

Written evidence submitted by the Centre for Towns (PEG0064)

The Centre for Towns is an independent non-partisan organisation dedicated to providing research and analysis of our towns. Whilst our cities receive a good deal of attention, we believe that there should be equal attention paid to the viability and prosperity of our towns.

Introduction

The Centre for Towns (CFT) welcomes this opportunity to make a submission to the BEIS Select Committee's Inquiry into Post-Pandemic Growth in the UK. Many of our towns entered the pandemic already weakened by decades of under-investment and disinterest from governments of all parties and disadvantaged by the adoption of economic development policies based on agglomeration. This approach has failed *both* our cities (soaring house prices, air pollution, congestion and inequality) and our towns (socio-economic decline, political disaffection and anger).

We welcome the promise offered by "levelling up" of an increased focus on the economic and social challenges facing towns. However, if we revert to the historic approach to economic policy, the shock caused by COVID-19 and the response to it are likely to exacerbate existing weaknesses. The experience of lockdown has shown that there are alternative ways of organising economic and social activity. We must take this unique opportunity to change. The policy response must therefore be innovative and future looking and significantly stronger than envisaged only a few months ago with a disproportionate level of resource allocated to improve the situation of the UK's towns.

This submission presents our answers to the key questions. As some of the questions overlap with others, we have ordered and grouped our answers where appropriate.

What opportunities does this provide to reset the economy to drive forward progress on broader Government priorities, including (but not limited to) Net Zero, the UK outside of the EU and the "levelling up" agenda? What should the Government do to ensure that delivering on these priorities does not exacerbate the vulnerability of businesses, consumers and communities/workers that have been impacted by COVID-19?

The COVID-19 pandemic has delivered a shock to the whole UK economy and society that is unprecedented in both scale and speed of impact. However, our research[1], consistent with that undertaken by other organisations, clearly demonstrates that the UK's towns have on average been hit harder than the larger cities.

This reflects the failure over several decades to address the economic and social challenges in the UK's towns. Towns have grown much older in recent decades whilst our cities have grown much younger (2). Many of our towns, particularly in ex-industrial and coastal areas, have suffered a long period of decline which has long predated COVID-19. Many of our towns are deprived across multiple measures[3], some of which interact with each other to multiply the effect.

Historic policy failures are not the only reason why towns have been hit relatively hard. The impact of COVID-19 varies according to the economic structure of a location. 56% of employment in Newquay and 55% in Skegness is in sectors greatly impacted by the pandemic[4]. In contrast, a greater share of economic activity in cities is in sectors such as professional and financial services and information technology that have been able to move a large part of their activity online, significantly reducing the impact of lockdown. As a result, it is unsurprising that the largest cities in each region and Devolved Administration of the UK are forecast to grow faster than the average for their geographic area over the next 3 years while towns and smaller places will grow more slowly than the regional average[5].

Despite this challenging situation, there is real opportunity. The forced lockdown of the economy has shown us that we have choices as to how we organise and balance work, education and home life. In recent times, UK economic policy has primarily been based on seeking to realise the presumed benefits of *agglomeration* – the process of seeking to attract ever greater numbers of businesses and people into city centres to drive collaboration and innovation. Belief in agglomeration has been unwavering despite the disappointing growth and productivity performance of the UK and the continuing existence of inequalities in incomes and across geographic areas.

The COVID-19 lockdown has demonstrated that agglomeration has costs as well as benefits. With city centres less busy and commuter traffic lower, the levels of emissions and pollution in urban areas have fallen significantly. Many workers, predominantly in the services' sectors, who have transferred to remote working have been able to dedicate more time to their families or to pursue other interests or to improve their physical and mental wellbeing. In addition, activity in high streets outside of the major cities has fallen less than in city centres as people have engaged more in their local areas.

These changes appear likely to outlast lockdown. Research has identified that 46% of people expect to work more from home in future, 36% expect to travel less for work and 32% aspire to have a better work-life balance. Further, 64% of consumers plan to shop less frequently, consolidating trips and doing 30% more of their purchasing online and 56% of people expect to take less flights[6].

In the five years to 2018, a million people emigrated from London, half of which located themselves within easy commuting distance of the city. COVID-19 appears likely to accelerate this process and we are beginning to see this pattern repeated across the UK. However, we are concerned that whilst such processes may work for places within easy commuting distance of a major city, much of the United Kingdom is covered by relatively isolated small to medium sized towns in places like North and Mid Wales, Cumbria and the north of England, and much of the South West.

Experience during the lockdown response to COVID-19 has shown people that changing the balance of activity could have positive long-term impacts on their lifestyles. While changing both the economic outlook for the places they live and work in and the way they impact the environment. We must seize this opportunity for change. All of our research supports our view that rebalancing the UK economy geographically is the approach that has the greatest potential to help the UK economy recover, maximise the potential of the whole population wherever people live and increase the rate of long-term growth, while moving to "Net Zero".

The post-pandemic recovery strategy should recognise that there is no single solution that works for all places of the UK. Agglomeration will generate benefits for some sectors and places, but we also need to be flexible and willing to embrace a range of approaches that are designed to build on the strengths and opportunities of individual locations and specific sectors.

What core principles should the Government adopt/prioritise in its recovery package, and why?

Given the complexity of the challenges raised above, a core principle behind the Government's approach to recovery should be the creation of bespoke recovery plans specific to local communities and not a top-down 'we know best' response from Whitehall. Recovery plans must be reflexive and adaptive as conditions change in places. This can only happen through the medium of local recovery plans.

A second principle must be the inclusion of local people in those communities in the recovery plans themselves. People in towns and cities are our greatest resource in any recovery plan. Where people and organisations have come together, for example in the Wigan Deal, any recovery plan is both much more likely to work and receive the consent of the people affected.

Third, resilience should be another core principle. Many of our towns face such an existential crisis that simply achieving stability now and resilience for the future would be significant steps forward. Investment decisions must recognise how projects secure the future resilience of a place.

Fourth, the recovery plan must avoid the temptation to sacrifice the long-term goals for “quick wins” with regards to the recovery by giving the green light to “shovel-ready” projects which are disproportionately found in our major cities.

What measures and support will businesses need to rebuild consumer confidence and stimulate growth that is sustainable, economically and environmentally?

The scale of the pandemic and the associated measures to manage it have had a significant impact on consumer confidence [7]. The priority is to provide consumers (and workers) with the maximum amount of confidence in the arrangements for travel, working, shopping and other activities. If people feel safe, they are more likely to spend closer to the pre-pandemic levels. The Government must work with industry groups and local bodies to ensure that the most effective safety regime possible is put in place to minimise the risks.

Travelling to work appears to be a significant concern. Government should therefore consider actively promoting more home working. Existing support for homeworking such as tax incentives could be expanded and improved upon. Homeworking requires secure and fast broadband connectivity. Government is already investing heavily in broadband infrastructure. However, coverage is still variable as we have shown[8].

As people become more confident that the risks to their health are being managed effectively, it is likely that worries over their economic circumstances will increase in significance. Strengthening local economies offers the double benefit of building economic confidence while reducing the risks associated with travelling longer distances to work.

As many high street businesses have been closed throughout the lockdown, the impact of COVID-19 is likely to be profound and long-lasting. Lockdown has increased awareness of the importance of local high streets and policy should seek to build on this with reviews of rates, planning rules and the treatment of the online economy. Business owners on our high streets are best placed to provide the solutions to the challenges they face and policy should seek to empower and support them to do so.

Whether the Government should prioritise certain sectors within its recovery package, and if so, what criteria should it use when making such decisions? What conditions, if any, should it attach to future support?

Smaller and more remote places in the UK are typically relatively more reliant than cities and larger towns on sectors that have been hit hardest by lockdown. Hospitality together with the arts and recreation sector tend to be relatively large employers especially in smaller and more remote places such as coastal towns. But it is not solely about jobs, the quality and quantity of hospitality and the arts provision have a significant impact on the attractiveness of places, providing essential services to residents, visitors and businesses.

The Government has introduced a cut in VAT and other measures to provide short-term support to the hospitality and arts and recreation sectors, but there is a need for a plan to drive recovery and sustainability. Government should consider sector initiatives offering:

- Subsidised Financing for investment to upgrade and modernise facilities;
- Marketing support to encourage people to use and visit facilities.

How can the Government best retain key skills and reskill and upskill the UK workforce to support the recovery and sustainable growth?

The Institute for Fiscal Studies found that employees aged under 25 were about two and a half times as likely to work in a sector that was shut down as other employees. In addition, our university sector is facing unprecedented financial pressures related to COVID-19. The current generation of 18 to 24 year olds face a unique combination of negative scenarios and must be shielded from the worst effects of COVID-19.

There is an opportunity to reset investment in skills across the board. Apprenticeships have a mixed recent record. What we desperately need are apprenticeships which lead to secure, well-paid employment. Simply completing an apprenticeship is not enough unless it leads to a good job at the end. Also, the geography of apprenticeships is important as joblessness in towns has often motivated young people to seek employment in cities elsewhere. Place-based apprenticeship zones in the digital sector or the green economy with the prospect of real jobs are one way to meet the challenges facing our towns. Our data has shown that there are significant educational and skills gaps in many coastal and ex-industrial towns where large proportions of the population have no qualifications. Targeted intervention allied to the prospect of good jobs must be at the heart of our recovery.

The Government and university sector have roles to play. First, universities themselves could establish specialist campuses in towns away from the university home. Second, the provision of distance-learning and online education could be expanded further in the wake of COVID-19. Third, by revisiting tuition fees and bursaries the Government could re-ignite the demand for university, technical and vocational skills training.

What lessons should the Government learn from the pandemic about actions required to improve the UK's resilience to future external shocks (including – but not limited to – health, financial, domestic and global supply chains and climate crises)? What opportunities exist for the UK economy post Brexit and the pandemic for export growth?

The UK is one of the most open economies in the world while UK businesses have offshored a greater share of industrial activity than their peers.[9] with little consideration of the potential risks that ceding control on such a scale might have. The pandemic has demonstrated that relying on just in time, global supply chains that are controlled outside of the UK is not risk free and that a lack of ability to direct resources is potentially a strategic weakness. These shifts have also led to the loss of manufacturing jobs primarily in towns and smaller places across the UK. Policy has failed to smooth the adjustment process, a major factor in the growth in geographic imbalances in the UK.

We have yet to see evidence that persuades us that exports from towns will benefit from Brexit. We also worry that FDI may also be negatively impacted. Our research with EY[10] found the UK share of European FDI in manufacturing has fallen from 11.8% in 2016 to 7.8% in 2019 with investors citing concerns over the arrangements for UK-EU trade in future as a major factor. The greater importance of manufacturing in economic activity in towns means that the UK's decision to leave the European Union is likely to hit towns harder than cities.

A post-pandemic opportunity to *Re-shore* production to the UK exists. The drivers of this include: the desire for more resilience in the UK economy; concerns over globalisation; the increasing importance of technology on production costs, reducing attractiveness of low labour cost destinations; and worries over the impact of global supply chains on the environment and sustainability.

Alongside a reshoring drive, the UK should pursue "Homeshoring". Identifying activity that could be retained in the UK if the appropriate infrastructure, skills and incentives are available. Together these opportunities offer has the potential to contribute to achieving net zero by reducing the transport element of trade and to support "levelling up" as the manufacturing activity is likely to be based predominantly in towns and smaller.

Is the Industrial Strategy still a relevant and appropriate vehicle through which to deliver post-pandemic growth?

The pandemic has highlighted the UK's failure to develop a coherent strategy for manufacturing over the last 4 decades. The existing Industrial Strategy is a centrally led initiative that is not well understood by either businesses or investors.

The UK does need an Industrial Strategy, but this must be based on a national view that has been built up from analysis of opportunities and capabilities at the local and sector level. Sector priorities should reflect the analysis of global trends but adapted to reflect the UK's circumstances and objectives such as "levelling up" and achieving net zero.

The new strategy must articulate how the UK will ensure the benefits of our leadership in digital will be shared across the country. Our research (11) demonstrated how skewed to the South East that the distribution of digital jobs is and "levelling up" requires policy is designed to change this.

How should regional and local government in England (including the role of powerhouses, LEPs and growth hubs, mayoralities, and councils) be reformed and better equipped to deliver growth locally?

UK economic policy has been based to a significant extent in recent times on seeking to realise the presumed benefits of *agglomeration*. Recent policy initiatives to rebalance the economy and evolve power have somewhat paradoxically been city-centric in nature: city-region deals; the Northern Powerhouse; the Midlands Engine.

There are reasons to believe that city-regions have been much more about the 'city' than the 'region'. Within city-regions, the city has often outpaced surrounding towns in economic growth and investment, further reinforcing large disparities between successful cities and declining towns. Young people gravitate to cities creating a surfeit of better-skilled young people in cities and a pool of young people in towns competing for poorly-paid insecure employment. This has to change.

The process for developing and managing the post-pandemic recovery strategy will be an important influence on the chances of success. Future policy must be "bottom up" in design but managed nationally for consistency.

To this end, we believe the role of the LEPs must come under much greater scrutiny. The Public Accounts Committee has already demanded a much greater level of scrutiny and transparency from LEPs. We believe the money currently going to LEPs should be handed over to local councils and the roles of the LEP subsumed within local government. Democratic oversight and accountability must accompany the level of money currently committed to the LEPs.

Finally, there is a desperate need for current devolution settlements to be rationalised. At present we have a fairly random set of powers and responsibilities across England. Local authorities, LEPs, city-regions and Whitehall hold a confusing range of powers and responsibilities. Large parts of the country have little if any power over their own future whilst some have greater power but fewer resources.

What role might Government play as a shareholder or investor in businesses post-pandemic and how this should be governed, actioned and held to account? How can the Government borrow/and or invest to help the UK deliver on these principles?

The Government's necessary moves to protect the economy have been very important in preserving economic capacity, but they have come at a significant cost. Government debt has increased and will continue to do so. Future policy will need to consider how to manage this higher burden of debt without jeopardising the recovery. The lesson from 2008 onwards is clear: seeking to reduce debt levels too soon will slow the recovery.

The UK Government has been able to borrow at competitive and historically low rates for over a decade. This provides the opportunity to invest in projects that have an economic return significantly in excess of the cost of borrowing. The evidence[12] suggests that capital has not necessarily been invested in the most economically advantageous projects with many places in the UK missing out on economically attractive projects. Future investment should be based on the analysis of the economic and social situation in all parts of the country.

Government should seek to use its opportunity to borrow at competitive, long-term rates to create an investment pool that it makes available to the country. Wherever possible, the approach should be to devolve the analysis of projects and the investment decisions to the lowest level that makes sense for the nature of the investment being considered.

Providing resources offers an opportunity for Government to place conditions, in the form of obligations, on the businesses and organisations receiving support. These conditions could include support for “levelling up” and achieving net zero to ensure the Government’s policy priorities as well as requirements to ensure fair treatment of all stakeholders through obligations on worker pay and conditions and on the monitoring of supply chains end to end.

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[1] Centre For Towns (2020), ‘COVID-19 and our Towns’, <https://www.centrefortowns.org/reports/covid-19-and-our-towns>

[2] Centre for Towns. (2018). The Ageing of our Towns. Bolton: Centre for Towns.
<https://www.centrefortowns.org/reports/the-ageing-of-our-towns>

[3] Centre For Towns (2020), ‘COVID-19 and our Towns’, <https://www.centrefortowns.org/reports/covid-19-and-our-towns>

[4] Centre For Towns (2020), ‘COVID-19 and our Towns’, <https://www.centrefortowns.org/reports/covid-19-and-our-towns>

[5] EY ITEM Club Webcast, ey.com 11th June 2020

[6] EY Future Consumer Index, May 2020

[7] GFK, UK Consumer Confidence, April 2020

[8] Centre For Towns (2018), Broadband access and connectivity in our towns,
<https://www.centrefortowns.org/blog/29-the-data-shed>

[9] EY Reshoring

[10] Centre For Towns and Ernst & Young (2020), ‘Trends in FDI in Great Britain’s Towns’,
<https://www.centrefortowns.org/reports/foreign-direct-investment>

[11] Centre For Towns (2019), ‘Digital Briefing: The digital sector in our towns and cities’,
<https://www.centrefortowns.org/reports/digital-briefing>

[12] Diane Coyle and Marianne Sensier; The agglomeration bias in HM Treasury Green Book appraisals