



EU REFERENDUM SPECIAL

Implications of Brexit for Town & City Centres Across the UK & ROI

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ABOUT THE ATCM

The Association of Town & City Management (ATCM) is a not-for-profit membership organisation dedicated to promoting the vitality and viability of town and city centres. Our membership includes around 400 town and city centre management practitioners and active initiatives. The majority of these function as partnerships, some with several hundred contributing members. They develop and implement shared visions, strategies and action plans for a total of more than 700 district, town and city centres throughout the UK and Ireland. ATCM has been operating for 25 years and can offer a significant body of experience in the field of place management.

ATCM's membership is diverse, consisting of local authorities, Business Improvement Districts (BIDs), Community Interest Companies (CICs), Town Teams, planners and more. They span across the private, public and voluntary sectors and, as a collective, do not have a sector specific agenda. Instead they are focused on the promotion of healthy places for the benefit of all stakeholders.

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1. INTRODUCTION

On the 23rd June 2016, the UK will go to the polls to vote on whether to stay in the European Union. A vote to leave will mean the UK will no longer be categorised as a member-state within the EU, fundamentally altering its relationship with the continent.

So far, it has been extremely difficult to obtain objective information on the consequences of a UK departure from the Union, so polarised are the views of those campaigning on this issue. Furthermore, little has been said about the impact on town and city centres specifically across the UK.

This document by ATCM is an attempt to fill this void for members ahead of the referendum. It begins by outlining the process that will be undertaken should the UK vote to leave, something which underlines the uncertainty of 'Brexit'. With a view to bringing together a number of complex issues, we then provide analysis on 4 key themes based on the limited information available.

This briefing paper also applies to ATCM's members in Ireland who, although have no vote in this referendum, will be influenced greatly both positively and negatively by the outcome. Where possible, we will highlight the consequences for specific areas in the UK and Ireland as it is very unlikely a departure from the EU will have a uniform impact on all towns and cities.

2. WHAT HAPPENS IF WE VOTE TO LEAVE

Key Highlights

To leave the EU, the UK must trigger Article 50 of the 'Treaty of the European Union'. Membership of the EU will cease a minimum of 2 years following this. Article 50 has never been used before.

Withdrawal means the UK will:

- No longer have representation in the European Parliament.
- Have to scrap all existing trade deals with the EU and non-EU states and renegotiate each from scratch.
- Have limited or no access to the Single Market (depending on the result of negotiations).
- No longer be subject to EU law.
- No longer have to permit the free movement of EU citizens.

Understanding what happens should the UK vote to leave is essential to understanding why there is so much uncertainty around the process of withdrawal. According to a paper from the Foreign and Commonwealth Office, a vote to leave would result in the UK Government triggering 'Article 50' of the Treaty of the European Union. This is the only lawful route to withdrawing from the EU. It has never been used before.

The triggering of Article 50 appears to be the only certainty according to the Foreign and Commonwealth Office. Following this, the UK will remain part of the EU for a minimum two years before it is officially withdrawn. It is during this period on which so much rests as the UK will have to negotiate what relationship it has with the Union. It means negotiating with 27 member-states through the European Commission (EC). The UK could request additional time for the necessary agreements to be put in place but this would require the unanimous agreement of all other 27 member-states and is by no means guaranteed.

Once this two year period has elapsed, the UK would no longer have representation in European Parliament, would likely have no access to the Single

Market, would no longer be able to capitalise on trade deals negotiated between the EU and non-EU states, and would no longer be required to permit the free movement of EU citizens. This is where the uncertainty starts, because there is no way of guessing what deals might be successfully negotiated between the EU and the UK in the aftermath of a withdrawal. The creation of some working arrangement with the EU and non-EU nations is possible but with so many key players with vested interests there are no guarantees on what can be secured and how it will help or hinder the UK. Everything is dependent on this post-withdrawal negotiation and all assumptions on the benefits and fallbacks of a 'no' vote must be caveated accordingly.

Within this context, ATCM will try to identify the issues which will have the biggest impact on town centres should we vote to leave in June.

3. ECONOMY

Key Highlights

The Single Market is a common regulatory framework allowing any EU based business to trade in any other EU nation thanks to common standards. There is no way of estimating the impact of withdrawal from the Single Market on the UK economy as this will be dependent on the negotiation of new trade deals.

What we do know is that:

- Nearly half of all UK exports (44%) go to the EU and support 12.6% of UK GDP (ONS).
- The EU boosts Foreign Direct Investment by 27% according to the OECD. Ireland could benefit from investment displaced from the UK following a withdrawal.
- Regions/nations in the UK will be impacted differently by withdrawal with concern for the City of London, export businesses and trade with Ireland.

There are a few commentators that suggest the uncertainty surrounding the UK's membership is helpful for the economy or that the UK can negotiate a better trade deal with the EU than it has at the moment. The Bank of England, Office for Budget Responsibility, the International Monetary Fund and the CBI have all raised concerns. The fact is, the Single Market has become a powerful force in the world economy. It allows an extensive amount of market integration for businesses to trade across country borders with few barriers because of the common framework.

Trade

The UK has been a beneficiary of the Single Market. The ONS estimates that the EU is by some way the UK's biggest trading partner. 44% of exports go to the EU which supports 12.6% of GDP. This would be at risk with a vote to leave, and this is just the tip of the iceberg.

Trade outside the EU will also have to change. Trading agreements with non-EU countries have been negotiated by the EU to get a strong bargaining position for

member-states. All of these arrangements would cease to exist meaning each individual agreement has to be renegotiated by the UK, something which is expected to take sometime. With less bargaining power it is not anticipated that the UK could get terms as beneficial as it could if it remained part of this larger trading bloc. However, it is not impossible. More likely is that the UK can negotiate trade deals that better suit its economy than those negotiated on behalf of the EU, even if many of the terms may not be as favourable.

What is impossible is our ability to guess the extent of the impact of the UK's withdrawal from the Single Market. Simply put, there will be no way of knowing the impact beforehand. What is guaranteed is that the level of uncertainty will be significant, almost intolerable for many multi-national businesses that are based in the UK that rely on the Single Market.

Investment & Employment

According to the OECD, membership of the EU boosts Foreign Direct Investment (FDI) from non-EU member-states by 27%. Withdrawal will have a knock-on affect on investment, which, in turn, will influence employment. The lure of the UK as a base for FDI should not be taken for granted. Our access to the Single Market alongside a credible legal system, stable political environment and access to an English speaking workforce make the UK a compelling proposition for multi-national businesses. The loss of Single Market status could have implications for private sector investment across the UK and ROI. Here are some specific examples:

City of London: Of all the UK's major cities, London could be hit hardest of all. As a world city it is the beneficiary of a significant proportion of FDI. In particular, the City of London is a global financial hub for banks that, according to the International Monetary Fund, now preside over a quarter of all EU banking assets. The City has become home to a disproportionate share of financial activity with its various markets generating a turnover of hundreds of trillions in US dollars. While the Centre for European Reform admits that the City of London was a force before Britain's accession to the EU, it has only gone from strength to strength since. With an interconnected eco-system around finance, accountancy and law, the health of the City and the central London economy are intertwined. An EU exit could hit the central London economy hard.

Manufacturing and Exports: Outside of London, challenges lie ahead if the UK withdraws from the EU. Towns, cities and regions across the UK are still reliant on manufacturing and exporting, a key pillar of the Chancellor’s economic recovery strategy. The contribution of car production such as Jaguar-Land Rover in the Midlands, Nissan in the North East or food and drink exporters in Scotland will be watching this debate carefully. More generally, the lower cost of living outside of London makes many parts of the UK attractive for overseas investors. An EU exit poses a severe risk to all exporters that rely on the Single Market and some businesses may be persuaded to relocate investment accordingly.

UK’s Relationship with Ireland: The UK shares just one major border with another EU country. This is the border between Northern Ireland and the Republic. However, with the peace process and joint EU membership, this is a border in name only. A UK withdrawal from the EU could mean the reintroduction of a physical border with positive and negative implications for both sides.

Ireland imports more goods from the UK than any other country according to Ireland’s National Treasury Management Agency. In 2013, 33.6% of all goods imported to Ireland came from the UK and 30% of all employment in Ireland is in sectors heavily related to UK exports. The UK is the second largest export destination for Irish goods and the largest for services. A vote to leave means that this will be put into jeopardy depending on the level of tariffs and non-tariff barriers that result. ‘Open Europe’ predict a worst case scenario, Ireland could see the permanent loss of 3.1% of GDP by 2030 because of restrictions trade with the UK. Higher prices for consumers of both countries due to trade barriers are also a real possibility. Withdrawal will have negative implications for both countries.

Figure 2: Ireland’s 2013 Exports by Destination

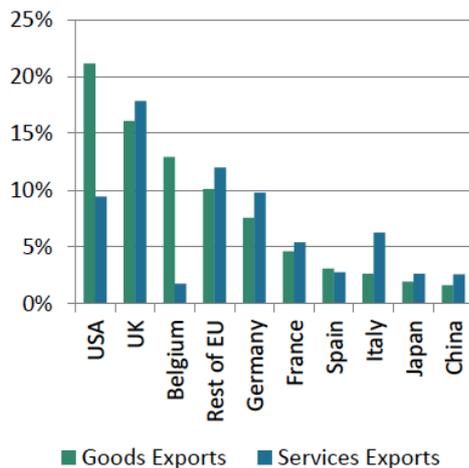
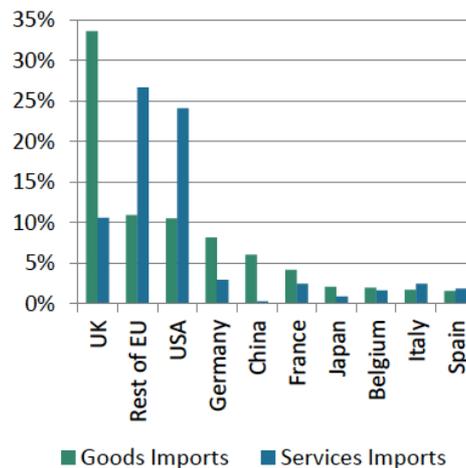


Figure 3: 2013 Imports by trading partner



However, for Ireland, the news would not be entirely bad. It could become the location of choice for FDI should businesses pull investment out of the UK in favour of retaining access to the Single Market. Ireland's biggest advantage over other EU member-states is that, it too can provide easy access to an English speaking workforce. The Institute for International and European Affairs estimate that this could be worth €6 billion to Ireland, the equivalent of 20% of total FDI inflows for 2013.

Assessment

It is impossible to guess what the economic future of the UK outside of the EU may be and whether we could successfully negotiate the retention of access to the Single Market. However, according to the vast majority of the evidence available, the best it seems the UK can hope for is years of significant uncertainty, at worst, displaced investment, job losses, the erosion of key industries and economic contraction. The impact on towns and cities across the UK will not be universal. Some local economies in the UK may feel no impact, others would be crippled by this, but some towns in Ireland may be the happy recipients of displaced investment.

3. TOURISM

Key Highlights

The free movement of people has encouraged EU citizens to go on holiday in the UK. Of the 34 million foreign tourists anticipated in 2016, nearly 2 in 3 (64%) are expected to be from the EU (Euromonitor International).

Withdrawal means ending the free movement of people by reintroducing stricter passport/visa controls. This could:

- Reduce the number of holiday-makers from the EU.
- Reduce business visitors if trade with the Single Market declines.
- Boost tourism internally as UK citizens find it harder to go on holiday abroad. This could support coastal communities that had a legacy in domestic tourism.
- Make the UK a cost-effective holiday destination as the value of the pound is likely to fall.

In 2013, tourism contributed £56 billion in economic output. Tourism related industries employed 2.8 million people, 9% of all employment.

A key feature of the Single Market is the free movement of people across the EU's borders. Over the years, this has opened up significant opportunities for the UK's historic towns and cities. Train links to the continent and cheaper flights have boosted tourism. In fact, Euromonitor International estimates that in 2016, 34 million inbound visitors are expected to be entering the UK, 64% of which will be from Europe. The imposing of new visa and border controls could harm this. Given this info, conventional wisdom would suggest that leaving the EU would be a disaster for UK tourism. However, it is not that simple. Some of our most deprived towns could benefit from a UK withdrawal.

Outbound Tourism vs Domestic Holidays

Inbound tourism might be harmed by changes to visa and border controls, but the same might be true for UK residents who have been able to benefit from cheap, hassle-free trips to the continent at the expense of domestic holiday towns. Some of these towns, especially coastal communities across England and Wales, have

struggled over recent years as a core industry for these communities has disappeared with increased travel abroad. The ability to be competitive in the tourism market again may go some way to supporting their revival.

Downward Pressure on the Pound

The fluctuations of the currency markets may also play a positive role. The economic uncertainty surrounding a UK exit is likely to drive down the value of the pound. Commentators, such as the Bank of England, suggest this downward slide has already begun. This would have a substantial double benefit for tourism in the UK. Firstly, the UK becomes a more attractive holiday proposition for inbound tourists because it becomes cheaper. Secondly, for UK residents, foreign destinations become more expensive, increasing the likeness that they will remain in the UK.

One of the member-states likely to feel the negative impact from this would be Ireland with the reintroduction of the physical border between the north and the Republic and the likely need for passport and visa controls for holiday-makers travelling from the UK. This could reduced Ireland's tourism economy.

Business Tourism

Finally, it must be remembered that there would naturally be overspill from the negativity over the economic impact of a UK withdrawal. The loss of FDI would spell trouble for business related tourism, a very lucrative market. Euromonitor identifies London as the world's second most popular city for international tourists with 17.4 million visitors in 2014. This happens to be second to Honk Kong. 20% of these visitors actually travel on business and contribute to 30% of spending. Over half of all visitors to the UK (51%) are destined for London. The implication is that the loss of London's status as a global financial centre would put this in danger.

Assessment

On the one hand, new visa and border controls will harm a UK tourism sector that gets nearly two thirds of its visitors from the continent. Ireland's tourism sector could also take a hit with reduced visitors from the UK. Furthermore, less trade means reduced business travel, a lucrative market for tourism. However, increased spend in the UK by UK-based holidaymakers boosted by the same visa

and borders controls, plus a lower value pound, may go some way to offsetting the negative impacts.

4. REGULATION & POLICY-MAKING

Key Highlights

The UK does not have 100% control over law-making powers. Leaving the EU would see the repatriation of these powers.

It is easier to influence policy-making in Westminster, Holyrood, Stormont or the Senedd than it is in Brussels, raising concerns over the democratic foundation of the European Parliament.

The other side of the story is that the high street is exposed to global business trends such as online retailing and the digital revolution. UK policy-makers alone cannot support the high street in adapting to these changes. The EU could have a role to play here.

The law-making powers of the European Parliament is an issue that has frustrated Eurosceptics, maybe more so than any other issue. The inability of the UK Government, Parliament and Devolved Administrations to have complete control over legislation is, they complain, not democratic. There is evidence to justify this claim.

VAT

A backbench MP close to ATCM once discussed how they approached George Osborne, Chancellor of the Exchequer, with a view to redesigning the VAT system so tax was lower for goods sold in-town to support high street retail. They were informed that, due to EU laws, the UK does not have enough flexibility over the tax system to implement this. Each member-state must conform to rules on VAT, removing a potential tool to support town centres.

Pedlars

Another issue that has emerged in recent years is the treatment of pedlars on high streets. London, Scotland, Northern Ireland and some of England's major cities had implemented legislation allowing for the regulation of pedlars on high streets to prevent the abuse of this activity. Pedlars have been accused of

congregating on busy high streets, setting up stalls and receptacles like street traders without the necessary permits and selling below standard goods in the knowledge that they are impossible to trace. It has raised important questions for town centre managers about consumer protection, access for emergency services and general healthy & safety.

Nearly 5 years ago, the Department for Business, Innovation and Skills (BIS) committed to undertaking a consultation to better understand how it could improve regulation and enforcement for all town centres as bye-laws had only displaced the problem. The result took the industry by surprise. A reinterpretation of an EC Services Directive which deals with free trade across national borders means that BIS decided that pedlars should not be regulated and all existing legislation should be repealed.

In particular, this has been a blow to the markets industry where traders feel that pedlars are being allowed to set up stalls and compete directly with markets without a street trading licence or adequate enforcement of practices. A vote to leave would give the UK control over this particular issue.

Despite the examples of VAT and pedlars, there is another side to this story. Recent developments suggest that the EU, through the European Commission and the European Parliament, have a critical role to play in supporting town centres across the UK and the Republic of Ireland.

Place-Based Policy-Making

It is no secret that our industry has strongly advocated place-based policy-making as a concept that would ultimately produce better policies with fewer unintended consequences. A focus on making great places should be the overarching aim of government. While some policies in the UK give us hope (such as the redefinition of 'Town Centres First' in Scotland), things like the Late Night Levy, Permitted

Development Rights and a failure to reform the structure of Business Rates are self-defeating.

Policy-makers in the EC have got the message. In recognition of the role of towns and cities in making Europe prosperous and accepting that EU policies in areas such as education and culture, transport, energy, information society, environment and climate change all overlap with place-making, the EC is developing an EU Urban Agenda. Although it is still early days it looks like this Urban Agenda will be responsible for three things:

- Developing policy at a European level explicitly aimed at supporting towns and cities;
- Undertaking an impact assessment on all other new policies to ensure that they support, not hinder, towns and cities; and
- Support Europe's town and city leaders to network with each other and share best practices.

Shaping policy through the lens of place-making should be highly welcomed and is something we should aspire to in the UK.

Tax Reform and Global Business Trends

As discussed in previous briefings from ATCM on Business Rates, tax reform remains top of the agenda for supporting town and city centres in the UK and Ireland. The evolution of cross-border trade coming together with an increasingly digital economy makes tax collection extremely difficult for the UK and Ireland. Both have responded by lowering the rate of Corporation Tax to attract tax revenue, but this is not a long-term solution. High street businesses have paid the price through business rates by having to subsidise

fragile tax revenue. This has had a devastating impact on the vitality and viability of high streets trying to compete with the Internet.

This problem is not exclusive to the UK or Ireland. This is a global issue. The EU has already identified this and is working towards a solution to improve tax collection from multi-national businesses. In the long-term this is critical to making the high street profitable again and bringing through a new generation of entrepreneurs.

This brings us to a much wider point about the evolution of certain business trends and economic activity. Advances in ICT distort geography and state boundaries. It is possible to be located in an office on one side of the world, and supply services to people on the other side of the world. The EU provides an important resource for policy-making fit for the globalised business structures of the 21st Century. This is likely only to increase in importance as the digital revolution continues.

Accountability

The remaining question is, whether the European Parliament is accessible enough to develop lines of communication with bodies like ATCM and its members to ensure high streets across the UK and Ireland can be represented.

Some Eurosceptics have labelled the EU as undemocratic and unelected. This is not true. EU laws are passed by elected MEPs through the European Parliament. What is true however, is that MEPs do not appear to have the same visibility or engagement as MPs, MLAs, MSPs or AMs. This makes it much more difficult to get good representation in the European Parliament. Can we truly capitalise on the EU Urban Agenda if we are disconnected from it?

Assessment

Neither the UK nor Ireland has full control over law-making and this has some disadvantages. However, the EC is showing itself to be a progressive, if bureaucratic, vehicle for place-based policy-making. Furthermore, the shape of globalisation in the 21st Century means cross-border collaboration with the continent is both desirable and unavoidable. This is best demonstrated by the need for tax reform to ease the burden on commercial property, something which is made more possible through cross-border collaboration.

However, questions remain over the accessibility and visibility of MEPs, which, in turn, means questions over the representation of our industry within the European Parliament.

5. FISCAL

Key Highlights

The UK is estimated to pay £18 billion to the EU annually according to the Institute of Economic Affairs.

Half of this is spent back in the UK through the EU Structural Funds which support a range of projects, many related to regeneration and supporting small businesses.

In England, LEPs rely on this money as part of their funding for economic development.

The other half (£9 billion) is a net cost to the UK. Is this too much during a time of austerity?

Our relationship with the EU in the context of costs has been heavily debated. It will continue to be raised to highlight how much of taxpayer's money goes to the EU. According to the Institute of Economic Affairs, the UK pays £18 billion to the EU annually. However, some of this is spent back in the UK through various European programmes.

It must be acknowledged that money from European programmes has been incredibly helpful to towns and cities across the UK, especially in funding those projects which do not easily attract private sector investment. Both the European Regional Development Fund and the European Social Fund (jointly referred to as the EU Structural Funds) have made important contributions to economic development in local economies.

The existing budget, allocated to the whole of the UK between 2014 and 2020, is worth €10.8 billion and is being shared between Devolved Administrations and England's LEPs.

Ultimately, the UK only sees a return of around 50% of its contribution to EU coffers. This means a net contribution of £9 billion annually, a significant amount of money considering the intense squeeze on public spending. The question is whether £9 billion can be justified as a reasonable cost when key posts in town centre management, economic development, planning and support for local partnerships are being withdrawn on a daily basis.

Furthermore, the administration of these funds is often complex, expensive and burdensome for those who take on projects. This burden has been a concern for years and prevents some organisations from applying for funds because they do not have the resources to complete the paperwork.

Assessment

The UK is a net contributor to the EU, paying £9 billion a year. The money that does come back is partly used for the EU Structural Funds which play a huge role in supporting town and city centres across the UK. However, this cannot disguise the fact that £9 billion is a lot of money at a time when local government is facing significant cuts.

Withdrawal from the EU is likely to have very different impacts for different town and city centres across the UK and Ireland. If you have any thoughts on how your town centre might be impacted then feel free to share this knowledge with ATCM by contacting Ojay McDonald at Ojay.McDonald@atcm.org.