



# BREXIT BRITAIN



# Executive Summary

## Towards a better deal for local government



On June 23 2016, Britain voted to leave the European Union, a decision that will have a significant and lasting impact on the future of local areas across Britain.

SIGOMA areas, among the most deprived in the country, opted overwhelmingly to leave in what was widely seen as a vote of disaffection with a status quo that left them behind.

While a range of factors influenced the outcome of the referendum, the strong relationship between areas with the most significant barriers to employment and the leave vote appears to bear this out.

Initial impact assessments conducted by the Government and other respected institutions suggest that all 'off-the-shelf' Brexit scenarios will have a net negative impact on medium-term growth.<sup>[1]</sup>

The Government's initial analysis also suggests that Brexit will have an unbalanced regional and sectoral impact. This could mean areas like the North East and other goods dependent economies, which tend to be more common in SIGOMA areas, may be hardest hit.<sup>[2]</sup>

At the same time, leaving the union will result in the loss of EU structural investment, which was previously allocated to support economic regeneration in some of the most deprived parts of the country.

Those who voted to leave the EU were promised greater economic prosperity, more money for vital public services and a greater say in their future. Whatever the final impact of Brexit may be, these promises must be honoured.<sup>[3]</sup>

Despite calls from the LGA and other groups within local government, councils and other local representatives such as city region mayors do not appear to have a strong enough say in the Brexit negotiations or access to central government's modelling or impact assessments.

Local government having a meaningful voice, both during negotiations and as our country adapts to the impacts and opportunities of Brexit, will be essential; not only to reflect the interests and concerns of those who felt so disenfranchised by 'politics as usual' but also simply to ensure informed local planning moving forward.

Government must therefore address the underlying feelings of disaffection that influenced Brexit. This means giving local government a meaningful say on their negotiating position, investing in regional rebalancing, increasing funding for public services and devolving the powers and funding necessary to give local areas more direct control over their political and economic future.

**Sir Stephen Houghton CBE, SIGOMA Chairman**

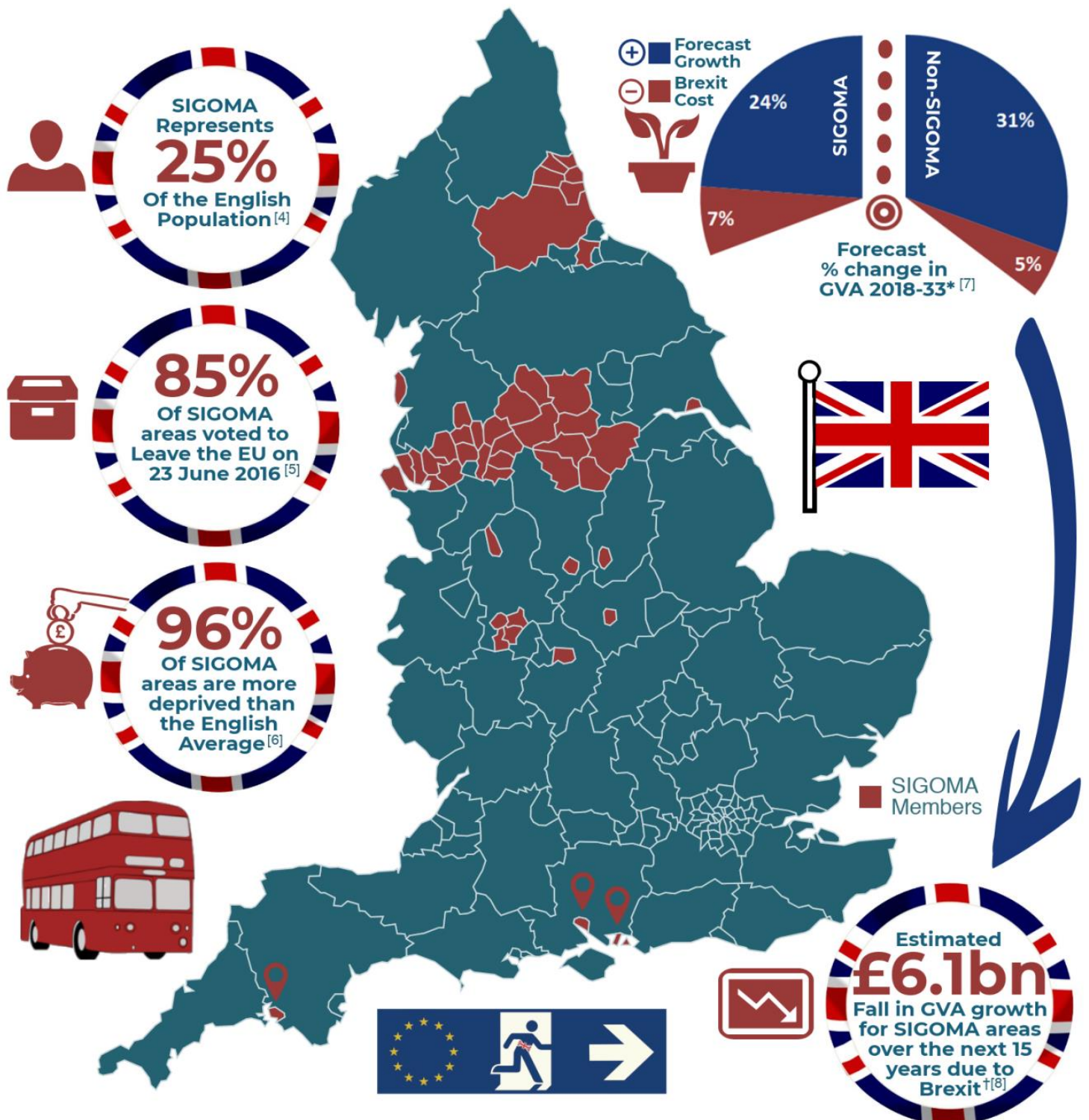


# Brexit & SIGOMA

The Special Interest Group of Municipal Authorities



SIGOMA is a campaigning network of urban authorities representing 46 councils across the northern, midland and south coastal regions of England. The areas our members represent face high levels of deprivation and voted strongly in favour of leaving the EU. They may also be among the most exposed to any negative economic consequences of Brexit.



\*According to SIGOMA analysis of provisional government estimates. NB: This is intended as an illustration only, not a prediction or robust forecast. For details, please see references section.  
 † Ibid. (Gross Value Added measures the contribution to the economy of each individual producer, industry or sector and can be used as an indicator of economic growth at a local-level)

# A Vote of Disaffection

What influenced the British public to vote leave?



## Unbalanced economy & unequal opportunity

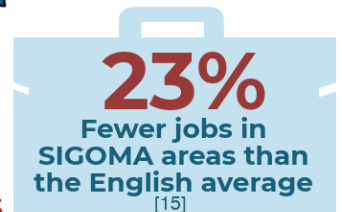
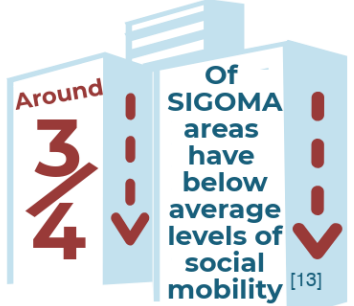
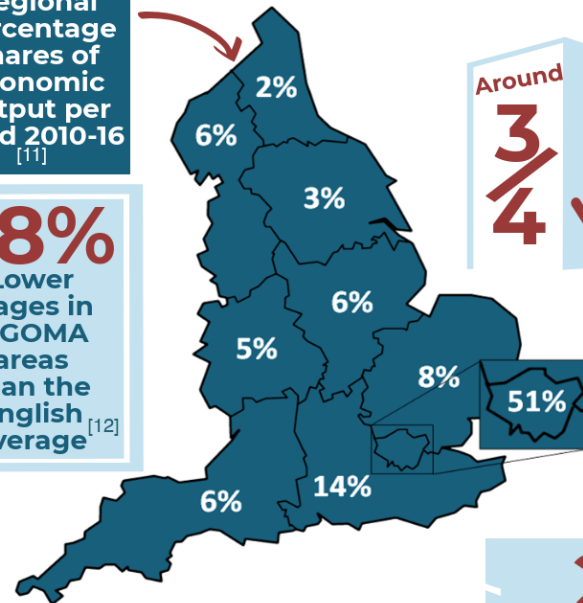
The UK is reportedly the most geographically unbalanced economy in Europe and analysis of Gross Value Added per head supports this picture at an English level.<sup>[9]</sup>

London makes up more than half of the country's total economic output. This makes England dangerously reliant on the capital. It also drains talent from other urban economic hubs, damaging local skills bases elsewhere, along with areas' appeal to business and investors.<sup>[10]</sup>

Despite investing heavily in areas like education, skills and business support, this puts SIGOMA areas at a significant disadvantage.

Regional percentage shares of economic output per head 2010-16<sup>[11]</sup>

**18%** Lower wages in SIGOMA areas than the English average<sup>[12]</sup>



"For too long, economic growth ... has been too concentrated in London and the South East."<sup>[14]</sup>  
Philip Hammond, Chancellor, 2016

## Rejection of the status quo by those left behind

"There was a sense that Westminster and Brussels combined worked better for some areas than it did for others. I think that sentiment came through at the referendum." Andy Burnham, Mayor of Greater Manchester<sup>[16]</sup>

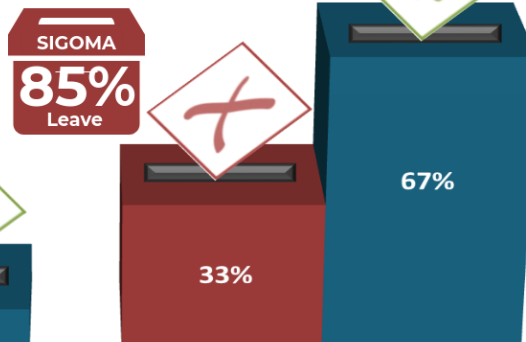
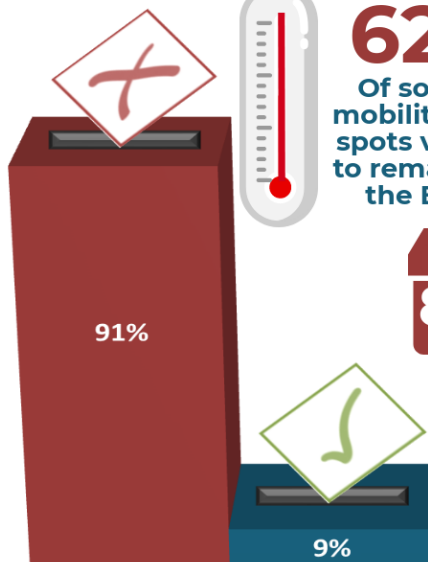


**92%** Of social mobility cold spots voted to leave the EU<sup>[17]</sup>

While no one factor can explain the outcome of the referendum, economic challenges appear to have had a significant impact. Outside London, the 10% of councils with the biggest barriers to employment voted strongly to leave the EU, while the majority of the 10% with the lowest barriers to employment voted to remain. Similarly, analysis of the referendum result and Social Mobility Index data shows that a significant majority of the most socially mobile areas across the whole country voted to remain, while an overwhelming majority of those with the fewest employment opportunities voted to leave.



**62%** Of social mobility hot spots voted to remain in the EU\*



\*Derived from 2017 Social Mobility Index. † Hot spots and cold spots refer to Social Mobility Commission analysis, roughly corresponding to the top and bottom 20% of areas, ranked by measures of the opportunities they provide during all stages of life.  
†Corresponding respectively to the highest and lowest 'employment deprivation' deciles (excluding London Boroughs) by 'average score', according to MHCLG's Index of Multiple Deprivation

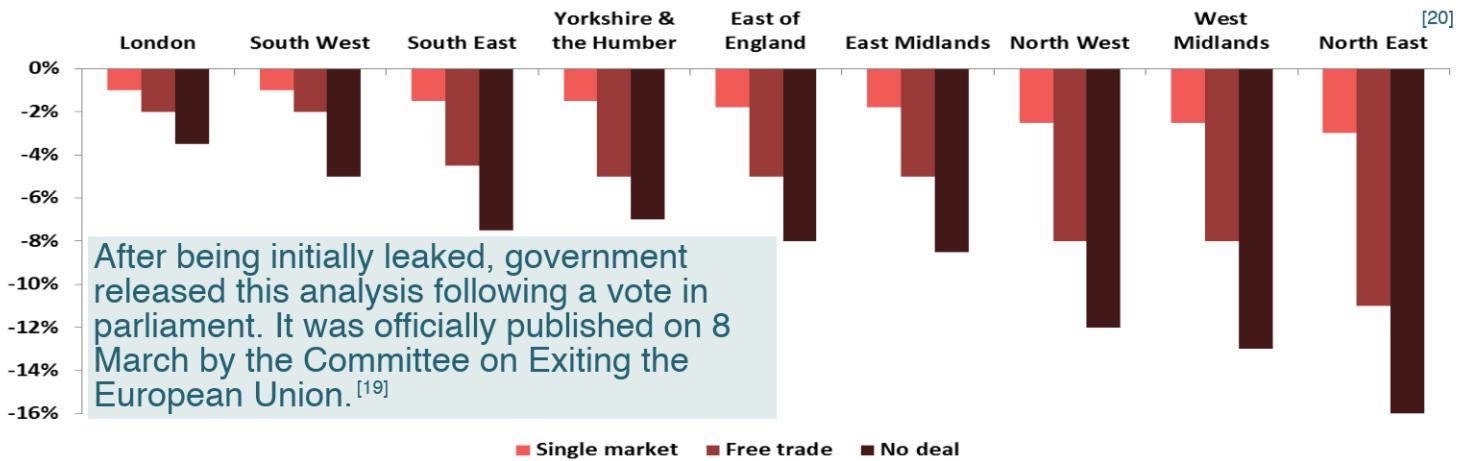
# Assessing the Impact

What does Brexit mean for us locally?



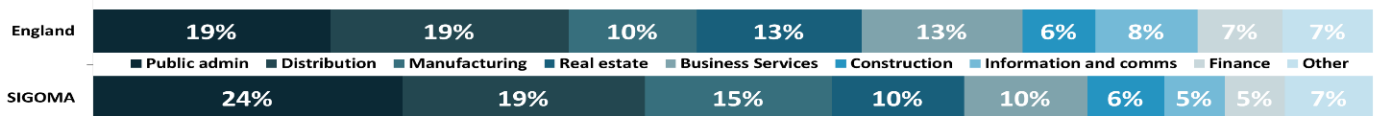
According to the Government's EU exit analysis of January 2018, the geographical impact of Brexit could be greater in areas that are "more exposed to the change in trade barriers" because of their "export composition", meaning economies that rely more on goods than services may see a greater negative impact. It also suggests that areas with "a higher dependence on exports" may be more adversely affected. In addition to this, any overall drop in growth may translate into further cuts to council funding, affecting service quality and the availability public sector jobs. In short, some areas could be much harder hit than others. <sup>[19]</sup>

## Long-term post-brexit fall in GVA growth relative to underlying output



While it is important that impact assessments that may prejudice the UK's chances for a good deal are tightly controlled, a consequence of the secrecy surrounding the Brexit negotiations is that councils remain almost entirely in the dark when it comes to its likely local impact.

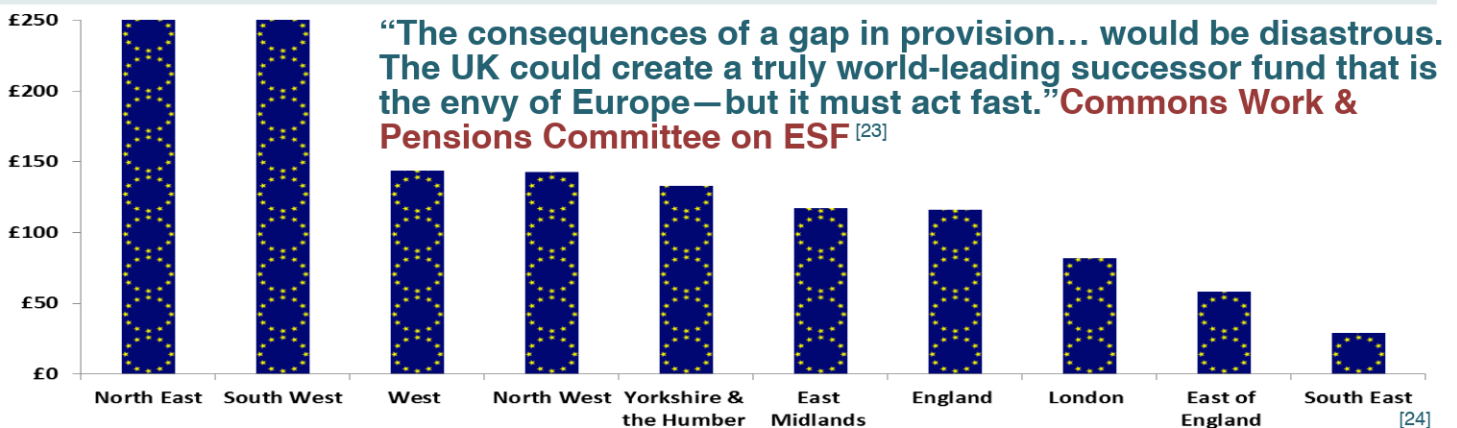
## Average sectoral composition of SIGOMA areas relative to the English average



Between 2010 and 2015, 58% of GVA in SIGOMA areas was comprised of just 3 sectors. <sup>[21]</sup>

## EU Structural Investment (ESF & ERDF) 2014-2020, pounds per head

Local areas stand to lose out on up to £8.4bn of EU Structural investment when we leave the EU. During the 2014-20 investment round, LEPs in SIGOMA areas received over £1bn. <sup>[22]</sup>



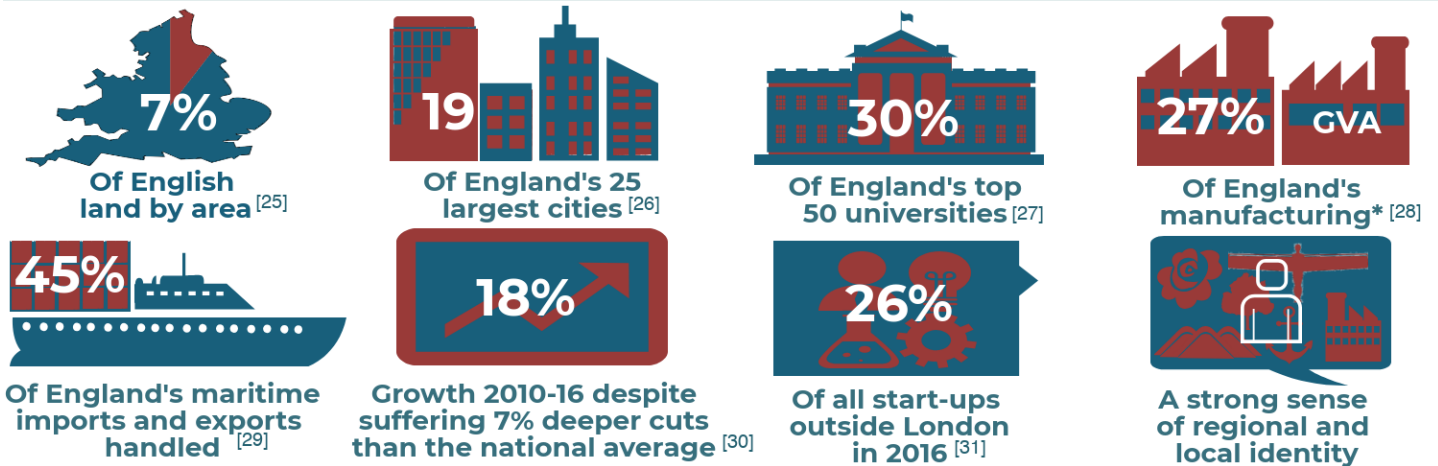
# Seizing the Opportunity

How can we build a better Britain?



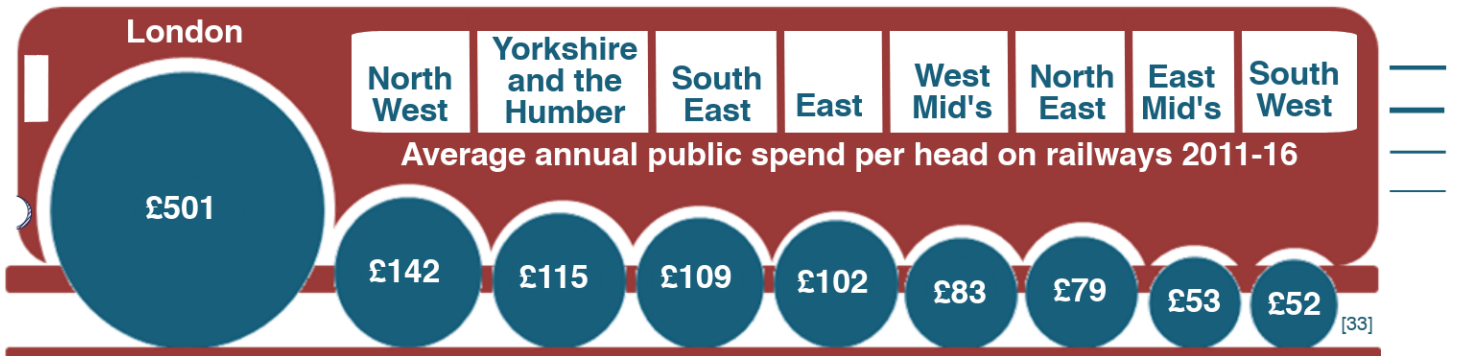
## Unparalleled potential

Despite suffering from high levels of deprivation and other significant obstacles to growth and productivity, SIGOMA areas are reinventing their economies and driving forward successful inclusive growth strategies based on big ideas and strong community identity.



**"Increased investment in... local infrastructure across the UK is fundamental to increasing productivity and economic growth." Economic & Social Research Council <sup>[32]</sup>**

## Underfunded economic infrastructure



With the right combination of devolved powers and investment, the urban areas SIGOMA represent could become one of England's most significant drivers of economic growth. But investment in all regions outside London must be increased to enhance this growth potential.

## Regional rebalancing



If GVA in SIGOMA areas were brought up to the national average, it could equate to a total boost to the national economy of £37bn over the next 15 years, or a 6% boost to forecast national growth. Balanced central investment will be vital if we are to achieve this ambition. <sup>[34]</sup>

\*Based on average GVA output 2010-2016, £m.

# Driving Devolution

Could Brexit catalyse a new wave of localism?



## Progress so far

The UK is currently the most centralised member of the G7 but our withdrawal from the EU presents the perfect opportunity to do things differently.\* <sup>[35]</sup>

Brexit was a vote of disaffection with a status quo that failed ordinary people. Devolving decision making closer to the people could begin to address this sense of disillusionment.

In England, devolution began in earnest in 2000 with the creation of the London Assembly. Greater Manchester gained new powers in 2014. By 2016, nine more city regions followed. <sup>[36]</sup>

However, negotiations were conducted in secret, without a common framework or timetable. This has led to criticisms of a centrist agenda, created uncertainty and stalled progress. <sup>[37]</sup>

“Brexit... was [an] expression of the diverse experiences and economic trajectories of places in Britain... not just a protest... but... a wakeup call.” **New Local Government Network** <sup>[38]</sup>



“If we want to take back control, we should bring powers not just from Brussels to London but from London back to our regions.” **Northern Powerhouse Minister, Jake Berry** <sup>[39]</sup>

## Why devolve?



**Take back control** – Brexit was a backlash against the idea that decision making was too remote. Devolving new powers could drive an optimistic sense of local agency.



**Increase efficiency** – Councils cost you less. After facing 49% real terms cuts, local government has proven to be the most resilient tier of government and provide the best value for money.



**Drive inclusive growth** – Local leaders are best placed to liaise with business, identify obstacles to growth, build on local strengths and unlock the full potential of their communities.



**Attract investment** – Local mayors are well placed to become figureheads of local economies and could become crucial to attracting international investment post-Brexit.



**Respond to local concerns** – Too many policies are made centrally without a full appreciation of their impact on communities. Local government is best positioned to assess the full range of local impacts.

## No new burdens without fair funding

“Local economic leadership... drove the UK to the forefront of the world economy.” **Lord Heseltine** <sup>[39]</sup>

But long term centralisation and the austerity of recent years have stifled its potential to drive growth.

**49%** **Real-terms reduction in government funding for local authorities, 2011-18** <sup>[40]</sup>

**75%** **Retention of Business Rates by councils from 2020-21 (fiscally neutral)** <sup>[41]</sup>

**£5.8 bn** **Total local government funding gap by 2020** <sup>[42]</sup>

**£6.5 bn** **Of business rates, yet to be retained by councils, could wipe out this gap** <sup>[43]</sup>

By allowing councils to move to 100% business rates retention with no new burdens, Government could give local authorities the tools to help drive confidence, growth and investment once again.

\*According to the Institute of Economic Affairs, as measured by the proportion of revenue raised by sub-central government.

# Taking Back Control

Giving local government the tools to support a better Brexit



While it is impossible to determine the kind of Brexit the majority of the British public would favour, what is certain is that no one voted for fewer jobs and worse employment prospects; no one voted for a worse economic future for their region or local community. The Government must therefore:



**Give local government a meaningful say** – Government must urgently formalise a new framework of engagement with local government so that the interests of all English regions are equally and transparently represented.



**Invest in a shared prosperity fund to match EU investment lost** – Government must honour its manifesto pledge to create a shared prosperity fund to replace EU structural investment. This must total at least the £8.4bn lost and match the rate of increase of its EU equivalent thereafter.



**Ensure this fund continues to focus on economic regeneration** – EU structural investment was used to stimulate business and employment growth in deprived areas. The new fund must share this vision, meeting the Government's manifesto pledge to reduce inequalities between communities.



**Share the latest regional & local-level assessments with the sector** – Local leaders must be made privy to any subsequent local-level Government impact assessments at the earliest opportunity in order to help them plan for any potential impact Brexit may have on local economies.



**Ensure the final deal fairly balances local impacts & opportunities** – Government must account for the varying sectoral composition of regional economies across the country, ensuring councils are funded to support any area or community that might experience disproportionate hardships.



**Fully fund services to shore up the sector** – Government must urgently plug the £5.8bn funding gap councils face by 2020 in order to ensure they have the flexibility to meet the challenges and take advantage of the opportunities posed by Brexit while maintaining vital services.



**Balance investment in key economic infrastructure** – With left-behind communities sending a decisive message that decades of economic growth had failed to reach them, unbalanced investment in transport and other key economic infrastructure cannot be allowed to continue.



**Devolve powers & funding to help local areas “take back control”** – Control must not be ceded from Brussels only to be hoarded in Westminster. Local government must be given the powers and funding necessary to meet local priorities in areas like transport, skills and housing.

**Let's secure a balanced Brexit and build a better, fairer Britain.**

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# References

## Endnotes to the SIGOMA booklet Brexit Britain



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- [3] [www.voteleavetakecontrol.org](http://www.voteleavetakecontrol.org)
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- [5] SIGOMA analysis of Electoral Commission (2016)., EU referendum results, ([www.electoralcommission.org.uk](http://www.electoralcommission.org.uk))
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- [7] SIGOMA analysis of ONS (March 2017)., Regional gross value added (balanced) by local authority in the UK & House of Commons Exiting the European Union Committee (Jan 2018)., EU Exit Analysis Cross Whitehall Briefing p16&23
- Methodological note: This analysis is based on provisional government analysis which itself comes with a number of important caveats. To arrive at these estimates, gross value added for each local authority was forecast forward for 2018-33 using data from the last 15 years to predict its likely trajectory (assumption 1: underlying growth will be linear, comparable to previous years). The total increase in GVA between 2018 and 2033 was calculated. The Government's predicted regional impacts were applied to this 15 year forward view of local authority level increases in GVA (assumption 2: the government's regional level GVA impact chart on p23 pertains to a 15 year period comparable to its national GDP impact chart on p16; assumption 3: regional level impacts will be broadly indicative of local authority level impacts; assumption 4: % reductions due to Brexit are applicable to GVA growth, not GVA itself - since the wording of the charts on which this analysis is based is slightly ambiguous, we have opted for this approach since it results in the lower and therefore more generous reduction).
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- 85% of London Boroughs voted to remain. They therefore appear to buck the otherwise strong national trend of more deprived areas tending to vote leave. This may be because, despite some areas suffering from levels of employment deprivation comparable to the rest of the country, 91% of London Boroughs fall within the highest quartile of the social mobility index (classified as 'hot spots' for opportunity).
- [19] Committee on Exiting the European Union (March 2018)., Government Brexit analysis material published & House of Commons Exiting the European Union Committee (Jan 2018)., EU Exit Analysis Cross Whitehall Briefing p23
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- [42] LGA (Nov 2017)., LGA responds to Autumn Budget 2017
- [43] LGA (Jun 2016)., Don't be Left in the Dark: What localised business rates mean for your council, p5 (1/2 of the £13bn - additional 50% - the OBR estimated councils would retain by 2020-21 under 100% business rates retention)