to be asked now about potential Brexit effects and that provide some starting analysis and evidence on which to build further work. The key contributions have been made at the scale of Regions, Unitary Local Authorities' and local authorities but some deductions about 'town' outcomes may be attempted by linking to past town studies.

The medium term predicted effects of Brexit differ for city and regional studies as they use different bases for analysis. The Centre for Economic Policy Research and the Centre for Cities (Clayton and Overman, 2017) have published their important work on medium term-early Brexit impacts on cities. Their basic approach has been to look at patterns of employment and output by 'industrial' sectors at local scales and using likely changes in trade by sector across the EU, and the Rest of the World, model direct and feedback effects on city-based

patterns of production and incomes. Clayton and Overman (ibid.) argues that this approach is superior to simply looking at past reliance of places on trade with Europe. The overall modelling exercise envisages, by 2025, a relatively modest (by the standard of other estimates) reduction in GVA of 1.2% for 'soft Brexit' and 2.3% for the harder option. However, cities (defined as the 62 Primary Urban Area's in the UK and including what are often regarded as larger towns) fare worse than the rest of the nation.

They also predict that the effects will be more severe in the south than in the north. Some 12 of the worst 20 affected areas are in the south, and only 4 of the least impacted 20. The worst hit cities (in contrast to the estimates of Chen et al. (2017)) are London, Edinburgh and Reading, see Table 1. These places all have significant employment shares in finance and research and development (modern economic bases) and the Overman-LSE model estimates that they will be the sectors worst hit by Brexit. Clearly towns within the market areas of these Primary Urban Areas will be more likely to be subjected to negative pressures from Brexit than other areas.

The analysis is then taken to a local authority scale that takes us closer to placing towns in the analysis. Overman summarised the results in his blog of September 7 (2017):

'The results show that every local authority area is predicted to see a fall in GVA.... The impacts are predicted to be more negative under 'hard Brexit' in every local authority area, as the increase in trade costs would be larger. Cities are predicted to see larger falls in GVA than non-urban areas in both scenarios. The average decrease in GVA under 'soft Brexit' is 1.2 per cent in cities compared to 1.1 per cent in non-urban local-authority areas, and 2.3 per cent compared to 2.0 per cent, respectively under 'hard Brexit'. There is less variation between cities compared to individual local authorities, however, as urban economies tend to have more diverse sectoral profiles'.

Table 1: Most and least affected cities (% change in Gross Value Added)

Rank under Hard Brexit	City	Hard Brexit (%)	Soft Brexit (%)	Rank under Soft Brexit
1	Aberdeen	-3.7	-2.1	1
2	Worthing	-2.8	-1.5	2
3	Reading	-2.8	-1.4	5
4	Swindon	-2.8	-1.5	3
5	Slough	-2.8	-1.4	4
6	Edinburgh	-2.7	-1.4	6
7	London	-2.6	-1.3	21
8	Aldershot	-2.6	-1.3	9
9	Leeds	-2.6	-1.3	11
10	Ipswich	-2.6	-1.3	18

Rank under Hard Brexit	City	Hard Brexit (%)	Soft Brexit (%)	Rank under Soft Brexit
53	Blackpool	-2.0	-1.0	59
54	Swansea	-2.0	-1.1	52
55	Telford	-2.0	-1.1	48
56	Luton	-2.0	-1.1	55
57	Mansfield	-2.0	-1.2	42
58	Wakefield	-1.9	-1.1	57
59	Hull	-1.8	-1.0	60
60	Burnley	-1.7	-1.1	53
61	Barnsley	-1.7	-0.9	61
62	Crawley	-1.1	-0.7	62

Source: Clayton and Overman (2017)

He added two further important points. First, the negative shocks to these prosperous cities are much less than the regional-intercity income differentials that already exist so that Brexit will not lead to significant gains in spatial equality. Secondly, these effects estimated ignore the impacts of changes in foreign direct investment, labour mobility and innovation. Cities have different capacities for resilience, and arguably it is the cities that have acquired modern economic bases (the Overman Brexit ‘victims’) that will be the most resilient in the longer term.

In understanding Brexit impacts on local areas, whether regions, cities or towns it is useful to note McCann’s two-stage approach. He argues

that the first step is to identify and measure the exposure of a place to Brexit impacts (McCann, 2018) and then to identify the adaptive/competitiveness potential of places, and that involves auditing resources, infrastructures, governance capacities etc. (see Thissen and Van Oort, 2018). McCann’s approach underpins the concluding discussion of this report that highlights what UK towns need to urgently act upon now.

An important academic contribution, also involving McCann’s perspective, is Chen et al. (2018). They, in contrast to Clayton and Overman, place emphasis on the extent of trade connections between places in the UK, the EU

and the rest of the world. Using trade flows data (and again this ignores Foreign Direct Investment, labour mobility and innovation effects of change) they add an important nuance to the arguments made above. They emphasise that not only do places have different employment/occupational structures but that their trade patterns can be quite different even for similar classes of goods, for example financial services in London primarily serve world markets but, except for Edinburgh, the further north one moves in the UK the more financial services relate to regional markets. Their work makes an important point, that some (few) locations in the UK are genuinely globally connected in their patterns of flows of goods, and people. These truly global places rely on trade with and investment from the EU much less than other localities within Britain. Most localities, they argue, have small global trade footprints outside of the EU. In short, there are a few significantly, globally-connected places and others, the vast bulk, who trade within the UK and with nearby international neighbours (the EU). This means that the fortunes of the truly global places will be more unlinked from Brexit, and recover more quickly, than those reliant on intra-Britain and intra-EU trade. This is an important observation suggesting, essentially, a 'two-speed' set of regions-city-regions in the UK. We have already argued that within all UK regions there may be a series of disadvantaged towns that are in many ways unlinked from their regional economies (suggesting more complex gears of a 'three-speed' set of places).

Chen et al. stress that the effect of EU trade on London contributes 7% of its GDP, making it less dependent on EU markets than anywhere else in the UK with only remote Scottish regions similarly placed. Even though London's trade with the EU is absolutely greater than any other UK region, it accounts for a relatively smaller share of its GDP than for any other English region. He also argues that the level of dependence on EU demand had increased in all but three (all in London and the South-east) of 37 regions in the period between 2000-2010. He argues that it is this form of cross-border regionalism that is at the core of value and supply chains for most towns, cities and regions, not just in the UK but in other advanced economies, and that the daily global reach of the

truly global places such as London are exceptions. UK politics does not appear to recognise this key distinction, and the task of developing global supply chains, realizing the new global trade deals the UK Government envisages, for many towns will be a daunting one. Trade delivery is more than signing a trade deal and regional proximity matters.

Chen et al. (2018) add further important observations on broad regional structures of the UK economy. They note:

'For all non-London UK regions, the share of their local GDP which is accounted for by EU demand is greater than the share which is accounted for by demand from London. Indeed, the ratio of dependence on EU demand to dependence on London demand varies between values of two to three for regions close to London to up to four to five for more peripheral regions.'
(Chen et al., p14)

It is not surprising that EU markets are more important to UK regions than London markets, given that the EU markets are some 33 times larger than the London markets, and only slightly further away from most of the UK regions than London. In consequence, dependence on trade with the EU was high in the most disadvantaged regions of the UK and, in contrast to Clayton and Overman, they argue that where *'Brexit involves any significant trade-related ruptures, many of the UK's weaker regions will disproportionately face these shocks and bear these costs.'* (Chen et al. p38). But it was precisely in these long-disadvantaged towns in these less prosperous regions that Brexit gained support. A report by Demos (2017) on connections of UK regions to the EU, defined in terms of the regional share of exports to the EU, use of EU origin workers and receipt of EU grants identified Wales, the North-East and the West Midlands as the most EU dependent of UK regions with Wales and the North East most likely to be hardest hit by Brexit.

Within any of the regions of the UK it will be important to identify towns with trade less directly affected by Brexit, though the feedback effects of negative effects in adjacent localities

may also reduce wellbeing in such places. For instance, in Fife, outside of the NHS, the largest employers in St-Andrews in North East Fife are in golf tourism and the university. There is a significant global excess demand to play and study in the locality and leaving the EU may have little impact on these sectors, though feedbacks from adjacent area negatives will occur. Looking to the future, each town in the UK now needs to urgently understand the current and future potential geographies of the trade it fosters and that, at a regional or city-region scale, there is a more informed sense of how the set of towns is integrated into the UK, European and global economies.

Chen et al. (2017) also recognise the different resilience capacities of different places and Thissen and Van Oort, (2018) develop a framework for making such assessments. Agglomeration economies and economies of large scale and global diversity of links help in that process. Unless towns can share some of the scale and diversity benefits arising in nearby metropolitan cores it is difficult to see how they can lead in economic resilience. The suburban towns of the growing metropolitan centres in the UK may benefit from reduced pressures on services and housing precisely because Brexit will reduce growth. Equally, with disrupted trade to proximate regions on which they rely for markets it is unclear how already stagnating towns in northern England and Wales, and central Scotland will, in the longer-term benefit from Brexit. But can we say anything more precise about impacts on towns?

5.5 Towns and Brexit: More Specific Reflections

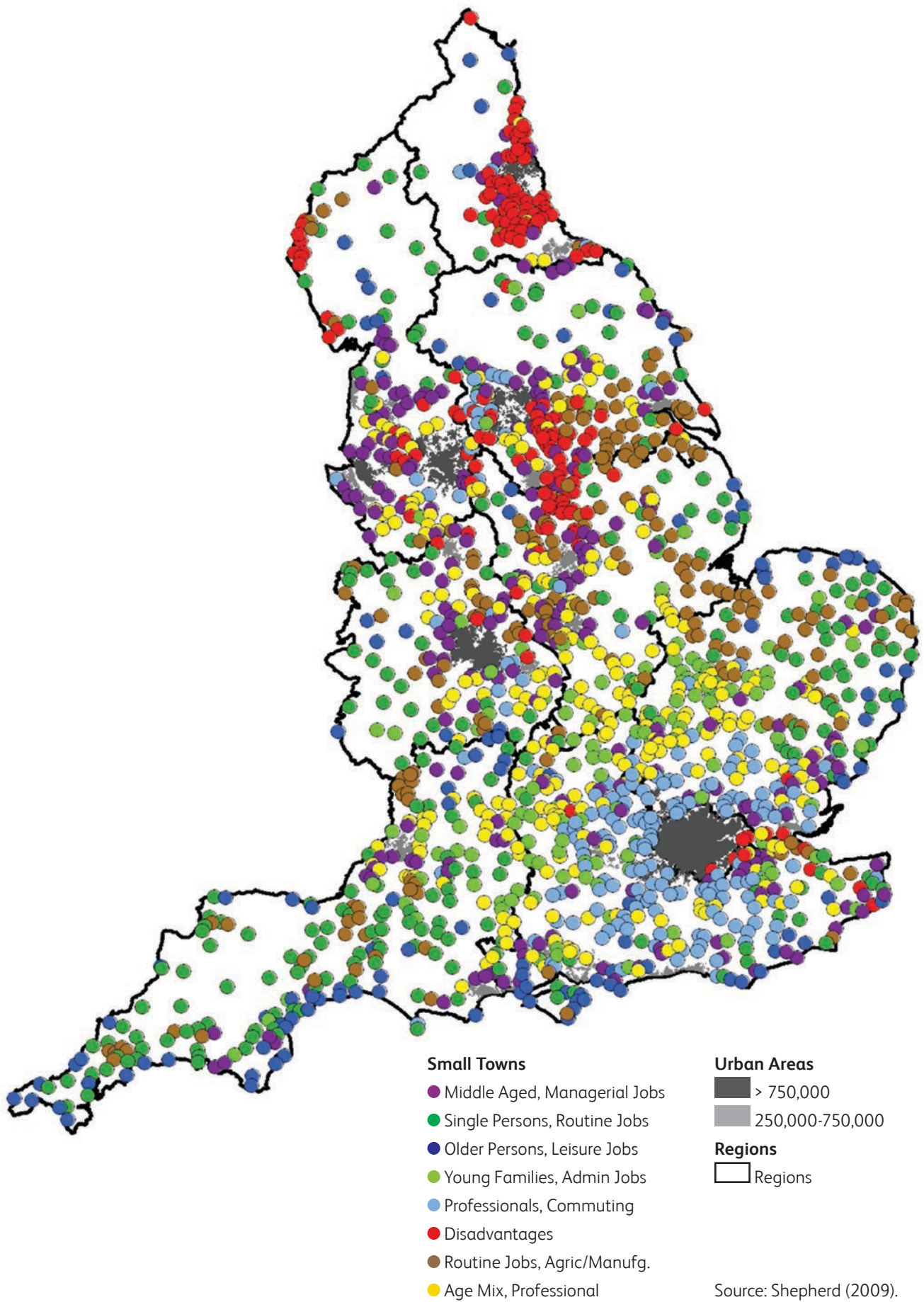
The broad conclusions to be drawn from the spatial analyses of Brexit are that the geography of its impacts does little, other than some potential growth pressure reduction in London and the south for a relatively short period of time, to shift patterns of town prosperity throughout the UK and is likely to diminish them. The patterns outlined by Clayton and Overman show the predicted ways in which larger towns will be impacted in the short term and the prospects for local authorities in which towns are set.

These mappings can also be contrasted with more systematic selections or mappings of towns in the UK. There has, for instance, been considerable past effort looking at the stagnation of UK coastal towns as key economic sectors including family tourism, fishing and smaller shipbuilding have declined. The emerging view, with some ambiguity about the future of the UK fishing industry remaining until Brexit is settled, is that Brexit will have no apparent positive impact on seaside towns and that east coast ports will suffer significant reductions in economic activity. Yet the coastal towns, most with high concentrations of disadvantaged populations, predominantly voted to exit the EU.

More generally, the city and regional arguments addressed above can be set alongside an economic classification of towns to suggest more specific impacts. Such studies are rare in the UK and what follows is illustrative rather than definitive. Figure 1, below, presents the geography of Shepherd's (2009) classification of smaller English towns (with populations of 1500-40,000, based on 2001 Census data).

Shepherd used census information to characterise towns not based on trade flows but on characteristics of residents. Of the 1607 relevant settlements in 2001 that were home to almost 11 million people (a quarter of England's population at that time), some 236 were towns housing commuters within metropolitan areas with rapid metropolitan growth. They were urban extensions, largely driven by the expanding city economy, rather than old town regrowth. A further belt of almost 400 places lay in what he calls a 'golden belt' running from Cambridge in the east to North Wiltshire in the west, that contained high shares of diverse professionals and younger families in administrative and managerial jobs (and many of these towns lie in the high-tech growth corridor that the UK Government has proposed, in 2017, to develop as a major corridor of UK growth). These towns connect closely to the kinds of cities that Clayton and Overman envisage encountering more severe short-term effects of Brexit but that Lora et al. suggest will be in fast adapting regions in the longer term. Other town types, such as those serving as market towns for rural areas are

Figure 1. The National Pattern of English Rural Town Types 2001





spread throughout the UK and their prospects, with many already facing challenges from online shopping growth, will reflect regional and local sectoral effects. There are 13% of towns that are characterised by disadvantage and they are predominantly towns that have lost a resource base, notably old coalfield towns, and seaside towns and are particularly concentrated in the North of England (and a UK wide scan would confirm that such towns are just as apparent in Scotland, Wales and Northern Ireland).

It is possible to drive down the spatial scale of statistical analysis of likely early Brexit impacts, but this may be of limited value as it is competitive resilience in the face of emerging

possibilities rather than past structures of trade that will determine town progress in the next decade or two. There is, however, no real sense of what trading opportunities will emerge for these, diverse towns and no systematic study of the resilience and innovative capacities of different sizes and types of towns in the UK. Further consideration of these issues is deferred to the final section framing the economic questions that individual towns must answer. At this juncture, it is important to expand the scan of economic impacts beyond trade and growth effects of leaving the customs union and single market to assess the other key issues of the EU-UK budget effects and single market effects on labour mobility.



6. UK Contributions and EU Spending in the UK

KEY POINTS

- In mid-decade, the UK was one of ten net contributors to the EU budget.
- Treasury figures for the 2014 budget indicate that the gross contribution exceeded £13bn and with £4.5bn of EU paid to the UK Government for programmes in Britain the net outflow was £8.6bn with payments to the UK private sector reducing that total to £7.5bn.
- In weekly terms, the gross contribution minus the historic rebate approximated £234m per week, the net of public programmes amount was £156m and EU payments to the UK private sector left the net weekly flow closer to £140m.
- The net budget cost to the UK of participating in the EU is substantially lower than most of the independent estimates of the gains from being in the EU.
- The UK Government has, within broad programme categories, substantial control over how and where EU funds are spent in the UK; control already lies at Westminster.
- The Common Agricultural Policy (the main EU programme) has shaped major benefits for rural Britain and for the market towns that serve the agricultural sector and regional development funding, the second largest budgetary component, has had a major role in sustaining jobs and incomes in towns in disadvantaged regions of the UK.
- Ending these programmes is unlikely to help market towns or declining towns unless the UK Government replaces them with policy initiatives that are more intense and more generally supported: the judgement on EU regional policy initiatives was that they helped but were never enough to be transformative; the danger is that regional policy support now shrinks from not enough to not at all.

6.1 Leaving the EU Budget

Political debates about leaving Europe have focussed not just on UK trade prospects (above) and immigration (discussed in the next section) but have also emphasised Britain's financial contribution to the EU and how it might be spent when Britain exits the EU. In the UK's present budgetary position small savings may be significant but it is important to recognise that ending the UK contribution to the EU budget is much less important for the economy than likely costs of new trading and immigration arrangements. The processes, revenues and expenditures associated with EU budgets are well

described by the Institute for Fiscal Studies (2016) and the House of Commons (2016a) and they are not pursued in detail here.

The UK's financial contribution to the EU budget reflects the Gross National Income of the UK relative to that of other EU countries and of the value of the negotiated annual rebate that changes based on receipts and payments in the previous year. In 2014, the UK was one of 10 net contributors to the EU budget (House of Commons, 2016a). The ways in which net contributions are defined also differ across different organisations and interest groups. The estimates for 2014 (available in late 2016) provided by the UK Treasury suggest an

estimate of £8.5bn with the gross contribution reduced by the negotiated UK rebate and direct payments from the EU to the UK public sector. Further payments from the EU to the UK private sector would reduce the net payment from the UK to the EU by a further £1bn. Treasury figures for spending out-turns in 2014 (HM Treasury 2017) suggest that rather than a weekly outflow from the UK to the EU of £350m per week, the gross government flow to the EU minus the agreed rebate was closer to £234m, the net flow after EU spending to the UK public sector was £156m and that flow would be reduced to around £140m per week if EU payments to the UK private sector are also netted off.

The major elements of EU expenditure in the UK are on agriculture and rural affairs (the CAP, close to three-fifths of the total), support for restructuring and renewal in disadvantaged localities (approximately one-quarter of the total), innovation- research and education (a sixth) as well as several smaller programmes. Large and small towns in rural areas, the 'central places' for the agricultural sector in the UK have benefitted from CAP spending and poorer, old industrial towns have been major beneficiaries of regional and social programmes.

Total general government expenditure in the UK in 2014 was of the order of £800bn. In consequence, the net UK contribution to the UK budget comprised between 1 and 1.2% of government expenditure and that approximates to 0.6% of GDP. The net contribution to the EU for budgetary purposes falls well short of the estimates of the annual GDP gains (and consequent tax gains) from being in the EU or, alternatively, the estimates of the GDP lost by leaving (see previous section).

The EU, whilst seeking both continuity and innovation in its programmes, spends resources in line with its strategic aims and agrees budgets and strategies with national and regional governments (subject to national agreement). It supports a diverse range of spending projects to meet overall goals and works widely with a range of local partners and, in that regard, it has been an important element in local partnerships for growth and regeneration in urban and rural Britain.

Since the early 1970s, the EU has had a major series of programmes, funded from the EU budget, that have had particular importance, in some UK regions at some times, that are called 'Structural and Investment Funds' (SIF). There are presently five EU Funds. The Cohesion Fund does not support projects within the UK as regions only qualify if they are below EU average income per capita. The European Regional Development Fund (ERDF) and European Social Fund (ESF) have had significant roles in the UK (benefitting towns in rural and industrial areas experiencing decline), and they are discussed further below, whilst the European Agricultural Fund (for Rural Development) and the (relatively new) European Maritime and Fisheries Funds have had less important effects.

Although some of these programmes have had quite major impacts in some of Britain's disadvantaged and more peripheral regions, recent research revealed that less than 10% of the voting public were aware of their existence. These funds are broadly conceived as reducing economic and social inequalities between European regions and facilitating their long-term convergence. At present:

- EU Programmes, currently, have four priority goals (promoting innovation and research, the digital agenda, support for Small and Medium Enterprise's and the low carbon economy) and three classes of Priority Area ('less developed', 'transitional' and 'more developed'). In the UK, although a range of regions have benefitted from past programmes, the only two regions meeting 'less developed' status (defined at less than 75% of the EU average per capita income) are Cornwall/Isles of Scilly and West Wales/Valleys. There are a dozen regions classed as 'Transitional' from Devon to the Highlands and Islands and most of the UK is covered by these funds except London and the South-East.
- EU Funds to be used for regional development within the UK have been allocated, essentially controlled, by the UK Government and not the EU. The Devolved administrations make their own priority choices. In England, since the abolition of the Regional Development

agencies in 2011, although choice is nominally in the hands of the 39 Local Partnership Areas, allocation is largely driven by the Department of Housing, Communities and Local Government and the Department for Business.

- An important feature of these funds was that EU resource commitment had an 'additionality' requirement, namely that the UK Government, devolved administrations, councils or the private sector had to match the EU commitment. This has meant, in effect, more money for regional and infrastructure policies.
- Funds gave, and increasingly over time, much discretion to national governments; for instance, within broadly defined agricultural support governments could decide whether to subsidise particular agricultural outputs or to use funds for more widely defined rural development strategies.

There has been extensive assessment of the impact of investments funded by the EU structural funds (SPERI, 2016). Research by BIS (2014) suggests that projects funded by the European Regional Development Fund have helped 24,767 new businesses and created around 115,000 UK jobs between 2007 and 2013.

The emerging consensus has become that these programmes were not only substantial in scale but were important investment routes in often disadvantaged communities. Although they did not always fashion the transformative effects hoped for they made major contributions to income and employment in disadvantaged places.

The ending of these programmes, when the UK leaves the EU, will raise significant concerns for disadvantaged towns in all regions, and in the less affluent regions in particular. They will miss the matching EU and UK support. Clear accounts of the positive roles of EU support in renewal of regions and towns have been written for the North-east and the North-west of England. In the West Midlands and Wales, regions both voting for Brexit, there are estimates that suggest significant investments in renewal for poorer places. In Scotland, the EU typically contributes around 15-25% of the funds to promote local economic development and such funding is often the key catalyst for wider support.

The more disadvantaged regions and towns within Britain will, in the long term, probably be the places worst affected by reduction in EU trade. They will also be concerned at the ending of stable, seven years forward resource commitments to local economic development measures. There now needs to be much debate about how the UK can recommit to regional or local policies that will tackle disadvantaged local economies. Will new measures or deals for growth in towns be part of this response or have British towns become more vulnerable as Britain exits the EU?

Before turning to the question of how town strategies need to change it is useful to consider how labour mobility (section 7) and the sectoral and other aspects of EU policies (section 8) impact towns in more detailed ways.



7. Brexit, the Labour Market and Immigration

KEY POINTS

- Brexit's impact on wider economic performance, with wider economic developments, is likely to be main determinant of the number and mix of migrants entering the UK to work, rather than government policy per se.
- Given the emphasis on curtailing EU migration during the Referendum debate, however, we would also expect government policy to seek to reduce EU migration to the UK, particularly at the low skilled end. This would, in turn, impact on the wider economy.
- Modelling suggests that the economic impacts from a fall in immigration are likely to be of a similar magnitude to the implications of changes to trade.
- EU migrants currently make up a significant minority of the UK workforce and they are, on average, younger, more educated and more likely to be in work than the UK-born population; the economy is particularly reliant on them to fill lower-skilled jobs.
- The impact of any reduction in migration will be felt most strongly in sectors and areas which currently rely on a higher share of EU migrants.
- The scale of the impact will depend on the extent to which EU workers can be replaced under some new immigration scheme or from the domestic workforce: opportunities to recruit more domestic workers from groups currently unemployed or under-employed could benefit some towns.
- Reduced migration could also increase wages, but most longer-term assessments find that any positive wage effect will be small and outweighed by the broader reduction in earnings growth induced by Brexit.
- Positive area-based effects are, however, unlikely overall – those local authorities with a higher increase in EU immigrants between 2008 and 2015 did not experience any larger increase in UK-born unemployment or a deeper fall in their wages, even for the less skilled, than other local authorities, so a reversal of EU migration is unlikely to generate greater gains in employment or wages.
- Businesses finding it difficult to recruit from the UK labour market may respond by rethinking business models (increasing investment in skills and technology, including greater automation/mechanization) in ways that could result in fewer but better-paid jobs (and increased productivity), or they may simply reduce their footprint in the UK.
- After Brexit, EU nationals in the UK will become third-country nationals or foreigners and will not have access to social security benefits, unless they obtain indefinite leave to remain, if no special arrangement is made. This may negatively impact some towns.
- Towns should also consider the implications of a reduction in EU migration for public service delivery in their area.
- These potential effects of reduced EU migration will create both opportunities and risks for towns and their local economies and people. There is evidence to suggest that firms and governments had been slow to consider how best to grasp or mitigate these, at least during the first year after the Brexit vote.

7.1 How might immigration change because of Brexit?

Much of the public discussion during and following the EU Referendum has focused on the opportunity Brexit creates to ‘control’ immigration. It is important to remember, however, that economic demand, rather than government policies, tends to be the main driver of inward migration. It is therefore Brexit’s impact on wider economic performance, discussed in Section 5 above, together with economic developments occurring irrespective of Brexit that will be the main determinants of the number and composition of migrants entering the UK to work. The strength of the economies in the countries from which migrants are coming will also influence these flows.

Despite this caveat, we would also expect government policy to seek to reduce EU migration. Both during and since the EU Referendum, the opportunities from Brexit for immigration have mainly been framed as a negative – the ‘freedom’ would be to impose greater restrictions on EEA immigration (given that the UK already has full control from outside the EEA) if/when the UK comes out of the Single Market. The Government’s Brexit White Paper made a clear commitment to reduce migration:

‘We will design our immigration system to ensure that we are able to control the numbers of people who come here from the EU.’
(HM Government, 2017)

Changes in the level or composition of immigration will, in turn, impact on the wider economy. Migrants expand consumer demand for goods and services in the short term, and immigration leads to more investment over the medium and long term.

Forte and Portes (2017) have modelled the likely economic impacts from a fall in immigration, concluding that these are of a similar magnitude to the implications of changes to trade. In their central scenario, the impact of a fall in migration would be to reduce GDP by between about 0.63% to 1.19%, while GDP per capita would be

reduced by between about 0.22% and 0.78%. Forte and Portes (2017) note that there is also a clear theoretical and empirical basis for the view that reductions in migration will translate into reductions in productivity, but the size of this effect is very difficult to quantify.

The economic costs of reduced immigration will feed through to significant fiscal costs – typically estimated as the difference between the taxes and other contributions that migrants make to the public finances, and the costs of the public benefits and services they receive. Prior to the EU Referendum, studies tended to find that the fiscal impact of immigration in the UK is small overall, but did differ by migrant group. (The Migration Observatory, 2016). Within this, studies showed that EU immigrants contributed positively to the UK fiscal budget, as they are on average younger and more likely to be in work than the UK-born, therefore paying more in taxes than they receive in benefits (Petrongolo, 2016). Similarly, and since the Brexit vote, a report for the European parliament concluded that, overall, EU migrants are net contributors to the UK economy in terms of taxes and welfare benefits, bringing more to the UK economy than they withdraw (Institute for Employment Studies, 2017).

Prior to the EU Referendum, the Office for Budget Responsibility (OBR) had been forecasting that higher net migration would reduce pressure on government debt over time because incoming migrants are more likely to be of working age than the population as a whole (The Migration Observatory, 2016). Conversely, if Brexit triggers a fall in migration, then the impact on the Government’s accounts is expected to be significant. Post-EU Referendum analysis by the OBR in late 2016 estimated that Brexit will lead to a cumulative £59bn more in public sector borrowing over the next five years, within which £16bn was attributed to the effect of reduced migration – about half through lower income tax and national insurance contributions, and about a quarter through lower consumption tax receipts such as VAT. These effects were also forecast to continue to rise over a longer period than other Brexit factors (Preston, 2016).

Any reduction in overall levels of immigration will therefore be a significant contributor, alongside the impact of other Brexit changes, to a reduction in the amount of money the government has available to spend, all else being equal. This will affect towns, their surrounding areas, and the sectors (including public services) on which their economies depend.

In addition to these factors, Brexit will affect the perceptions of people in different countries, both EU and non-EU, of the UK as a place to live and work. This will have an impact on the choices potential migrant workers make about where to work and live, particularly at the highly-skilled end, although the extent of this is unknown at this stage.

This section focuses on the likely impact of a reduction of some size in EU migration to the UK. Brexit could also open opportunities for UK governments to change (most likely reduce) labour market regulation, where that is currently set by EU rules. Most commentators, however, consider that the UK Government is unlikely to repeal established aspects of employment legislation and the current Government has itself ruled this out on several occasions (Broughton et al., 2016; Davis, 2016; May, 2017; HM Government, 2017). We have therefore focused on the potential for Brexit to generate changes in immigration and labour supply, rather than the regulation of the labour market.

7.2 What's the starting point?

Most EU citizens come to the UK for work – around 69% in 2016 – so it is the rules governing work-related migration that will have the greatest impact on the level and composition of EU migration overall (HM Government, 2017).

EU nationals currently make up a significant minority of the UK workforce. This has been increasing over the last 20 years, with the share of EU nationals in the working age population growing from 1.8% to 6.3%. (Petrongolo, 2016). EU immigrants are on average younger, more educated and more likely to be in work than the UK-born population (Petrongolo, 2016).

There was, however, a significant fall in net migration (the difference between the number of people coming to live in the UK and the number leaving to live abroad) during the first full year following the EU Referendum, the largest fall in any 12-month period since records began in 1964, although from a very high base. Over three-quarters of the fall, however, was due to EU citizens. More EU citizens were still coming to the UK than leaving, but the number coming to the UK was down by 19% and the number leaving increased by 29% (Office for National Statistics, 2017a). It is unclear whether or how much of this change was due to the EU Referendum.

While found at both the high and low-skilled end of the labour market, the economy is particularly reliant on EU migrants to fill lower-skilled jobs. The proportion of EU and wider EEA workers in high skilled occupations, such as managers, directors, professionals and associate professionals, is slightly lower than the overall proportion of EU/EEA workers, at 5%, whereas they are a higher proportion of workers in low-level occupations, such as elementary and process, plant and machine operatives (Broughton, et al., 2016). Consistent with this, a recent report for the European Parliament reported that EU nationals are more likely to be employed in low-skilled work. (Institute for Employment Studies, 2017).

Given this, and the nature of concerns about immigration raised in the EU Referendum debate, low and possibly middle-skilled work is most likely to be the focus of any policies to reduce EU/EEA immigration.

7.3 Where will a reduction in EU migration impact?

Whatever the reduction in migration, the impact will be felt most strongly in sectors which currently employ a higher share of EU migrants in their workforce – and via that to the geographic areas in which those sectors are mainly based. Even if the overall effect is small, the effect on specific industries and parts of the UK could be significant: 'Migrant workers bring skills, form a large part of the workforce in some sectors, and a large part of the population in some parts of the country' (Clarke, 2016).

Table 2: The share of migrant workers in the total workforce for those industries where EU ‘accession’ migrants are most concentrated: 2014-2016

Industry	EU Accession	EU Original	Rest of the world	All	Pay
	Share of total employment	Share of total employment	Share of total employment	Share of total employment	£, hourly
Manufacture of food products	25.5%	4.2%	10.0%	39.7%	£8.67
Domestic personnel	15.9%	5.9%	13.1%	34.9%	£7.70
Undifferentiated goods	14.8%	7.4%	8.5%	30.7%	£8.00
Accommodation	14.6%	4.7%	9.7%	29.0%	£7.17
Warehousing & support for transport	12.2%	2.1%	9.2%	23.5%	£10.60
Services to buildings and landscape	10.8%	4.0%	10.01%	24.9%	£7.50
Mining of coal and lignite	10.0%	0.0%	0.0%	10.0%	£11.05
Manufacture of non-metallic mineral products	9.9%	1.3%	7.0%	18.1%	£11.22
Manufacture of furniture	9.8%	1.3%	4.9%	16.0%	£8.82
Manufacture of textiles	9.6%	1.6%	8.3%	19.6%	£8.55
Manufacture of wearing apparel	9.0%	2.3%	21.7%	33.0%	£8.47
Manufacture wood and wood products	8.6%	0.8%	4.5%	13.9%	£9.70
Manufacture rubber plastic products	8.3%	1.5%	3.9%	13.6%	£9.75
Construction of buildings	8.3%	2.3%	5.6%	16.2%	£12.50
Wholesale trade, except vehicles	8.2%	2.8%	8.1%	19.1%	£10.05
All Industries average	5%	3%	8%	16%	£12.46

Source: Clarke, 2016

Table 3: The Twenty Local Authorities with the biggest increase in the migrant population

Local authority	Percentage change % increase in migrant share of population 2004-2015
Mansfield	391%
North West Leicestershire	357%
West Lancashire	285%
Maidstone	273%
Boston	255%
Taunton Deane	238%
Corby	237%
Barnsley	218%
Scarborough	213%
South Northamptonshire	208%
Clackmannanshire	205%
Carlisle	204%
Breckland	200%
Newark and Sherwood	200%
Dundee City	200%
Aberdeen City	195%
Plymouth	191%
Wakefield	188%
Midlothian	188%
Stoke-on-Trent	186%

Source: Clarke, 2016, p.23

Table 2 created by the Resolution Foundation shows the 15 sectors that are most heavily reliant on migrant labour. It shows that over a quarter of workers in food manufacturing, hotels and the domestic personnel sector are migrants.

Table 3 shows the 20 local authorities that have experienced the greatest percentage increase in migrants since 2004.

While lower migration may be welcomed in these areas, some of which voted to leave the EU by large margins, they could nevertheless see significant labour shortages and difficulties with recruitment (Clarke, 2016).

The extent of the impact of Brexit on labour supply, both overall and for specific sectors and geographic areas, will depend on the extent to which EU workers can be replaced under some new immigration scheme or from the domestic workforce. It is worth noting that a significant portion of migrants in the UK already are from outside the EU: roughly half of the net migration in the UK each year originates from outside of the EU and by far the largest group of migrants in the UK population is the non-EU group (ibid.). While a significant portion of the increase in migrants after 2004 is likely to have come from countries that had just joined the EU, it is nevertheless the case that around a quarter of migrants in food manufacturing, and a third of those in domestic personnel and accommodation, come from outside the EU. This shows that there is already some experience of attracting non-EU workers under existing schemes that could potentially be further developed if sourcing EU workers becomes more difficult.

The Government's position on immigration, therefore, and the specific rules under which either EU or non-EU workers can come to the UK in future, will be an important factor in how employers respond to any labour or skills shortages. Its choice of policies has been unclear, as the Office for Budget Responsibility (OBR) noted in its post-Referendum economic and fiscal forecasts (2017).

One obvious minimal option would be for the Government to extend the current rules that apply to non-EU/EEA nationals to all non-UK nationals in some form or other – to create a 'level playing field' for all people wanting to work in the UK regardless of nationality. Current rules essentially restrict such work permits to graduate jobs, due to their minimum salary threshold, with some limited exceptions, so in effect, this would 'largely restrict economic migration to high-skilled migrants' (House of Commons, 2016a).

Such an approach could have benefits for the economy overall, over time. The National Institute of Economic and Social Research (NIESR) notes that the projected negative impact on the public finances of reductions in immigration could be mitigated and even reversed,

‘were the Government to be able to successfully implement a very significant change in the incomes (and implicitly the skills or qualifications) of new migrants by introducing a skills or points based migration policy (perhaps similar to the policy in Australia).’ (Armstrong & Van de Ven, 2016)

Replacing the current level of low-skilled migration with more highly-skilled migration could, in other words, have a significant economic benefit for the UK overall.

Such an approach would, however, create serious problems for sectors that currently rely on low-skilled EEA labour and require a significant transformation of parts of the UK economy. According to the Social Market Foundation, only 12% of EEA employees currently working in the UK would meet the visa requirements that currently apply to non-EEA workers – and this proportion would be lower amongst private sector employees (Broughton, et al., 2016). A negligible number of EEA employees in the accommodation and food services sectors, which has the largest proportion of employees from the EEA, would qualify; manufacturing, agriculture, administration and support, and transport also employ large numbers of EEA workers who would fail to meet the requirements. In contrast, it is likely that a higher proportion of employees would meet the requirements in sectors such as information and communications, finance and professional activities.

Such an approach would also place an additional administrative burden on those businesses that currently recruit workers from the EU. The NIESR acknowledges that they have not assessed whether such a policy could be delivered in practice (Armstrong & Van de Ven, 2016).

A second possibility is that a new temporary worker scheme is developed. The UK has had programmes in the past which allowed employers to recruit non-EU nationals for work in certain

low-skilled occupations, such as agriculture and food processing (the Seasonal Agricultural Workers Scheme and the Sectors Based Scheme). These were gradually curtailed – being limited to Romanian and Bulgarian nationals from 2007-8, and being closed entirely in 2013 when nationals of these two countries gained unrestricted access to the UK labour market. Significantly, they were closed because low-skilled labour needs could be met from EU migration. As the Migration Observatory notes:

‘This raises the question whether such programmes would be reintroduced as part of a new post-Brexit immigration policy that did not involve free movement.’ (The Migration Observatory, 2016)

A third possibility would be the creation of sub-UK immigration schemes, to reflect the very different level of impact that reduced migration will have in different areas. The current points-based system for non-EU immigration into the UK does relatively little to accommodate differences in demography, labour market or wider economic conditions across different regions and countries within the UK. For Scotland, for example, the only significant differentiation is the Scotland-specific ‘shortage occupation list’ which allows an employer in Scotland to offer a job, if it is in an occupation that is on the list, to non-EU nationals without having to advertise nationally first. Sub-UK immigration schemes could take the form of different criteria for entry to the UK according to the geographic area or sector that the applicant will work in, through to the entire devolution of immigration powers to some or all the devolved jurisdictions of the UK.

This approach is being called for by some sub-UK authorities. The Scottish Government, for example, has long argued for control of immigration to be devolved to Scotland, while the Institute for Public Policy Research has argued for a more regionalised approach to immigration in the North East of England as part of the solution to the North East’s current and future challenges (Murray & Smart, 2017). The UK All Party Parliamentary Group on Social Integration, a cross party group, has called for the Government to look at introducing a regionally-

led immigration system with region-specific and potentially sector-specific visas, as part of a wider package of measures to more effectively promote integration of migrants (2017).

Devolution of immigration powers to Scotland has, however, been ruled out by the current UK Government – David Mundell has said that ‘*..we are not minded... to having a Scotland-specific immigration policy*’ (The Herald, 2017). Former Immigration Minister Mark Harper has argued that devolving aspects of immigration policy would be impossible without introducing internal borders, and that devolving immigration powers might also undermine attempts to control net migration on a UK-wide basis (Munro, 2016; Cheung, 2016).

The Migration Observatory’s assessment of the pros and cons of such schemes for the UK, however, concludes that the question is not whether subnational visas ‘*can*’ be introduced (i.e. feasibility) but whether they ‘*should*’ be. For example, the Observatory concluded that the UK Points-Based System could readily be adapted to deal with the distinctiveness of Scottish circumstances (The Migration Observatory, 2017).

The Observatory argues that regional schemes can be designed so that it is illegal to work in other regions – they would complicate the management of migration policy but would not be ‘unenforceable’. The question, instead, is whether they would, in practice, be beneficial economically – given the technical difficulties in defining what migration is ‘needed’ at a sub-national level – or whether they would have political benefits, enabling more ‘joined-up’ decision-making and planning, or increasing a sense of ‘control’ and political accountability closer to home (The Migration Observatory, 2017).

While post-Brexit immigration policy is not yet clear, and each of these possibilities would create very different opportunities or challenges for sectors and geographic areas, given the central part that immigration played in the Brexit debate, it would seem prudent for towns to plan on the basis that UK migration schemes will be less open to lower skilled migrant workers in the future, even if some new schemes are developed.

7.4 How might employers respond?

If we assume that Brexit will result in reduced access to migrant workers for employers generally, or employers in some sectors, then employers could respond in many ways: seek to recruit more domestic workers (which may require them to pay higher wages); rethink their business models (which could result in fewer but better-paid jobs); or to reduce their footprint in the UK where that is possible.

The extent to which employers will be able to replace EU migrant workers with domestic workers will vary, depending on the extent to which they can find workers with the same skills from within the (smaller) UK domestic workforce pool. The UK has low levels of unemployment overall with the unemployment rate of 4.3% in August-October, 2017, that is the joint lowest rate since 1975 (ONS, 2017b). It does, however, have a significant pool of people who are ‘economically inactive’ – 21.5% of 16 to 64-year-olds (ibid.) – and had the fourth highest part-time employment rate in the OECD in 2016 (OECD, 2018). The UK also has poor rates of employment amongst some groups, such as people with disability – only 49.2% of working-age people with disabilities were in employment between April and June 2017 compared to 80.6% of people without disabilities (Powell, 2018). Employers may be able to draw from these pools of potential workers.

Recruiting more workers domestically, however, may require employers in some sectors to pay higher wages. For given skills and industries, UK-born workers have higher reservation wages (the wage rate at which they would be willing to accept a particular type of job) than immigrants. The Resolution Foundation has calculated that pay in the 15 UK industries with the highest concentration of immigrants from the 2004 accession countries is £9.32 an hour, significantly below average UK-born (native) wages of £11.09; moreover, a significant portion of workers in these sectors are migrants from the EU Accession countries, whose average earnings are £8.33 per hour, £2.76 below that of the UK-born (Clarke, 2016). Barbara Petrongolo notes that it seems:

*‘... reasonable to expect labour shortages in the sectors of the economy with a large presence of EU migrants, especially food manufacturing, domestic personnel and the parts of the public sector most exposed to skill shortages – and an increase in prices and wages in these sectors.’
(2016)*

While beneficial for the individuals concerned, the extent of this for wider communities is, however, likely to be limited, if felt at all. Most studies have found that migration into the UK has small effects on average wages. The greatest effects have been found for low-waged workers, although these are still relatively small, particularly when compared to the impact of broader economic forces (The Migration Observatory, 2017). A reduction in migration, conversely, is unlikely to generate significant gains. The Resolution Foundation’s modelling suggests that that even if net EU immigration were halted immediately, real wages in the occupational groups most affected by immigration would rise only very mildly – from 0.16% in administrative and secretarial jobs to 0.62% in skilled trades – and this would be more than outweighed by the broader reduction in real earnings growth expected by the Bank of England following, and as a result of, Brexit (Clarke, 2016; Petrongolo, 2016). The overall performance of the economy, and Brexit’s impact on that, in other words, will be a much more significant driver of wages than the level of net migration.

Moreover, it is those migrants already in the UK, and particularly people from the countries that joined the EU in 2004, rather than native-born workers that are most likely to gain. Since 2004, as many more migrants have arrived from Eastern Europe to work, average earnings for those workers have fallen significantly. Given this, a curtailment of the numbers of incoming migrants should increase the ‘price’ (wages) for those migrants already here (Clarke, 2016) (The Migration Observatory, 2017). The consensus among labour economists

*‘... seems to be that the labour market impacts of Brexit and changed migration patterns are most likely to be seen at the top and bottom ends of the skill distribution in the UK, and there is little evidence that these changes will improve prospects for UK-born workers.’
(Meager, 2016)*

There appears to be a similar story for area-based effects. UK local authorities with a higher increase in EU immigrants between 2008 and 2015, for example, did not experience any larger increase in UK-born unemployment or a deeper fall in their wages, even for the less skilled. (Petrongolo, 2016). Similarly, research by the Migration Advisory Committee on the impacts of both EU and non-EU migration from 1975-2010 found no statistically significant effects from EU migration (The Migration Observatory, 2017). A reversal of EU migration is therefore unlikely to generate greater gains in employment or wages at the local authority level for those areas that have experienced higher levels of migration in recent years.

Alternatively, if wages rise in response to reduced availability of cheap labour, then firms may rethink their business models and increase their investment in both the skills of their workers and technology (including greater automation and mechanisation) (Independent, 2016). This is perhaps the greatest opportunity that reduced immigration offers for the economy as a whole – if businesses are forced to rethink their business models, this could result in fewer but better-paid jobs, which would then in turn attract more native workers to these sectors and increase productivity. It would, however, require a difficult transition for those workers whose jobs change or disappear entirely.

Moreover, some migrant-reliant sectors are more likely to be able to do this than others – most notably, low-tech manufacturing. Sectors such as food manufacturing, accommodation and warehousing, domestic personnel or high-skill services, may have less scope to make such changes (Clarke, 2016; 2017).

If businesses find it impossible to recruit more workers from the domestic UK labour market or cannot (or will not) change their business models, then it is likely that, insofar as their activities are not place-specific, they will reduce their footprint in the UK.

Alongside these potential responses, it is important to remember that any changes arising from Brexit will play out against other short-term pressures and more fundamental change in the labour market. The Resolution Foundation, amongst others, argues that firms are about to experience a ‘dual shock’ of the potential reduction in the supply of labour, discussed above, and big increases in the relative cost of low paid labour due to a rising National Living Wage, auto enrolment for pension saving and the apprenticeship levy, and other increases in business costs. The increase in the price of low-wage labour, combined with potential difficulties in sourcing that labour, will create a strong incentive for employers to ‘think hard about how that labour is used’ (Clarke, 2017).

More fundamental changes including ongoing globalisation, digitisation and robotisation will create new business models but also destroy or change old ones. Perhaps even more important is the shift of work venue, from physical workplaces to crowdsourcing and digital platforms, not just within the UK but globally. A reduction in migrant labour will tend to accelerate these existing trends, rather than be the cause of change (Sisson, 2016).

7.5 How could towns respond?

The changes described above, together with the choices made by governments, sectors and employers about how to respond, will create both opportunities and challenges for towns and their local economies. Opportunities could arise if restricted labour supply creates more job opportunities for locals in higher unemployment areas, or higher wages; challenges for towns with, or dependent on sectors with, high levels of migrant labour that cannot easily be ‘replaced’ – either in the required numbers or to the required level of skill – through migration or domestically.

Towns will need to consider the extent to which they are reliant on these industries and on migrant labour and how best to encourage and support employers in their areas to continue to attract new workers – whether from the existing local population, wider UK population or beyond – or to transform their business models.

The evidence suggests that businesses themselves were slow to do this after the Referendum. A number of surveys in the six months following found that only a minority of employers had begun to prepare for post-Brexit restrictions on hiring EU workers (15% of a survey of 1000 employers in November, 2016) or to find alternative sources of workers – only 22% were planning to boost investment in apprenticeships, for example (CIPD, 2016). The Resolution Foundation commented that firms were ‘woefully under-prepared’ for a significant change in migration in April 2017: its survey of over 500 employers who employed EU/EEA nationals at that time found that half were not prepared for changes to immigration rules after Brexit. The Foundation’s Director commented that:

‘... many British firms are totally unprepared for this change, particularly when it comes to migration... Whatever people’s views on Brexit, the journey not just the destination matter hugely to growth, jobs and living standards. Now is the time... to focus on how we navigate that journey and the changes to our labour market it brings.’
(Resolution Foundation, 2017)

One year on from the EU Referendum, in June 2017, Karen Briggs, Head of Brexit at KPMG said that while most global businesses, particularly in financial services, were taking steps to insulate themselves from Brexit risks, there is a band of firms that are ‘either in denial or yet to fully engage at board level’ (KPMG, 2017). Similarly, in November 2017, the Institute for Directors (IOD) found that less than 10% of their members had implemented contingency plans for leaving the EU already, although most were in the process of drawing them up. Around one-third of member firms, however, didn’t intend to engage in any contingency planning at all. Notably those

working in financial services were more likely to be planning than those in manufacturing – which may mean that businesses based outside London are also less likely to be planning for Brexit.

Towns should also consider what they can do to encourage existing EU workers to remain. Where EU employees are critical to a town's economy, towns could consider being part of the effort to reassure EU nationals that they will be valued.

Similarly, towns could consider what they can do to encourage large international businesses to continue to locate, or move to, their area. Businesses will take critical locational decisions in advance of a formal UK withdrawal from the EU – a KMPG survey of 100 CEs of companies with revenues ranging from £100m and £1bn in September, 2016, for example, found that while CEs were positive about both short- and medium-term growth prospects in the UK, *'the majority said they are considering relocating their headquarters or operations outside the UK'* (2016).

Towns with large migrant worker populations should also consider the implications for their communities and economy of changes to access to social security entitlements for these

populations post-Brexit. Unlike EU citizens, third country nationals in the UK are not entitled to claim public funds, and do not have access to social benefits (including social security benefits and state pensions) unless they qualify for an indefinite leave to remain. Following Brexit, EU nationals in the UK will become third-country nationals or foreigners and will not have access to these benefits, unless they obtain indefinite leave to remain, if no special arrangement is made (as is the case for Switzerland) (CEPS 2016). This could reduce the amount of money being spent in some the local communities, with flow on effects for local businesses.

Finally, towns could consider the likely impact of reduced immigration for the staffing of public services in their area. The Institute for Employment Studies has, for example, mapped the regions and NHS Trusts in England most vulnerable to the associated risks of Brexit (reduced supply of EU nurses) and population growth (increase in the population aged 85 and over), showing that the NHS trusts most 'at risk' are spread across the English regions (Institute for Employment Studies, 2016). The implications of Brexit for public services are discussed further in section 8.1, below.



8. Sectors, Budgets, Impacts and Towns

The future trajectory of towns will both shape and be influenced by the overall progress of the UK and the dynamic of the (metropolitan) regions within which they are set. In addition, however, the distinctive features of particular towns and their local hinterlands will shape outcomes for specific places. For example, a town may be reliant upon a sector of economic activity that is particularly influenced by EU tariffs, grants, wider regulations or, indeed, borders. In this section of the report, to highlight not just the general trends that towns might face after with Brexit but also how more specific consequences and opportunities might emerge, we explore a few examples of sectoral and boundary change implications. Several sectors that are particularly likely to impact small and medium sized towns are discussed, namely tourism, agriculture, fisheries, higher education and the public sector (as it receives little attention in Brexit debate) along with the implications for border towns and ports.

8.1 The Public Sector

KEY POINTS

- The public sector, employing almost 5.5m people, relies primarily on tax revenues to operate and is the most at risk from Brexit.
- The local economic significance of the public sector varies markedly across the UK: while 23% of all employees across the UK worked for the public sector in 2010, there were 12 local authorities that employed over a quarter of the local workforce and in lower income rural areas and towns this share rises above 40%, such as in Copeland (52%), North and East Ayrshire, the Scottish Islands and Gwynedd (all over 40%). The question is whether, with Brexit reducing growth in public resources, these towns will be able to stimulate private employment to 'make up' for the likely losses in public employment.
- The reliance of local public sectors on EU workers varies significantly, both across different types of services and across regions. The National Health Service (NHS) provides a good illustration of this variation; London and the south east has the greatest reliance on EU workers in the NHS so could be more adversely affected than other regions, but potential shortages also depend on the supply of domestic workers and with local demand for services: critically towns will need to consider the extent to which they are likely to be impacted by any reduced supply of EU workers and increased service demands due to growth in the older population.
- Brexit will change ways of doing business in the public sector. For instance, freedom from EU procurement rules could allow future governments to award contracts, including rail services, for example, to British-based companies and the removal of 'state aid' limitations could provide greater freedom for UK governments to subsidise regions or firms. These changes would require a significant shift from past practice in the UK and may have other limitations.
- Towns also need to consider the impact of changes in public sector funding on private sector activities that depend on public sector investment – such as the boost to local firms in sectors such as tourism, from investment in historic sites, museums or galleries.

8.1.1

There are significant implications arising from Brexit for the public sector and the employment it provides, as well as for public service delivery and infrastructure funding. The UK public sector employs more than 5.3 million workers and they will be directly affected by Brexit as a consequence of any fall, or reduced long term growth, in tax revenues.

The potential impact of Brexit on GDP and the Government's fiscal position has been discussed (section 5 above). It is important to remember, however, that the public sector was already facing a further period of contraction, because of austerity. At the same time, changing demographics mean that demand for some public services, such as health and social care, will grow significantly over coming decades.

These combined factors will affect towns differently, depending on the importance of the public sector in supporting the local economy, particularly through the employment it provides, and the extent to which their citizens rely on public services.

Given this, towns should assess the extent of dependence of their local economy on the public sector, and which public-sector institutions or related bodies or firms face the greatest disruption over the coming decade because of Brexit. The largest impacts are likely to come from changes to:

- the public sector as an employer – including whether day-to-day functions are likely to decrease or increase because of Brexit; and
- the public sector's ability to retain and attract staff for the delivery of local public services.

There might also be opportunities for some towns if government policy around public-sector procurement or State Aid was to change following Brexit, although this seems unlikely.

These are discussed in more detail below. Towns should, however, also consider the importance of the public sector to their town in other

ways, including the significance of private sector activities that depend on public sector investment – such as the boost to local firms in sectors such as tourism, from investment in, for example, historic sites, museums or galleries. The Chartered Certified Accountants' has pointed out that one of the biggest recipients of the CAP funding, for example, is the National Trust (almost £12m in 2015) (Kalar, 2016).

8.1.2 Public sector employment and its importance to local economies

The public sector includes many of the largest employers in the UK. The most recent Office for National Statistics (ONS) figures put total UK public sector employment at 5.5m, of which 1.6m (30%) work in the NHS (2017c).

While public sector employment increased overall during the last year, it has been generally falling over the last seven years. There are now nearly one million fewer employees in the public sector compared to September 2009. Similarly, the *proportion* of the workforce employed in the public sector has been shrinking: 17.1% were employed in the public sector in September 2017 compared to 22.2% in March 2010 (ibid.)

Regions and nations within the UK differ significantly in their dependence on the public sector as an employer, with Northern Ireland (24.8%), Scotland (21.0%) and Wales (20.8%) and, within England, the North East (20.2%) having the highest public-sector employment proportions in 2016, while London had the lowest, at 14.5%.

Within regions there is also significant variation. The most recent sub-regional analysis of public and private sector employment was published by the Office for National Statistics (ONS) in 2011. This showed that while 23% of all employees across the UK worked for the public sector in 2010, there were 12 local authorities that employed over a quarter of the local workforce – and in one area, Copeland, 52% of all employees worked in the public sector. Within Scotland, public sector employment rates were highest in the Highlands and Islands. There was, however, no clear north/south pattern across England, with

‘plenty of local authorities in the southern half of England with above average public sector employment rates and plenty of local authorities in the northern half of England with below average public sector employment rates.’ (2011)

As the Institute for Fiscal Studies (IFS) points out, given that these are *proportions*, at least part of the reason for regional differences is differences in levels of private sector employment;

nevertheless, they reflect stark differences across the UK in the extent of dependence on public sector employment (Cribb, Disney and Sibietta, 2014).

The IFS carried out a more recent sub-regional analysis of the proportion of the workforce made up of public sector employees in 2014, using Annual Survey of Hours and Earnings data for 2010-2012. Although less accurate than the UK level data, this is useful to show the degree

**How reliant are regions, and their towns, on EU workers within the public sector?
Case study – the NHS**

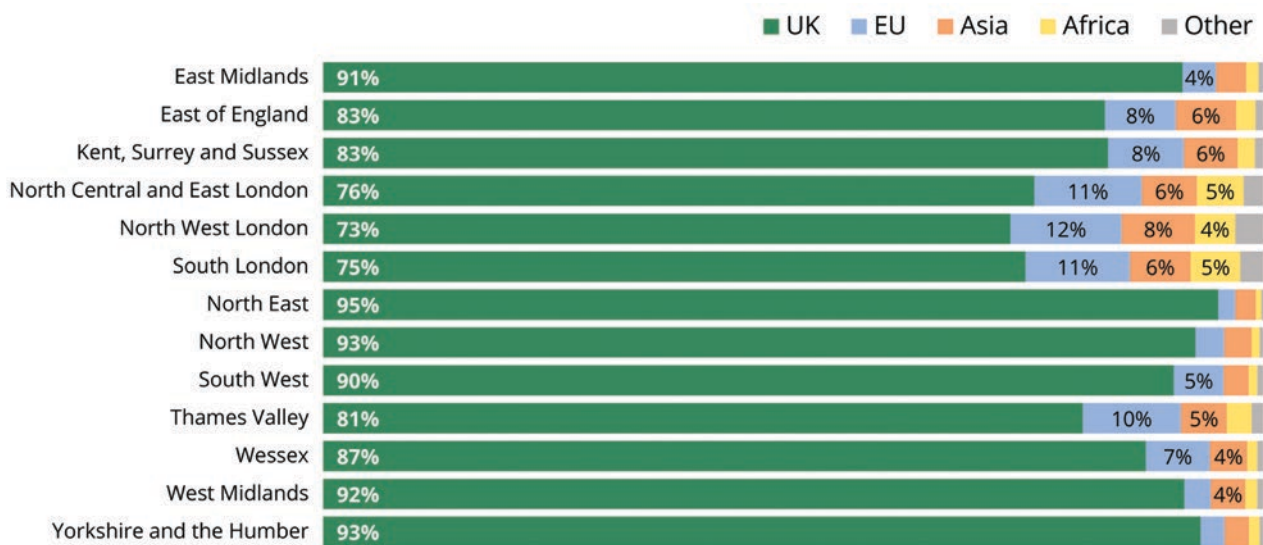
The reliance of public services on EU workers varies significantly, both across different types of services and across regions. The National Health Service (NHS) provides a good illustration of this variation and complexity.

According to the House of Commons’ Library (2017a), 5.6% of NHS staff in England – or around 62,000 staff – are EU nationals. This varies by category of staff, with 10% of doctors in hospitals and community health services in England being EU nationals, just over 7% of nurses and 5% of scientific, therapeutic and technical staff.

It varies very substantially across the UK. Within England, the highest concentration is in London, where 12% of NHS staff are from the EU compared to only 2% in North East England. Any restriction on EU labour (or incentive for current employees from the EU to return to their home country) may therefore be most pressing for London.

The variance by region is shown in the figure 2 below.

Figure 2: NHS Staff by Region and Nationality Group, June 2017



Source: House of Commons 2017a

of variation. They found that public sector employment comprised the largest proportion of the workforce in western Scotland and north and west Wales, such as North and East Ayrshire, the Scottish Islands, and Gwynedd, all with over 40% of the workforce in the public sector. Of the 28 work areas with the largest relative public-sector workforce, only three were in England (Cribb, Disney and Sibieta, 2014).

Both across and within regions, therefore, there will be very significant variation in the extent of reliance of towns on the public sector as an employer. For some, Brexit might create new opportunities – visas and immigration, border controls and customs activities might be expected to increase, for example. For most, however, the question will be whether private sector employment is increasing, or could be increased, sufficient to ‘make up’ the losses already felt, and projected, of public sector employment, or whether their workers are sufficiently mobile to take advantage of opportunities in the wider region.

This will have a significant impact on both employment levels and wider economic prosperity in regions and localities. The IFS has shown that between 2010 and 2013, for example, public employment fell in all regions and private sector employment rose in all regions, and to a greater extent than the fall in public sector employment in each region. Those regions with larger cuts to public employment, however, were not necessarily those with faster growth in private sector employment – the North East and West Midlands had relatively large cuts to public employment and slower private employment growth, for example. The IFS therefore argued that:

‘The extent to which private jobs in each region make up for the reductions in the public sector alongside the geographical mobility of the labour force will have an important effect on regional and overall unemployment rates in the future.’
(Cribb, Disney and Sibieta, 2014, p29)

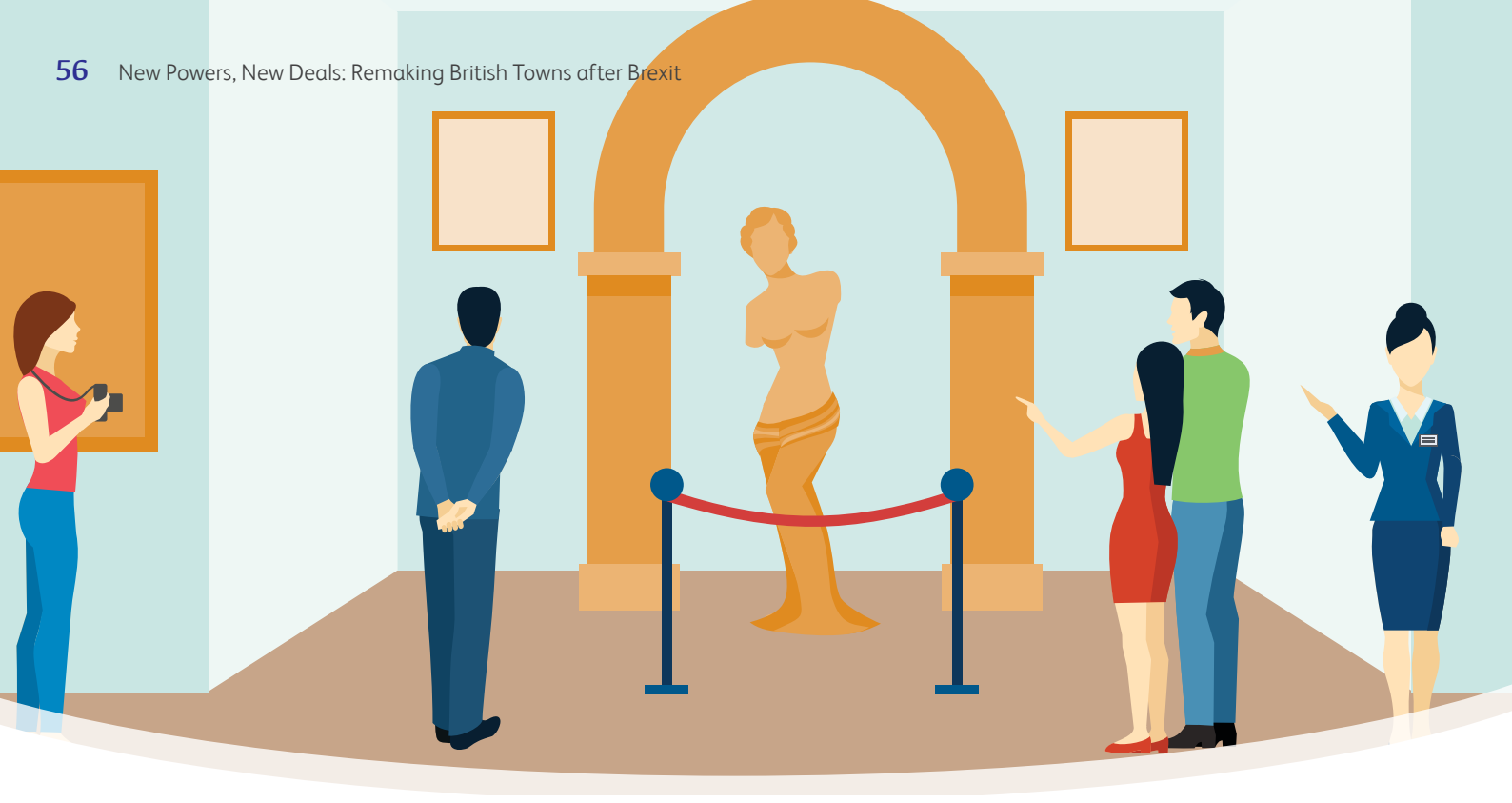
Similarly, there are 37 NHS Trusts where over 10% of staff are estimated to be EU nationals; 30 are in London and the south east. At the other extreme, there are 44 Trusts where less than 2% of staff are EU nationals. A total of 32 of these are in the North of England (ibid.).

Potential shortages are not just a function of the proportion or number of EU workers in health and social care, however, but how this interacts with the supply of domestic workers and with demand for services. Institute for Employment Studies (IES) research for the Migration Advisory Committee (MAC), published in December 2016, found that the current shortage in the NHS nursing workforce has been caused by three key factors: the emphasis on safe staffing levels, the inadequate number of funded student nursing places in recent years, and an ageing workforce. The IES found that, within England, the regions and NHS trusts most vulnerable to the dual risks of Brexit (reduced supply of EU nurses) and population growth (increase in the population aged 85 and over), are spread across the English regions.

As the example of the NHS makes clear, the impact of Brexit on public services in towns and their localities will play out against the background of continued austerity and increasing demography-driven demand. There is significant variation in the reliance on EU workers to deliver public services. Towns, along with their wider regions, will need to consider the extent to which they are likely to be impacted on both the ‘supply’ and ‘demand’ side.

8.2 Public Sector Procurement

At first glance, it may appear that the freedom no longer to apply EU procurement rules could allow future governments to award contracts, including rail services for example, to British-based companies, rather than having to adhere to transparency of contracting opportunities and equal treatment of those bidding for them. If so, this could create new opportunities for UK businesses, including those based in towns.



In practice, however, if the UK wishes to continue to trade with the EU on preferential terms, like the EFTA nations such as Norway and Switzerland, then it is likely to have to continue to adhere to EU procurement laws. Alternatively, if the UK becomes a member of the WTO, then it would need to sign up to the WTO's Government Procurement Agreement (GPA). This requires signatories treat suppliers from states who are also signatories to the Treaty no less favourably than domestic suppliers, and suppliers of any other signatory to the GPA (Huson et al. 2017).

It has also been suggested that Brexit could provide a potential opportunity for the UK public sector to have greater freedom to provide state aid (see, for example Scotsman, 2017), depending on the details of any free trade agreement that the UK negotiates with the EU following Brexit, or if it is working within WTO rules, which are narrower than those of the EU. Out of the EU, the UK could in principle provide subsidies to regions or firms, within UK competition and procurement

regimes, where they have been constrained in the past – for example, in cases such as the Port Talbot steelworks (House of Commons 2016a).

This would, however, require a significant shift from past practice in the UK. Oxera point out that the UK has traditionally provided levels of aid per capita that are much lower than those seen in other European countries, so may not, even in the absence of the EU state aid framework, provide significantly higher levels of public investment. Moreover, given this tendency to give less state aid than other EU states, state aid rules have typically assisted UK businesses by controlling illegal aid to competitors in other member states and requiring illegal aid to be repaid (Oxera, 2016). Any gain for UK businesses from a relaxation of state aid rules may therefore be offset by a reduced ability to challenge unfair competition from elsewhere – although obviously the impacts in terms of winners and losers will fall differentially across firms and sectors, and therefore the regions and towns where they are based.

8.3. Tourism

KEY POINTS

- Tourism is a significant, regionally variable, contributor to the UK economy: some of the regions for which it has particular significance are amongst the most disadvantaged in the UK, such as Cornwall and the Isles of Scilly, and West Wales and the Valleys. The Tourism Industry Council has noted that *domestic tourism is a major means of redistributing wealth from metropolitan to rural and seaside areas in the UK*. Tourism matters to towns.
- While domestic tourism is the most significant part of the industry, overseas visitors are very important and eight of the top 10 visiting nationalities are from the EU.
- The industry is also very dependent on migrant workers, who account for about a quarter of the workforce; of these, 45% are EU nationals. The industry currently, with full EU worker access, has significant skills shortages.
- Tourism in UK towns will have benefited from the Referendum result as sterling fell relative to major currencies; announcement effects on the pound saw growth in demand from the UK's two biggest markets, the EU and North America, and should also encourage more Britons to holiday in the UK rather than overseas.
- Towns for whom the tourist industry is important, however, should consider how they might mitigate the risks to the industry arising from Brexit in the medium term from: possible reductions in the number of EU business travellers combining work and leisure trips and visitors coming to visit relatives working or studying in the UK; serious labour supply challenges that may arise, given the heavy reliance of the industry on workers from Europe, and particularly Eastern Europe, with tourism businesses hampered by reduced availability of labour; and rising wage and food costs.
- Government needs to reduce emergent uncertainty about whether the UK Government will replace European development funding after 2020, much of which is spent on infrastructure development for tourism in areas such as Cornwall and to ensure there are no new barriers to overseas investment into the UK tourism industry.
- In relation to EU countries, it will be essential that there are no new costs and potential barriers for UK travel/tourism firms operating internationally and to travel services, especially flights that connect UK regions to the EU.

8.3.1 Importance of the Tourism industry and current pressures

Tourism is a very important part of the UK economy, with Gross Value Added (GVA) worth £62.4bn to the UK economy in 2015, or 3.8% of UK GVA (DCMS, 2016). The industry has been a significant contributor to the UK's economy recovery since 2008, growing at a faster rate in the five years following the GEC than many other sectors of the economy (ONS, 2014) and increasing its export earnings by 26.5% (Wales Tourism Alliance, 2017). The sector is predicted to grow at an annual rate of 3.8% through to 2025, faster than the UK economy as a whole (Visit Britain, 2013).

The sector's economic impact is amplified through the economy: Deloitte estimate the tourism GVA multiplier to be 2.8 – meaning that for every £1,000 generated in direct tourism GVA, there is a further £1,800 that is supported elsewhere in the economy through the supply chain and consumer spending (ibid.). Within the tourism industry, the biggest growth in recent years has been in the food and drink serving industry, accommodation, and the sports and recreational activities sectors (House of Commons 2016b).

The sector is a significant employer, estimated to support 3.1m jobs, or 9.6% of UK employment, in 2014 (Visit Britain, 2013). It provided almost

a third of the additional 900,000 jobs that were created in the UK between 2010 and 2013, with these roles located across the UK in rural, urban and seaside communities (ONS data cited in Wales Tourism Alliance, 2017). Within this, the largest sub-sector was, again, the food and drink serving sector, which employed 1.6m people in 2013, 55% of all tourism-related jobs (cited in House of Commons 2016c).

Within the UK picture, the importance of tourism differs by locality. While London and the South East attracted the largest share of tourism spending overall in 2013 (40% of £56bn), Wales and the South West had the highest *proportions* of their economic output that could be directly attributed to tourism spend (4.9% and 4.5% respectively) (ONS, 2013). Within this, the main contributor in Wales was West Wales and the Valleys (5.7%) and in the South West it was Cornwall and the Isles of Scilly (9.9%).

Tourism is, in other words, even more important for the economies in West Wales and the South West than for London, where it was 4.3% of economic output. Other regions with ratios above the UK average of 3.7%, meaning that they are more-than-usually dependent on tourism, include Cumbria, North Yorkshire, Outer London and Devon (see figure three, map below). As a result, the Tourism Industry Council argues that:

‘Domestic tourism is the largest private sector means of redistributing wealth from metropolitan to rural and seaside areas in the UK. In England, of the £66bn spent on domestic tourism each year, £30.4bn of this accrues to small towns, rural and seaside destinations, directly supporting around 560,000 FTE jobs in these locations.’
(Wales Tourism Alliance, 2017)

Significantly, the two sub-regions most dependent on tourism relative to their overall economic output, West Wales and the Valleys and Cornwall and the Isles of Scilly, are also the only two sub-regions in the UK that are classified as ‘less developed’ (where GDP per person is less than 75% of the average for the EU) for the purposes of EU structural funding (House of Commons, 2016c).

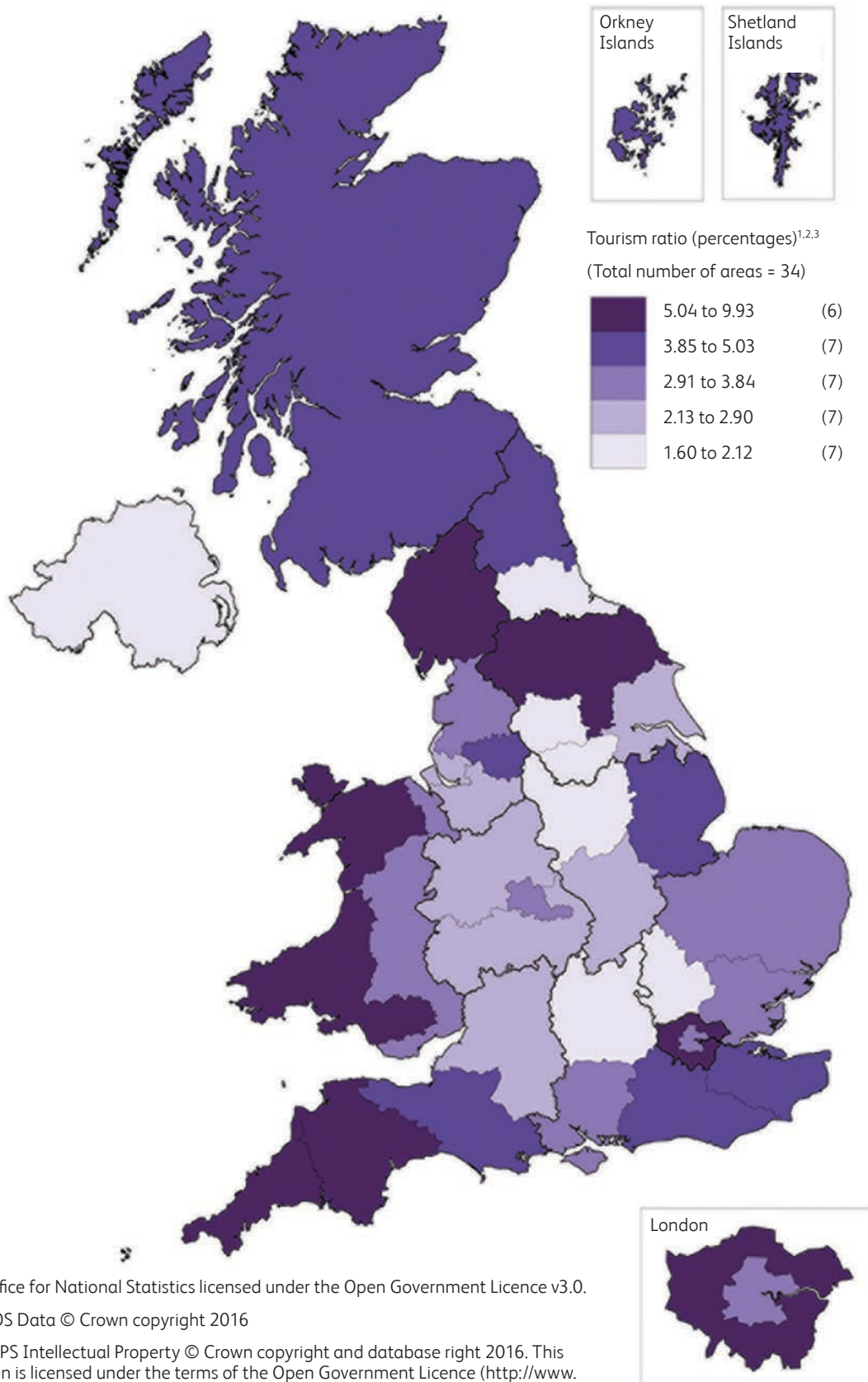
Any changes as the result of the end of EU funding alongside any changes to the size of the tourism industry would therefore be particularly significant for these areas, and the towns within them.

Domestic tourism (both overnight and day visits) is the most important part of the industry, comprising 79% of spending (House of Commons, 2017b). But overseas visitors are also critical, with 37.6 million visits by overseas residents to the UK in 2016, and spending of £22.5bn (ONS, 2017). The EU is the most significant source of incoming tourists to the UK: of the top 10 countries whose residents visited the UK the most frequently in 2016, eight were EU Member States (ibid.).

The EU is also an important source of workers for the tourism industry. The industry is very dependent on migrant workers generally, accounting for about a quarter of the workforce. Of these, 48% are EU nationals (People 1st, 2017). This makes the tourism industry the third largest employer of migrant workers in the UK: 8% of all migrants in the UK worked in hospitality roles, behind health and social care (15%), wholesale and retail trade (12%) and equal to education (8%) in 2014 (People 1st, 2014). Moreover, this dependence has been increasing, as the UK labour market has become more competitive and the tourism sector has grown: People 1st, the Sector Skills Council for the tourism and hospitality industries, report that the number of migrant workers in the sector increased by 27% between 2011 and 2016. This was mostly driven by an increase in EU migrant labour which was up by 61% in the hospitality and tourism sector, compared to a 6% increase for non-EU migration (People 1st, 2017).

Even with its current access to EU workers, the industry has significant skills shortages, with 25% of businesses reporting vacancies in 2016 of which 38% were considered ‘hard-to-fill’. It is estimated that between 2014 and 2024, the sector will need to recruit 1.3m staff (of which 75% are to replace existing staff). Recruitment is becoming more difficult with lower UK unemployment and demographic changes meaning that there are fewer young people entering the job market – the hospitality and tourism sector currently employs three times the proportion of 16-24-year olds found across the economy (ibid.). Given this, migrant workers are a critical labour pool for many businesses.

Figure 3: Map of the Tourism Ratio, 2013



Source: Office for National Statistics licensed under the Open Government Licence v3.0.

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- 1 The tourism ratio is the proportion of domestic supply in a region accounted for by the spend of tourists.
- 2 Data for Scotland are shown at NUTS level 1 only.
- 3 NUTS 2 is an abbreviation for Nomenclature of Territorial Units for Statistics, level 2.

Again, there is a high level of regional variation in the industry's dependence on migrant workers, with London the most dependent on non-British nationals. Dependence on EU workers specifically has, however, been increasing since 2011 in England, Northern Ireland and particularly Scotland where the percentage of EU migrant workers has increased from 26% to 47%.

The tourism sector also benefits indirectly from a broad range of EU funds: the UK Government's 'Tourism Sector Report', released in response to requests for Brexit impact assessments, listed a total of 12 such funds (House of Commons, 2017b). According to the Tourism Industry Council, of the £3.5bn available to the UK under EU CAP Pillar 2 (the Rural Development Programme – RDP), £3.1bn is allocated to environment schemes which support the rural tourism industry by enhancing the environmental resource on which rural tourism is based. It estimates that of the remaining £400m, tourism businesses will be significant beneficiaries of a further £298m. The UK also receives significant funding through the European Structural and Investment Fund (ESIF) programme, with destinations such as Cornwall and Wales due to receive over £800 per person from this Fund, a significant proportion of which supports coastal and rural tourism development (Wales Tourism Alliance, 2017).

8.3.2 How might Brexit affect the tourism industry?

The diversity of the tourism industry means that it will be impacted in a myriad of ways by Brexit. The industry consists of 250,000 inbound, outbound and domestic travel and tourism businesses, including many SMEs, which are often interlinked, and that use the same infrastructure, consumer base and regulatory framework. At the same time, it includes some of the world's largest tourism companies who choose to locate or headquarter their operations in the UK (Wales Tourism Alliance, 2017). Generalisations about Brexit-related impacts are therefore difficult, and the effects discussed here will vary by firm, as well as across the towns and the regions where they operate or are based.

With that caveat, the EU Referendum vote is likely to be providing a boost to the UK tourism industry in the short-term but create challenges over the medium- to long-term.

Short-term boost

In the short term, the Brexit vote is likely to benefit towns that rely on tourism. A weaker pound that reduces the cost of a holiday for incoming tourists will generally attract more visitors from overseas and encourage them to spend more while they are here, while increasing the cost of overseas holidays for Britons, encouraging them to holiday at home (so-called 'staycations').

Following the EU Referendum, the value of the pound declined sharply against the currencies of the UK's largest overseas tourism markets, Europe and America, and has remained lower than before the EU Referendum. Consistent with this, visits by overseas residents to the UK, increased by 4% in 2016 compared to 2015, to 37.6m, the highest annual figure recorded (ONS, 2016). Latest figures for the year to September 2017 show visits by EU residents up by 6% on the same period in the previous year (Visit Britain, 2017). It difficult to say how much of this increase can be attributed to the weaker pound, as it reflects a long-term upward trend, being the sixth successive year-on-year increase, but it will be providing a welcome boost for towns and wider regions that depend on tourism.

The picture for a boost to 'staycations' is more mixed. There was widespread reporting over the summer of 2016 and again in 2017 of an increase, mostly based on data from travel companies or providers or opinion surveys (Express, 2017) (Independent, 2017) (Barclays, 2017). More recent annual data from the Office for National Statistics (ONS), however, showed that there was an increase of 8% in visits overseas by UK residents in 2016 compared to 2015, reaching a record figure of 70.8m visits (ONS, 2016). Quarterly data to September 2017 showed a small 1% decrease on visits abroad on the same period in 2016, along with a decrease in spending (ONS, 2017c). Again, the impact of any increase in "staycations" will vary significantly for different types of towns.

Medium- and longer-term effects

There are, however, potential impacts from Brexit that could pose a risk for the tourism industry and those towns that rely on it over the medium to longer-term.

Brexit could negatively affect the number of overseas tourists coming to the UK. While holidays are the most common reason for visiting the UK (37% of the total of 37.6m in 2016), the next most frequent reason for visiting is to visit friends and relations resident in the UK (11.6m or 31 percent) (ONS, 2016). If the end of ‘free movement’ reduces the number of foreigners working in the UK, some portion of these visits could disappear.

The third largest group of visitors is business visitors who make up 24% of visits (9.2m in 2016) (ONS, 2016). According to Deloitte, 73% of these travellers are from the EU (Deloitte, 2016). If global firms, particularly in financial services, move their European bases and related activities as a result of Brexit, this could reduce the level of inbound business travel. While this may be a risk mainly for the larger cities, business travellers may also undertake additional personal travel while in the UK, and some bring spouses or other family members who travel more widely. In its latest analysis, Oxford/ Tourism Economics predicts a significant slowdown in corporate travel both to and from the UK in 2017/ 2018 (Wales Tourism Alliance, 2017).

A reduction in visits to friends and relations (VFR) or business travellers would impact on air links. Deloitte note that ‘VFR traffic is vitally important in ensuring the economic feasibility of many air routes’ (Deloitte, 2016). Similarly, many of the air links to and from Britain are primarily used (and paid for) by business travellers, but also carry millions of tourists in the cheap seats. A reduction in business-class demand could result in reductions in flights, reducing the supply of seats available for inbound holidaymakers more generally.

From the perspective of towns that have, or are near, ports, there may be impacts on passenger traffic and related business. According to figures from Deloitte, EU countries contribute over 85% of the total passenger traffic to UK ports (Deloitte, 2016).

Other Brexit-related risks to the number of incoming tourists could include:

- a disincentive to travel to and from the UK if tourists from some or all EU states are required to have visas, as could be the case if the UK

doesn’t join the European Economic Area (EEA) but enters only a free trade agreement without free movement of persons or services. Professor Catherine Barnard has commented that,

‘if a French family is looking to go on holiday either to Spain (no visas, no hassle, no extra cost) or to the UK (visas, hassle and cost), their choice is pretty clear.’
(Guardian, 2016)

- an impact on other areas of regulation and policy that affect tourists. EU membership makes travel to the UK easier and more attractive in areas including consumer rights for travelers who book package holidays, access to emergency medical care on the basis of the European Health Insurance Card, air passenger rights in cases of delays or cancellation of flights and caps on roaming fees (and abolition of such fees in April 2017). Professor Panos Koutrakos has commented that,

‘whether these rights would be maintained following Brexit, and, if so, to what extent, is uncertain.’
(Guardian, 2016; Deloitte, 2016)

The greatest risk to the tourism industry from Brexit, however, is likely to come from the risk to labour supply if (or when) labour migration from the EU is curtailed. Any change to ‘free movement’ will have very significant direct impacts on the sector, given the large number of people working in UK tourism from the EU, and especially Eastern Europe, and the scale of existing skills shortages. Deloitte have commented that,

‘recruiting such large quantities of workers from the domestic labour market might prove difficult, especially given the current low levels of unemployment in the UK, and high level of skill shortages.’
(Deloitte, 2016)

People 1st argue that if restrictions were to be introduced similar to the current system for non-EU nationals following Brexit, it may be particularly difficult to recruit front of house staff and chefs, as they are unlikely to meet the criteria (People 1st, 2017). These are currently the occupations within

the sector that have the most acute shortages: front of house staff are reported by 45% of employers with hard-to-fill vacancies and chefs reported by 36% of such employers (People 1st, 2017).

If it becomes more difficult or expensive to recruit from the EU, then labour shortages could create pressure to increase wages, which would in turn push up prices for tourists. This is only one of the potential cost pressures for the industry that could be created or exacerbated by Brexit. Food costs are likely to increase, particularly, due to a weaker pound as well as any imposition of tariffs and the sector is heavily reliant on imports of foodstuffs – according to the Tourism Industry Council, many UK hotels import approximately 50% of their food, mainly from Europe, and they expect this to continue following Brexit (Wales Tourism Alliance, 2017).

This pressure would, however, be differentially felt, across regions, between sub-sectors and across firms. Any restrictions will have a larger negative impact for hospitality and tourism businesses in England, Scotland and Northern Ireland, who have a significant and increasing percentage of non-British nationals making up their workforce and of which other EU nationals make up a significant proportion. Wales, on the other hand, employs the lowest percentage of non-British workers, although its employers are more likely to report hard-to-fill vacancies and skill shortages. Elsewhere, too, there does not appear to be a relationship between reported ‘hard-to-fill’ vacancies and the percentage of non-British workers employed: The North East, for example, has the lowest percentage of non-British nationals as workers, but one of the highest hard-to-fill vacancy rates; in contrast, London has the highest percentage of non-British national workers, but the lowest reported hard-to-fill vacancy rate (People 1st, 2017).

The level of overseas visits and domestic labour supply are not the only challenges that Brexit could create or exacerbate. Most obviously, for an industry that benefits enormously from European development funding, both directly and indirectly, there will be uncertainty as to whether, and to what extent, this will be replaced by the UK and devolved governments after 2020. The Chancellor has pledged to honour current

allocations to 2020, but it is unclear what happens after that. The Tourism Industry Council argues that the removal of funding for rural and seaside tourism development and promotion when the UK leaves the EU will reduce public funding for tourism at the subnational level by around 50%, reducing the ability of Destination Management Organisations to compete in the global tourism market (Wales Tourism Alliance, 2017).

Deloitte has pointed out that tourism, along with other sectors, could also be affected by any reduction in Foreign Direct Investment (FDI) volumes following Brexit. Decision-making by any country investing in the UK could also be delayed because of the uncertainties arising from Brexit, especially in the short to medium term. They note that increased uncertainty over regulation and future trade relationships, and associated business disruption, could also impact investment by other key FDI markets such as the US, China and the Middle East, not just those in the EU (Deloitte, 2016).

The above discussion has focused on incoming tourists and the associated industry in the UK. Brexit will also impact on UK-based firms that operate in other EU countries, including those based in, or employing people from, towns. The EU ensures consistent rules for employees and employers when operating or working across the EU – from working hours to recognition of professional qualifications – which simplifies and enables cross-border operations. The EU Posted Workers Directive allows travel businesses to temporarily place workers in other EU Member States without the need to register individuals in each territory for the purposes of taxation or social security (Directive 96/71/EC). EU Regulations deal with the interoperability of transport systems across the EU (air, rail and maritime), with aviation particularly vital for the UK travel industry. An internal market guarantees EU airlines the right to operate point-to-point air routes within the EU; the EU has also negotiated Open Skies agreements whereby member countries act ‘as one’ in agreeing rules with third countries. On a wide range of matters, therefore, the UK will need to negotiate with the EU on whether current arrangements can continue, and what happens as these evolve in future (Deloitte, 2016). Against this background, all EU supplier and commercial contracts will need to be reviewed (Tourism Alliance, 2016).

8.4 Agriculture and Fisheries

KEY POINTS

- For rural market towns, fishing ports and those places undertaking foodstuffs processing the vitality of farming and fishing is of major importance, even if the sectors directly involve only 1% of UK employment. Some 15% of UK workers are involved in food processing. Rural-agricultural areas generally voted to Leave the EU.
- EU membership has radically impacted UK agriculture (with intensive subsidy support as well as extensive regulation) and fishing (primarily with extensive regulation).
- Hill farming areas in Britain have been extensively supported by EU subsidies.
- Immigrant labour from the EU has underpinned expansion of horticultural and arable farming, especially in eastern Britain.
- The UK Government has committed to maintaining EU level spending of agricultural subsidies until 2021 (around £3bn annually), thus reducing net savings from EU exit by a significant percentage.
- Growing concerns about shortages of both permanent and seasonal workforces for horticulture has led to the proposal of schemes to maintain agricultural worker recruitment from the EU, and elsewhere: it is not clear how this will reduce public service pressures in the heavily pro-Brexit small towns of Eastern England.
- Fishing, if still subject to some uncertainties, is likely to expand but remain a small share of overall employment.

8.4.1 Agriculture and the Common Agricultural Policy (CAP)

The Common Agriculture Policy (CAP) has been at the heart of the European project since the 1950's, it comprises more than half the expenditures in the EU budget and it is the sector for which the greatest volume of law and regulation exists. Agriculture in the EU, by international standards, is high cost and highly regulated and within the EU issues of environment and ethics (regarding animal welfare) as well as economics are important. The spillover effects from highly subsidised agriculture in relation to retaining some vitality, and employment, in small towns have long been emphasised by European ministers dealing with rural affairs. The Common Fisheries Policy (CFP) is much more recent than the CAP and attracts little subsidy for producers. But it has involved major regulations and quotas, largely aimed at fashioning sustainable fish stocks within the North Sea. Both sectors can be significant, not just as direct sources of employment, but in driving both service demands and food processing activities in market towns and harbours around the UK.

At the UK scale, however, both these sectors are relatively small in employment and income terms. In relation to direct employment, there are not many more than 11,000 fishermen in the UK and the sectors, taken together, produce little more than 1% of output. Importantly, processing and packaging fish and food produces closer to 15% of UK output, and that is a significant sector. As the Brexit debate has evolved, there is an increasing concern that exit without a trade deal with the EU will compromise the flow of medicines and food to the UK from the EU with shortages now widely anticipated should these circumstances eventuate. In that context there is increasing attention to the role that domestic fishing and farming in providing food security for the UK.

The CAP and the CFP both features strongly in the Brexit debate. The National Farmers Union suggest that almost 60% of farmers voted to leave the EU and fishing constituencies also voted for Brexit. Looking at the rural areas in which market towns are set, more than 55% of rural

dwellers voted to leave the EU. The incentives for fishermen to vote to leave, as explained below, were relatively strong as long as they believed that Brexit will mean exclusion of EU fleets from UK waters. The issues for the farming sector are much more mixed.

One argument in the Brexit debate was that leaving the EU and the signing of new trade deals, including trade in agricultural products, would mean cheaper food in the UK. However, it was never clear how this would benefit UK farmers, or market towns, unless subsidies were to be maintained and product standards and animal welfare restrictions relaxed (the chlorinated chickens coming home to roost!). Trade with the EU, and elsewhere, under WTO rules would mean significant new tariff barriers for UK agricultural exports and especially for beef and lamb exports and this would have damaging effect on farm incomes and output even if CAP levels of subsidy were to be maintained. In 2015, some 55% of farm income in the UK comes from CAP support (that amounts to £3bn annually). These proportions, reflecting the mix of farming activities, are significantly higher in Scotland (75%), Wales (80%) and Northern Ireland (87%) than in England (55%) (Bell, 2018). Rates of profit on turnover are widely estimated to be low (in the much-discussed fruit/horticulture sector the NFU report them to be around 2%). The general view in the farming press is that removal of CAP levels of subsidy, especially if operating with WTO rules, would greatly reduce sheep and beef production in the UK and have a profoundly negative effect in remoter, hill-farming areas (and indeed the small towns that serve them).

The challenging consequences of EU exit for the horticulture and fruit sectors (a £1.2bn sector) are also tied up in trade and tariff issues but, as noted earlier, they also face significant employment shortages. The NFU report that the sector requires some 250,000 permanent workers and 90,000 seasonal workers to function effectively (Farmers Weekly, 2016). The ONS (ONS, 2018) highlights that nine out of 10 seasonal workers currently come from Poland, Romania and Bulgaria. Half of permanent workers involved in processing and packaging agricultural foodstuffs come from the EU, 45%

of those who process meat products have similar origins as do 38% of those who process fish and seafood. The Brexit vote has seen a summer 2017 shortfall of temporary workers from the EU in the UK horticultural sector (Guardian, 2018) and this is reportedly due to EU worker concerns about UK attitudes towards them and the devaluation of sterling vis-à-vis their domestic currencies. This has prompted discussion of raising wages (but as profit margins are tight this will raise food prices) and a growing discussion of relocating berry production to Europe. It has also led to renewed calls for, post Brexit, agricultural workers visas to allow present systems of production to continue (Guardian, 2018). This may solve the agricultural producers' problems, but in towns such as Boston in Lincolnshire, where three out of four people voted to leave the EU because there was a wide perception of 'too many immigrants (Independent, 2016) nothing will be resolved unless pressures on housing and public services are reduced and much more pro-active integration policies are delivered.

It is clear then that what the Government does with agricultural policies, to replace the CAP, and how it integrates them into wider economic and social developments strategies and approaches to immigration, will be critical for small town Britain. Through 2016 prospects did not seem encouraging, at least in England, as the Secretary of State, Andrea Leadsom took the view that Brexit required tight controls on immigration, that CAP levels of subsidy were not guaranteed post Brexit and that investment and automation offered new routes to agricultural and rural productivity. Policies for England changed in 2017 with the advent of Michael Gove as Sec of State for DEFRA. There was recognition of a need for an adequate flow of seasonal labour in agriculture, and indeed permanent agricultural workforce, and a commitment that CAP levels of subsidy would be maintained until 2022 (Financial Times, 2018). Further, and giving some comfort to those who argued the environmental and cultural benefits from agriculture spending, he emphasised the ways in which farming contributed to wider ecosystem services and rural development. He labelled these circumstances as 'UK agriculture's unfrozen moment'. Unfortunately, it is also a hugely uncertain

moment. The CAP protected agricultural subsidies from the kinds of annual budget rounds and cuts that typify public spending in the UK. Given the likely fiscal future of the UK to 2022 and beyond, a sector that receives £3bn of support to produce £9bn of output is not likely to survive intact. Moreover, the devolved administrations in Scotland, Northern Ireland and Wales are very clear that when agriculture and fishery powers and resources leave Brussels they do not rest in London but in Belfast, Cardiff and Edinburgh. All these administrations put much emphasis on the environmental, rural and town development roles of agricultural spending.

8.4.2. Fishing: A Net Gainer

Fishing is also facing an uncertain future. In 2015, UK fishermen caught 111,000 tonnes of fish in EU waters. EU fishermen caught 683 tonnes in UK waters. In value terms, the EU extracted a net £375m from UK waters. The prospect of having a reversion to territorial waters protected from EU fishing clearly appeals. However, there are a number of difficulties. Some EU countries, not least Denmark which takes 85% of its annual catch from UK waters, argue that there are centuries-old, historic rights to fish in the North Sea UK waters. EU negotiators, should a trade deal be struck with the UK, are keen that quotas should be maintained to continue to make North Sea fishing sustainable. Fishermen involved in

the seafood sector in the UK that relies on fast export of fresh produce to EU capital cities are increasingly concerned that the disruptive effect of Brexit of creating long queues and delays at UK/EU borders might end their current exports to Europe. There is also the difficult consideration that a significant share of the English fishing fleet, with the right to fish in UK waters, already has EU owners. For instance, one Dutch company currently owns almost a quarter of the English fleet. Neither fish, nor Dutch capitalists, are held back by international borders.

Fishing and farming based town communities in the UK currently face great uncertainties. But the uncertainties are different. In parts of the agricultural sector, especially livestock rearing in remoter areas, there is an existential threat that will erode confidence and investment until it is resolved. In fishing towns, it is unlikely that the sector will contract, and it could grow substantially, but EU labour is still likely to be required to process what is harvested from the seas. All towns involved with these sectors need to reflect on how change will impact their place and what related measures need to be undertaken to ensure that essential economic bases do not undermine social cohesion and environmental quality. Of course, this is obvious: but it is precisely what UK and devolved governments have failed to deliver in most UK towns over the last two decades.



8.5 The Borders and Ports

KEY POINTS

- Insufficient attention to effects of Brexit on borders and border points is apparent.
- Costs of queuing and processing at ports, for passengers and goods, raises costs and frictions of travel. In relation to goods, the international nature of modern supply chains and the repeat crossing of components of products back and forward across frontiers as they are 'built' into final products makes frontier crossing costs disruptive.
- Trade disruption effects post Brexit are likely to be felt not just at UK ports but ports in Belgium, the Netherlands and France and these are in addition to any effects that arise from reduced volumes of goods consequent to new tariff structures.
- Hard borders are a problem for Irish identities and politics and the key issues have been recognised by the EU and the UK, but no resolution has yet been found to what is one of the central issues arising from Brexit.

Trade is not all about regulations and smooth flows of goods. Goods require transportation and that process is disrupted at points of transport mode changes (break of bulk centres) and, of course, at international boundaries. Brexit redefines, and reintroduces, boundaries between Britain and the EU. Boundaries are not simple formal geographies of where one kind of power starts and another stops, but they have iconographic values and become statements of difference between those who live on either side of the boundary. They influence sense of identity as well as economic prosperity.

Much of the frontier of the UK lies in the seas and oceans around the British Isles and this raises questions about how the role of ports, that are town rather than city sized, that allow access to cross these boundaries will be impacted with new regulations for the movement of goods and people. A politically significant part of the UK is, however, a land border between Ireland and Northern Ireland and therefore a border between the UK and the EU. How that issue is resolved post Brexit will affect not just economies of the towns along either side of the border, and indeed the interactions between the UK and its closest trading partner, but it will play a critical role in shaping the issue of Irish identities. That, in turn, will have implications for civility, stability and security on the whole island of Ireland.

So, what does Brexit mean for boundary access points and borders? EU ports that specialise in shipping goods and passengers to the UK have already highlighted the negatives for them. Almost half of the exports that leave Zeebrugge, the final stop on the 'new silk road' from Shanghai, are for the UK with 64 container shiploads per week and almost a million passengers per annum (Guardian, 2017). In the town, some 5000 jobs are directly linked to this trade and the town, like a number of similar centres in the Netherlands, now expects negative economic consequences. A significant share of food supplies to UK supermarkets are organised from distribution centres in the Netherlands. For instance, Tropicana orange juice is imported from Brazil to the Netherlands and is exported, tariff free, across the EU. If the UK defaults to WTO rules, there will be an automatic 25-30% tariff on imports of the juice into the UK. Similar problems are also likely to occur in organising the inspection of goods that are imported from outside of Europe to the major container terminals such as Rotterdam, and then transferred to smaller ships to land at smaller UK ports such as Grangemouth.

Some of the larger UK ports are global rather than European exporters, with 70% of Felixstowe's trade bound for non-EU destinations. This is quite different from the channel ports such as Dover where almost all trade is with the EU, it

has grown rapidly over the last two decades and it usually involves relatively short-notice, short-journey loads that are difficult to process prior to sailing times and en route. If Brexit means reintroducing border checks, then the likely negative effects of tariffs on trade through the port will also be reinforced by significant 'non-tariff' costs. In particular, the re-introduction of border checks on passengers and freight will mean, probably, a minimum 2-minute additional delay for each lorry passing through the frontier. Without other behavioural changes and with present freight loads, this implies 17-mile-long queues of lorries reaching back from the port. Similar effects will occur at Calais and Dunkirk. Interestingly, UK port authorities, that are privately-owned, campaigned in favour of Brexit (unlike larger scale and public-owned European ports) to escape emerging port legislation.

The Ireland-Northern Ireland Border issue has been given priority consideration by both the EU and the UK in the Brexit negotiations. Around a third of goods imported to Ireland come from the UK and a similar proportion of employment in Ireland is engaged in producing goods and services destined for UK customers. At the macro-scale, the relations are close and Irish estimates suggest a hard Brexit will reduce GDP by just over 3% by 2030 (City-REDI, 2018). On the border and in its towns, the links are even more apparent. Agricultural outputs, such as milk, flow north for processing and then back south to consumers and some goods cross the 'border' four or five times before completion and sale. Consumers from the North use the border towns of the south for Saturday shopping and social trips too. In an area of Donegal and Fermanagh, a sometimes-sparse landscape with small market towns, the de facto removal of boundaries with Ireland's accession to the EU made life for many local people easier as well as friendlier. Prior to 1972, and Ireland's entry to the EU, there were 17 customs and excise posts on the border between Northern Ireland and the Irish Republic. Vehicle traffic was banned at more than 200 other crossings. The border posts were the scene of long delays in moving people and goods and became the focus of terrorist attacks. Hard frontiers are associated with the hard times of the Troubles.

Both the EU and the UK governments have prioritised the avoidance of a restored hard border between Northern Ireland and Ireland. The UK Government, anxious to preserve the Good Friday Peace Agreement, has indicated a desire to avoid the need for border posts with Ireland after Brexit. David Davis noted (in the spring of 2018)

'we need to prioritise protecting the Belfast agreement in these negotiations and ensure the land border is as seamless as possible for people and businesses,'

and he suggested that the UK will seek an agreement with the EU exempting small traders and farmers from customs, agricultural and food safety checks (Davis, 2016). In return, it wants the EU to avoid the need for inspections of live animals and other goods.

The recent UK White Paper (UK Government, 2018) has set out plans for a possible technological solution (pertaining to non-service trade) that would see goods cleared electronically prior to shipment and also proposed to levy tariffs entering the EU through this border on behalf of the EU. Doubts about the feasibility of such an arrangement are widespread in the UK and Ireland and the EU have signalled they place a low probability on the acceptance of this kind of arrangement. There is not yet, some six months before the UK is set to leave the EU, any clarity how these arrangements would work to avoid a back door to Europe and the UK for goods and people from third part countries. The Irish Government is skeptical that avoiding border posts is feasible and have intimated that the best way to achieve this would be by the UK remaining in a customs union with the EU and seeking single market membership like Norway.

As this report is published this is likely to be the debate that dominates in the UK until March 2019, namely, should the UK remain within the EU by abandoning the Brexit process or seek a Norway like arrangement rather than leave the EU with no trade deal.

8.6 Parting Thoughts

There are many specialised sectors of economic activity, or indeed of policy impact, that will be affected by the UK leaving the EU and that will confer losses and gains on towns that 'specialise' in them. Higher education is a sector that can be important in middle sized towns and there is much concern that leaving the EU will inflict a period of some difficulty on some UK universities. Flows of students, staff and research resources from the EU to British institutions, competing in increasingly international markets for students (EU students at UK universities annually contribute around £3.7bn to the sector), research funds (UK universities coordinated close to £4bn of EU research funds in the last budget round), impact and influence (with the Russell Group

estimating £35bn of impact in the same period), may be hampered by Brexit. Some, in the highest quality ranges, may not (Mayhew, 2017). Or towns, thriving as locations close to airports with international traffic, may see connections and flows disrupted in the now large low-cost travel flows of air travellers between the EU and the UK. There is still some uncertainty of how UK based airlines will operate in the EU after Brexit.

From the UK's city cores to the frontier edges there are strong voices supporting soft Brexit as the best way ahead for towns and cities, regions and nations too. The problem remains, the unserved growing towns of the south and the long-disadvantaged towns of the north. How can a better understanding of town economies pervade post Brexit policies?



9. Reflections and Conclusions on Transforming Economic Thinking for Towns

9.1 Brexit, Hard or Soft as a Catalyst for Change

The UK prospered through the long boom of the 1990s until the Global Financial Crisis ushered in a consequent, and continuing, decade of austerity, discontent and constitutional unease. As advanced economies, including the now faster growing EU, have recovered from the cyclical economic shock of 2008 a range of other, longstanding challenges have come to concern nations. Security, population ageing, global warming, the opportunities and threats of automation, immigration from the global 'south', persistent gender inequalities and rising wealth and income inequalities are all major issues that compete for political attention and policy resource support. The UK too must now face these challenges and it will have to do so amidst the disruption of its economic and political links with the European Union, its main trading partner.

Towns, disregarded as a policy priority in the past, now must compete with a range of pressing issues for the interest and support of national and sub-national governments in the UK. This essay has argued that if localised pressure and discontent are to be addressed there needs to be a greater government focus on the economic futures of towns. Brexit is only one strand in the complex tangle of changes blowing towards Britain's towns. Regardless of whether EU exit is 'soft' or 'hard' the only certainty for places is that they will have to change. Towns differ in their capacities to deal with such changes, they have different path dependencies and Brexit will bring them different challenges. Whether we like it or not Brexit is the catalyst for a new take on towns.

This 'Great Disruption' of Brexit is already changing economic outcomes for the UK. Whilst the balance of available evidence suggests short and medium-term effects are likely to be significantly negative for the UK economy, and probably worst for the places that were most pro-Brexit in the 2016 referendum, there is little firm to say about the longer term. There will be plusses and minuses, from hard Brexit, but the balance and distribution of the overall sum cannot be forecast with any meaning. The real test for governments, and towns and individuals in the UK is not how smart or lucky they are in writing future strategies. It is, rather, how flexible, creative and resilient they are in the face of change and how entrepreneurial they are in pursuing emerging opportunities. In the imminent times of expanding major policy challenges and potentially slower growth in real public resources, how does the UK fashion more 'resilient' and 'entrepreneurial' places? This poses the further fundamental question, in relation to towns (or cities, or regions for that matter). Why? Why should a town attract resource support from government (at UK, devolved and local level)? What is the town for? Why have a 'towns' policy?

These questions are posed here because they will become more commonplace in the decade ahead of tough public resource negotiations. Towns have often been an afterthought in spatial policy thinking in the UK. This stands in sharp contrast to some other European countries, for instance the Dutch approach to spatial policies, which often treat towns as connected sets of places with shared scale effects and explicit complementary roles to metropolitan centres. In the UK, in contrast, the economic performance of towns has barely been adequately described and drivers of success left unexplored. The use of the

term ‘town’ has been more chaotic and changing than even the casual ways in which ‘city’ policies have been defined and prioritised. This may well reflect ‘towns’ and ‘town policies’ being a residual, concern in UK spatial policy thinking and resource allocation.

In earlier chapters, it was suggested that the Brexit vote outcome reflected a failure to effectively manage the UK’s towns. This is a major, not a minor, critique of UK approaches in regional and city-region policies. We suggested that two major policy failures had been important. First, in the many smaller and larger towns located within, and contributing to the growth of, major metropolitan regions, from London to Edinburgh, there had been a failure to manage economic growth adequately. That has not simply, or necessarily, been a matter of sluggish local planning decisions but reflects decades of strategic inability or unwillingness of governments to support growth with expanded infrastructure and service provision. Congestion and crowding of settlements at the edge of growing metropolitan areas (and in the corridors that join them) of the UK have been addressed too slowly and incompletely.

The second observation on policy failure was that, despite more than three decades of regeneration and renewal programmes, the towns that had seen their traditional economic bases disappear in the 1980s, still persisted as major locations of disadvantage three decades later. Despite major EU, and other, support for renewal, places had both remained disadvantaged and, outside the major cities, largely had voted for Brexit (except for Scotland and Northern Ireland, where other ‘exit’ avenues have taken the interest of the disadvantaged). That is the lack of attention to the wellbeing of people living in towns, and a sense that the problems of either growth or decline have become endemic, is central to how the UK performs and feels, and votes.

A recent major report by Localis set out several strategic measures required to improve outcomes in English towns (and a number of their conclusions are echoed below) (based on the work of Airey and Booth-Smith, 2017). They

also suggested a simple binary categorisation of English towns into the ‘Stifled’ and the ‘Stuck’. This description accords closely with the ‘growth’ and ‘disadvantage’ labels applied above. No doubt this categorisation should be more nuanced, and future research on characterising the economic drivers and potential of the UK’s towns is needed. However, it serves adequately for setting out why a coherent, high-level, but locally controlled set of strategies for improving town performance is required and can be developed.

9.2 A Framework for Government Actions

9.2.1 Renewing Regional Policies

Brexit, whether soft or hard, will mean an end to support for the UK from significant EU ‘structural funds’, not least the ESF and the ERDC (see Section 6 above) that have been widely recognised as significant supports to renewal in poorer UK towns and regions. There have been recent positive evaluations of their economic impact in regions such as Wales and Cornwall. They previously underpinned successful investments in the city regions, embracing declining old industry towns, around Glasgow and Liverpool. In 2015 European Structural and Investment Funds (ESIF) (primarily ERDC and ESF) distributed almost £5.6bn to England share between its 39 LEPs, Wales received £1.9bn, Scotland £720m and Northern Ireland £414m (SPERI, 2016).

EU membership did not just bring ESIF funds to towns. The required past matching of EU Funds with UK resources for these programmes kept the UK Government involved in delivering ‘regional’ policy support (Bachtler and Begg, 2017). It also involved UK regions and towns in important international (within EU) cooperation and professional networking groups that have had significant benefits for towns as well as cities and remote places.

This is not the time for regions and towns to lose policy resource support and capacity building networks. North Ayrshire Council (2017), dealing

with a legacy of older, disadvantaged towns, have argued cogently (in addressing concerns to the Scottish Government) that there should be urgent efforts in *‘establishing funding mechanisms to compensate for the loss of EU funding, and providing additional resources to match the scale of post Brexit challenges’*. They added:

‘The removal of access to ERDF and ESF (boosted by matched funding from government, local government, private sector and others) could leave a policy vacuum which UK governments must fill to avoid some regions and sectors losing out. The loss will not just be financial, but will also cover strategic planning, multiannual programming and multi-level governance. There is concern that, post Brexit, the UK will not have the funding or policy levers needed to respond effectively to regional economic shocks.’

The broad thrust of this argument is widely supported in policy and academic communities throughout the UK. It requires not only a new emphasis on economic growth, and inclusion, that is widely recognised, but it also requires a much a smarter understanding of how the spatial structure of regions or metropolitan areas functions and connects locally, nationally and globally. Growth is in places and there has to be a hard-headed and informed understanding of what places are, economically, for.

In making this ‘replacement’ claim, however, it can be argued that towns will have to restate a clearer strategic case for support and highlight the new ways in which resilience and entrepreneurship can be the hallmarks of places in the future. This is, arguably, not the time to go back to ‘regional’ and town policies as conceived and funded over recent decades. North Ayrshire Council in their document argue for the development of coherent town deals to govern and fund future actions. Localis, (based on the work of Airey and Booth-Smith, 2017), in the different context of England, argue for the end to city deals and their replacement by locally, strategically led city-region compacts involving towns (that have characteristics similar to the better city-deals but that are driven by local rather than UK government). It is clearly important to consider pros and cons of different approaches to ‘towns’ policies, both at broader and local town levels.

The UK has a tradition of regional policies going back to the 1930’s and there has been much change over time in broad aims, resource commitments, governance, instruments and delivery. The same might be said of urban and neighbourhood renewal policies that have prevailed since the 1970’s. Since 2012 the UK, Scottish and Welsh governments have also paid much attention to City Deals and, as noted above, some favour the extension of that idea to the town sector.



As this report was being completed, the UK Government published their statement on future replacements for regional policies. The report underlying the Government statement (MCHLG, 2018) emphasises the improvement and extension of local economic partnerships. There is much to agree with in the broad mechanisms proposed, for enterprise and partnerships are both emphasised below as vital ingredients for the economic success of towns. However the UK government's proposed approach is also disappointing. It addresses only 'opportunities', to be achieved by 'improving productivity' rather than a range of more complex challenges that include the under-provision of infrastructure and the centralised controls that towns face (discussed below). There is no clear regional structure for policy, nor any sense of how towns will be supported and prioritised.

Whatever the new approach to the main underlying 'regional' challenges, there needs to be a changed UK and devolved administrations view of what 'towns' policy is. There needs to be thought to what the best balance and form of support can be provided by UK, devolved and local government, whether there needs to be more local autonomies on expenditures and revenues and what real capacities to develop and deliver well-founded economic policies exist at local scales. That is, future policy for towns, involves strategically informed UK and devolved governments supporting, and participating in, locally led development strategies that involve

resources from all levels and that are supported by adequate political and bureaucratic capacities. In a sense, these are 'spatial deals' that need to be designed, usually, for sets of smaller places that may need to share roles and capacities. Why and how does such an approach make sense for UK towns?

9.2.2 Spatial Policies New Moment

The post 2016 comments on the future of the replacement of the CAP and the evolution of agricultural policy in the UK offer a useful starting point for discussion. Michael Gove's approach refocuses agriculture/food producer services towards wider ecosystem and green outputs and others have emphasised how such approaches should be integrated into rural development strategies. To provide a more coherent approach to towns policy, including market and rural towns within that approach, this argument needs to be de-siloed (or broadened out) in two ways. First, the connections within agriculture/market-based towns need to be expanded to consider other aspects of their economic base (tourism, for instance) and then the spatial interactions with other settlements in the region/city-region clearly articulated. For instance, they may be closely connected to a fast-growing city and this will raise issues related to housing, service provision and other infrastructure. If these rural towns are to facilitate city growth by housing residents who drive the city economic base what then is the 'town-city' deal? On the other hand, if they are



connected to older struggling towns then the questions will be different and relate to synergies between rural and town renewal policies.

Dealing with these issues does not have cookie-cutter solutions, but there are some obvious steps for change. The first, is that the functional economic geography of the whole region must be understood and acted upon in an integrated fashion. Airey and Booth-Smith (2017) highlight the patchy geography of actual and potential 'strategic' government and governance areas in England and similar remarks apply to Scotland. The rather ad hoc geographies of city-deals in England, and Scotland, need to be revised to deal with this issue. The second, is that the strategic goals and principles for policy approaches need to be explicit and coherent. Early city-deals in England, for instance stressed growth in GDP as the key target for action whilst the Scottish government argued for an inclusive growth approach within city deals. It is unclear what sense it makes to promote major investment strategies for places without clear, economic, social and environmental goals.

These steps imply that a policy for towns needs to be formulated at both the scale of functional economic regions as well as individual towns. But existing city deals do not do this. They pay insufficient attention to the wider metropolitan interactions between different towns and with the core city. They do however highlight the importance of spatial investment plans. Within 'deal' frameworks town planning primarily means investment planning and spatial planning will have to serve growth and productivity aims.

9.2.3 Real Devolution and Economic Policies

The policy for towns within a region should not just be an addendum to a city-region deal but rather needs to sit beside the city strategy and be consistent with it. It could be separately led and governed say by a Regional Towns Board. It should involve all the leaders of local authority areas within the broader region (regional towns compete as well as cooperate) and the leadership Board should also include the key UK/devolved government departments and their agencies involved in town strategy within the region as well

as private sector and non-profit leaders. Other key stakeholders should be involved on the regional Towns Board and in England they will have close connections to local Economic partnerships. Below the regional level, considerable variety and flexibility will be required as towns have such varied scales, prospects and preferences. That variety means that a Local Town Board is also essential. It should involve all key stakeholders and have a direct presence from the regional Town Board as well as significant community involvement (a missing element in most city deals).

Airey and Booth-Smith (2017) argue these issues are best resolved by scrapping existing devolution/city-deal approaches and shaping governance structures within the framework of local governments. This approach has limitations until local government is operating with significantly revised geographies. Governance arrangements avoid that problem in the medium term. Localis also argue for a significant transfer of fiscal powers from UK and devolved government to local governments. We concur with that general policy thrust. The UK has one of the most centralised fiscal systems in the advanced economies, even allowing for current changes in the use of business rates. With reduced equalisation in local government finance transfers and falling mainstream capital programmes, the gap between tax revenues earned within localities and what is available to them to spend is, arguably, unduly large. This is a problem in the 'stifled' economies where the costs of growth occur locally but the fiscal revenues from growth accrue elsewhere. This penalises and congests towns in rural areas and there is no guarantee that revenues that have passed to Whitehall, or Holyrood, will be returned to pressured communities to meet infrastructure and housing demands. Until local government finance is reformed in the UK, town deals for housing and infrastructure for connections and services should be a key part of regional and local town policy. Currently, they are not. The UK could resolve the difficulties of the 'stifled' towns without significant (if any) additional public resources if it reconnected revenues, growth and the extraction of land development gains in coherent ways.

That still leaves the problems of the disadvantaged or ‘stuck’ towns. These involve much more difficult decisions for UK, devolved and local governments. Within the margins of the UK’s disadvantaged regions, whether in struggling coastal towns or still-shocked older industrial towns, it is likely that Brexit will, for the foreseeable future, lower incomes and lower levels of core public programme resources. Rickey and Houghton (2009), writing at a period when regional, city and neighbourhood renewal programmes were all still running strong, highlighted the challenges and policy opportunities facing England’s seaside towns. More recent studies suggest that these towns have subsequently prospered little. Some of these places, like many older industrial towns, are in economic terms, still declining. They will have neither the UK nor the local resources to recreate thriving economic bases. Through the long boom they did not escape their histories of industrial decline.

They will only be tolerable if UK and devolved levels of government will transfer resources to provide a decent minimum standard for those who have little or no employment and few resources. Of course, local economic development and other strategies should take opportunities that come their way but there should be an honest assessment of possibilities. Decline and disadvantage will be the continuing prospect of many towns and this will involve very different town strategies within disadvantaged regions. However, some places currently experiencing poorer outcomes may yet thrive.

9.3 Actions in Towns

The evolution of modern challenges in UK towns to 2028 will be in the context of difficult public and private resources and of rising global uncertainties and insecurities. Whether state action as a share of UK activity rises or falls it will almost certainly become more localised or devolved. Leaving aside the less noble propensity for governments to delegate responsibilities rather than devolve resources to local or city-region governments, it is likely that the UK will be forced to reorganise government structures and,

in effect, territorial management. At the local scale the formation of a coalition of interests to lobby for central resources will no longer be a coherent basis for actions when local actions will increasingly drive locally based fiscal resources. Bottom up government and governance decisions will have greater significance in driving outcomes. Regions, or city-regions, and towns will have to raise their game in designing and delivering economic development (inter alia), and this holds true regardless of Brexit.

Major initiatives for policies for towns can be cogently argued in a number of UK settings. For instance, the new ‘borderlands’ initiatives on the Scottish-English border will be an important test-bed for assessing new town ‘deal’ possibilities and similar initiatives on all the ‘border’ areas within the UK might make sense (and on the Northern Ireland-Ireland border too). The UK Government needs to urgently consider such issues with the devolved administrations and to also discuss with them transition funds post Brexit to allow coastal and historic towns to capture potential growth in the tourism sector. However, in concluding this report, we highlight the broad structure of desirable processes involved in towns policy (of governments) and town strategies (of individual places) applied generically to all the UK’s towns. Within the broad governance partnership arrangements set out above, and with a coherent ‘town deal’ in mind, the following actions need to be undertaken with the post-Brexit context in mind. Key actions include:

- National, devolved and local governments require a clear framing of the wellbeing challenges and opportunities facing regional sets of towns as well as specific towns, and have clear, evidenced logic chains for major policy action levers.
- The towns within a region or metropolitan area need to cooperate to establish a regional laboratory for town development policies that assess local economic systems, provide better local economic development databases, understand the trade and global connections of places within the region and review international practice in relation to town economic development experiences.

- Regions and towns need to Identify what drives successful town developments by identifying and reflecting on ‘What Works for Towns’.
- All levels of government need to implement regular monitoring of key aspects of the wellbeing of towns, with towns benchmarked with similar places within and across UK regions.
- At regional levels there needs to be development of town simulation models to inform economic decision taking and better prioritisation of local projects.
- National, devolved and local governments need to ensure that there are well developed capacities and partnerships for leading and delivering economic development working within regions and towns; at present local authorities are, with cuts to resources, having to sharply reduce analytical capabilities and often, with core protected services, cutback the ‘miscellaneous’ budgets that underpin their non-statutory roles: economic development staff and budgets fall within these categories and local authorities may be being forced to cut these capacities when they need them most.
- Local governments need to ensure that the right institutions, and not just partnerships, are in place to design and deliver local change (what roles are there for non-profits and development trusts, for example) and to help local communities own and manage assets.
- All levels of government, but starting from towns upwards, need to adopt a resolutely international/global approach to identifying trade/investment opportunities and policy approaches and to learn from best practice. For towns to improve their place in the world, they must understand what it is.

9.4 Last Words on a New Start

The Carnegie UK Trust have already published widely on economic and social actions to change towns for the better. Local authorities across the UK are actively involved in these efforts. The Welsh

Government have researched what shapes the successes of smaller towns and Localis have set out a bold agenda for changing the governance and performance of towns that has relevance across the UK. Governments in all parts of the UK have reviewed town strategies in recent years. However, there is not yet much sign of revitalised policies for towns and they remain much the junior partner in spatial policies as city-deals catch the public and political eye. Similarly, government investment is often at a community, sub-town level, leaving a policy and advocacy gap for the UK’s towns.

Brexit is likely to exacerbate the difficulties in disadvantaged towns, both by reducing employment and incomes and by more severely constraining policy resources. The discontent that drove the Brexit vote stemmed from the prolonged difficulties that town communities in growing and declining areas of Britain believed that they had endured for too long. Brexit, in our view, is not the solution to the difficulties in Britain’s towns. However, it should serve as a warning of the importance of and catalyst for developing better understanding and management of the Britain of towns that are home to a third of the population. For they appear to have individual and collective aspirations, memories, hopes, beliefs and needs that seem to differ significantly from those of metropolitan Britain.



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