COVID & BREXIT

Twin challenges for London and the North East of England

THE FEDERAL TRUST
for education & research

enlightening the debate on good governance

Published by the Federal Trust for Education and Research, 2021

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Charity Registration No. 272241; Company Limited by Guarantee No. 01269848

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PREFACE

In recent years, much of the Federal Trust's work has been focussed on Brexit and its consequences. We have however always borne in mind that federalism can operate on many levels, international national and sub-national. Partly as a result of Brexit, the sub-national component of federalism is attracting increasing interest in the UK. Federalist decentralisation is a principle not merely applicable at the European level, but within the borders of the United Kingdom as well. Even before the CV-19 pandemic took hold in early 2020, it was already clear that Brexit might well lead to a reevaluation of the UK's constitutional structures. Differing approaches to combatting the pandemic in England, Scotland, Wales and Northern Ireland, and indeed between different parts of England, have given further impetus to this discussion and debate about the future governance of the United Kingdom. The concept of "federalism" within the United Kingdom is one which is implicitly (and sometimes explicitly) now establishing a renewed place for itself in British political discourse.

The essays which follow are not intended to provide any overarching system of reform for local and regional government in the UK. They instead concentrate on the administrative and governmental challenges presenting themselves after Brexit and CV-19 in two distinct areas of the UK, London and the North East of England. These two regions are geographically distant from each other and at first sight might appear to face radically different challenges in the coming years. But underlying every essay on both the regions is the belief that the twin challenges of reconstruction after Brexit and Covid-19 demand local responses to local circumstances; and that surmounting these local challenges will need more local decision-making than the present haphazardly centralised model of English internal governance has usually permitted.

Traditionally, when politicians and commentators have evoked the prospect of a "federal UK" their blueprint has been one of a political organisation embracing England, Wales, Scotland and Northern Ireland. There is however a separate argument to be had about whether the largest partner in this organisation, namely England, would not anyway benefit from a greater degree of "federalisation" within its own structures of government. The following is in no sense a manifesto for a federal England, but from the contrasting perspectives of London and the North East of England it does put forward proposals and insights about decentralised and local decision-making that may well resonate with political leaders and electors in other parts of England.

It is often and plausibly argued, even by those generally favourable to decentralisation, that England is geographically and financially too substantial to be one constituent part of a federal United Kingdom. The sort of decentralisation within England favoured by the contributors to this pamphlet implicitly puts at question the potency of this argument. London and the North East of England are not the only parts of the country where local actors would dearly love to have more of their region's immediate destiny in their own hands. Nor is "England" a homogeneous entity. It contains among its regions many other contrasts just as striking as those between London and the North East of England. The road to a radically decentralised United Kingdom may well pass through the construction site of a radically decentralised England as well.

Brendan Donnelly, Director of the Federal Trust

March 2021

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PART I

THE NORTH EAST OF ENGLAND

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THE NORTH EAST OF ENGLAND: ECONOMIC AND POLITICAL CHALLENGES AND OPPORTUNITIES POST-COVID AND POST-BREXIT

JOYCE QUIN

The North East of England has a population of 2.6 million people. This is less than Wales (3.1 million) but more than Northern Ireland (1.8 million). The region is at the heart of the ancient kingdom of Northumbria which in its heyday stretched from the Firth of Forth in the north to the Humber in the south. Even today the region is distinctive in a number of ways and is geographically more clearly delineated than many "regions" of England given that the populous area is surrounded by large tracts of national parks and areas of outstanding natural beauty – the Cheviot hills to the north, the North Pennines area to the west, and Tees Valley and the north York moors to the south. The region has cultural distinctiveness too through its extraordinarily rich folk song tradition and its regional instrument the Northumbrian smallpipes.

The area, as is well-known, also has a distinct industrial history. Coal mining occurred from the 12th century onwards and shipbuilding from at least 1400 – an industry celebrated by Daniel Defoe when he visited Newcastle and the Tyne in 1724 in his tribute ”they build ships here to perfection”. Coal and shipbuilding was followed by steel from the eighteenth century onwards. The region has an identifiable capital in the city of Newcastle upon Tyne. Often thought outside the region of as just another Victorian industrial city the truth is that Newcastle, like London, goes back to Roman times and has had a history of continued importance ever since. Like London it had a Mayor from the beginning of the 13th century onwards. It was also a fine medieval walled city – a city, whose walls were described by John Leland, Royal Antiquary to Henry VIII, in the words “the strength and magnificence of the walling of this town passeth all the walls of the cities of England and most of the towns of Europe.” However, unlike many other prominent medieval cities Newcastle also played a significant role in the industrial revolution and the railway age, and has some fine planned late Georgian streets to show for this period of prosperity.

While the prevalence of the three industries of coal, steel and shipbuilding gave the North East a particular economic character it also, sadly, made the region uniquely vulnerable during the industrial decline of the early 1980s. That period, when unemployment reached 25% in some of the populous areas left a legacy of economic difficulties whose effects even now have not fully dissipated.

Indeed from a powerhouse of inventiveness – think George Stephenson, William Armstrong, Joseph Swan and Charles Parsons – in the 19th century where the region witnessed waves of immigration particularly from Ireland and from

England's rural areas, the twentieth century became largely a period of slow economic decline and emigration.

In the latter part of the twentieth century efforts were made – by the region itself and by sympathetic governments – to attract new investment, and investment in new industries, to the region with partial success. However, British investment, from other parts of the UK, proved particularly difficult to attract – seemingly because of the region's image, the "grim up north" syndrome, a misconception which the region's inhabitants aware of the landscapes and countryside on their doorstep, and the many historic towns and villages, not forgetting the stunning coastline, have always found mystifying and galling. This negative perception perhaps helps to explain too why so few British firms have their headquarters in the region and explains why when forced to contract the region's plants have often been at risk of closing first. As we know too it has been notoriously difficult to get public bodies or government departments to move anywhere outside of London or the South East.

Investment from outside the UK, particularly from the Far East, has become a success story however, led by the investment by Nissan in the 1980s in its world beating Sunderland car plant. Nissan approached the region with a fresh eye, seeing a willing workforce, excellent road, sea and air communications, and a welcoming, can-do attitude.

The success of Nissan fostered the creation of a number of ancillary industries supplying the car plant. Other non-UK concerns were also attracted to the region. Hitachi, Komatsu, LG and others. While British investment continued to be small scale some of the existing skills in the region – in manufacturing and shipbuilding – did find important new outlets particularly in the offshore sector.

One of the strengths of the region was also the willingness for the most part of industry and local authorities to work together to raise the region's profile and promote economic activity. The conservative government pre-1997 was not attracted to the idea of a Regional Development Agency and this lack of action led the region's businesses, the regional trade unions and the regional local authorities to set one up through their own initiative. This meant that when Labour came to power in 1997, committed to setting up RDAs, the North-East could hit the ground running, and the resultant organisation One North East had a number of achievements to its credit.

The availability of European Structural Funds has also been important in helping the region recover from the 1980s decline and most local authorities in the region grasped those opportunities enthusiastically working with government agencies, the RDA and business sectors in exploiting them fully.

In recent years the North East has been particularly successful in exporting and has regularly been one of the few UK regions with a positive trade balance. The northern east's exports go for the most part to the EU. Geography makes this not surprising as our ports face East towards the European continent and because of this the North East has a long and positive trade history with Europe. However, in recent years the fact of the UK belonging to and indeed forging the European single market and the customs union has allowed this traditional trade to greatly expand and diversify. As James Ramsbotham points out in his article "approximately 60% of our region's exports are sent into the European Union, the highest of all English regions and significantly higher than the UK average (48.2%)".

The North East has also been one of the most innovative areas in exploiting the importance of culture in economic revival. An outstanding example of this is in Gateshead where the local authority – whose Councillors interestingly mostly came from a traditional industrial background – showed imaginative and courageous cultural leadership. The Council sponsored the Angel of the North Statue (despite being ridiculed at the beginning for this initiative) resulting in the creation of a symbol of the North East as instantly recognisable as the Tyne Bridge or even the Roman Wall. Gateshead, also in its partnerships with private industry and public bodies, created the Baltic Contemporary Art Gallery and the nationally and internationally acclaimed Sage Music complex, in key adjacent sites on the banks of the Tyne. More widely Gateshead also established an international Athletics Stadium, hosted a hugely successful National Garden Festival, transformed a derelict industrial site into the Metro Retail and Entertainment Complex and realised another national icon with the completion of the unique Gateshead Millennium Bridge. These were astonishing achievements for a medium sized authority – and an authority moreover which also delivered high quality local educational and environmental services to its residents. These are achievements which should be recognised along notable local government achievements of the past such as in Joseph Chamberlain's 19th Century Birmingham.

The North East has a number of important assets. It has five universities of which two, Newcastle and Durham, are in the Russell Group of leading Universities. The universities of Northumbria and of Sunderland have also shown key strengths in a number of disciplines and Sunderland has an enviable record in securing educational opportunities for under-privileged or disadvantaged groups with some great successes as a result. The Universities have a long-standing cooperative relationship with each other and do work together in various North-East business and other fora. Alastair Balls in his article writes of the desirability of building on the links between Universities and business to better resource the mechanisms needed to transfer technology into the market place.

There are however educational weaknesses and challenges. A fact greatly remarked on has been that at primary school level the North East does as well or even better than other parts of the UK. By the end of secondary school however that position has changed and school pupils under perform at A level compared to other areas. While the reasons for this are not entirely clear it seems to be linked to lack of aspiration and a perception by school pupils that the region does not offer exciting or well-remunerated employment opportunities. Alastair Balls' article expands on this in pointing out how educational and skills deficiencies hold back regional growth and productivity gains.

How far the weaknesses in the regional economy identified by Alastair Balls and James Ramsbotham can be addressed depend on the success of some of the initiatives they highlight, such as the creation of the North East Institute for Technology, and in finding ways of building on our innovation in green energy, digital, health and life sciences. Government macro-economic policy however will also affect our future development and whether or not opportunities for economic success can be realised and the ongoing relationship between the UK and the EU is an important part of this.

Brexit Challenges

As has been noted, given the region's dependence on EU trade and exports, Brexit presents arguably greater challenges for the North East than for any other part of the UK. James Ramsbotham points out that although the UK Government's deal with the EU was welcomed as an alternative to "No Deal" it compares very poorly with full EU membership. He points out how many new non-tariff barriers have been created. He also stresses that adapting to new Rules of Origin is causing many EU and UK businesses to reconsider their supply chain arrangements, as well as the problems of VAT costs and greatly increased red tape.

Certainly since the last minute deal negotiated by the Government which came into force on January 1st this year, businesses in the region have begun to face considerable difficulties and the examples of problems have multiplied. One such example quoted to me is that of a specialised brewery exporting a quality product where on top of a reduction in 2020 of 50% in its sales because of COVID another 50% of its remaining business is in jeopardy because of Brexit. Consignments to the EU are stuck in customs a month after being sent whereas previously the whole process would take no longer than 5 days. It is businesses like this in the food and drink sector which are particularly affected by such delays.

Nationally by mid-February 2021 exports to the EU had dropped 68 per cent. Given the importance of EU trade to the North East not surprisingly the region's businesses have in turn been hugely adversely affected and at the time of writing these problems have in no way been resolved. Firms risk liquidation because of being unable to export to long established customers and face the alarming prospect that those customers will permanently place their orders elsewhere.

The Government has made much of its commitment to levelling up and eliminating the North-South gap but unless it tackles effectively the problems caused by its Brexit deal in the short term, and helps to address the region's underlying structural problems in the mid and longer terms, the economic challenges the region faces looks very daunting.

The North East and Regional Devolution

While for many years local authorities have taken their economic roles very seriously as noted above and often agreed to joint initiatives, the region as a whole has not had a single political voice. With the push to devolution in other parts of the UK seen particularly from the 1980s onwards in Scotland, Wales, and then London, many in the North East began to feel even more disadvantaged by the lack of a voice to represent the region's interests in Whitehall and, given the clear sense of identity of the region, began to feel that political devolution was a desirable way forward. In fact, the Regional Labour Party, which was the dominant political force, had been in favour of an elected regional assembly and a powerful economic Agency going back some 80 years! Labour in the region therefore strongly supported John Prescott's "Alternative Regional Strategy" calling for regional assemblies where there was demand for them and this was Labour Party policy nationally from 1983 onwards. Awareness of successful models of regional devolution (such as the Federal system in Germany, ironically fostered by Britain and the Allies in the aftermath of World War 2) also played a part in stimulating interest in regional approaches to governance.

When Labour came to power in 1997 however, regional devolution in England was given less priority and did not benefit from the first devolutionary push which resulted in the creation of the Scottish Parliament, the Welsh Assembly and the London Mayor and Assembly. It was relegated to a second term issue and so it was not till 2003 until concrete proposals emerged for regional government. Given that Labour felt that the North East was the area in which interest in devolution was most developed it was chosen as the area where the first referendum on the establishment of a Regional Assembly would be held. This was not such a risky enterprise as hindsight would indicate. Opinion polls in the region in the 1990s had consistently shown a belief that the North-East did not get a fair deal from Whitehall and also showed strong support for creating a special "something for the North-East". There were a number of pro-regional groupings and campaigns not only from Labour and Liberal Democrats but also from trade unions and business interests. The regional media too was supportive of regional government for a considerable period of time prior to 2004. However, the result of the referendum, held on 4th November 2004 was a huge vote against an Assembly by 72% to 28%. Why?

Firstly, the timing was far from ideal. The government was unpopular through the Iraq war and other issues, and the vote gave electors a classic opportunity to give government the proverbial "bloody nose". Secondly the government appeared half-hearted about the idea. Prime Minister Blair, a North-East MP, had never pushed it and was absent from the campaign. While John Prescott provided wholehearted support it seemed odd that he had to be drafted in from outside the region. He also did not get much support from Labour nationally in terms of resources for organising and campaigning. Given that at that time 28 of the 30 MPs in the region were Labour this failure was highly significant.

Crucially important was the fact that what was offered to the region was a much more limited form of devolution than Scotland, Wales or even London had been given. This paved the way for a de facto "unholy alliance" between those who did not support devolution at all and those who did but felt what was being offered was quite inadequate.

The "No" campaign, which seemed to be motivated by a belief that regional government was a EU plot to destroy the nation- state (perhaps this is why Brexiteers such as Dominic Cummings were key figures behind the scenes), concentrated on a couple of easy to understand issues, principally alleging that an Assembly would be a costly White Elephant and that the last thing the region needed was an extra tier of useless overpaid politicians. A large eye-catching plastic white elephant was regularly paraded around the region to reinforce the point.

In the end two events helped the "No" campaign probably beyond its wildest dreams. In the middle of the campaign for the very first time MPs expenses were published and many newspapers added together all the expense allowances (including staff salaries) and implied – or even stated – that all this money was MPs massive personal perks. Then it was announced that the Scottish Parliament Headquarters were going to be far more costly – by a factor of ten – than at first envisaged, fuelling a belief that a North East regional Assembly would involve palatial premises for overpaid and greedy politicians.

The result killed off any further attempt to introduce English Regional Government with only now, 15 years later, some renewed interest becoming evident. The only solace for pro-devolutionists was that people in Wales had voted in similar proportions against an Assembly in the 1970s although eventually – after a gap of some 20 years – changed their minds.

Reflecting on the failure of the North East regional referendum, Nick Forbes, in his article, argues persuasively that the language of devolution is important and stresses that in future discussions it will be important to avoid giving the impression to people that devolution is "something that is going to be done to them, not for them, or with them." He also stresses the continuing vital role of local government which is complementary to, not in conflict with, regional devolution. Local government's role during the Covid crisis has been vital in supporting the most vulnerable, enabling the roll-out of the vaccine programme (particularly successful in the North-East), and ensuring grants reach local small and medium sized businesses. Local government too has the local partnerships and relationships which are crucial for public service delivery and Nick Forbes feels these can be strengthened by an innovative approach "that matches assets and resources to need in a smart, more efficient way."

While governments since 2004 have turned away from the regional approach there has been a gradual and increased interest in devolving power through elected Mayors and today there are a number of examples of how this is working throughout the north with Greater Manchester, and Merseyside perhaps the most recognisable. The population of Greater Manchester alone is bigger than that of Northern Ireland and of the North East and therefore does have a regional dimension.

The issue of whether to support elected mayors or not has had a chequered history in the North East. This was seen as imposing something on local authorities from outside particularly by a national government of an opposing political persuasion. The idea was defeated in local referendums in both Sunderland (2001) and Newcastle (2012), the region's biggest cities.

Proposals for elected mayors in Combined Authorities put forward by the Conservative government from 2015 onwards perhaps not surprisingly therefore provoked disagreements among local authorities which had previously worked very well together, with some feeling that the spending powers on offer could help the region, with others feeling this was an unfair inducement to foist an unwelcome new structure which reflected central government rather than local priorities. The result was an unfortunate split between the authorities north of the Tyne – Northumberland County, North Tyneside and Newcastle – on the one hand and the south of Tyne areas – Gateshead, Sunderland, South Tyneside and County Durham – on the other. Elected mayors already existed in North Tyneside and – for a while – Hartlepool, and had more recently also emerged in Tees Valley creating a patchwork without any real consistency. The north-south split between both banks of the Tyne was felt by many to be particularly regrettable since so much had been accomplished by Newcastle and Gateshead working together. However, despite the disagreement on Combined Authorities and elected Mayors, the local authorities concerned did keep day to day cooperation on a number of issues and participated together in a number of joint organisations and affirmed a determination to work together whenever possible.

There are new signs now of a rethink. The Elected Mayor of the North of Tyne authority in a recent letter to North East MPs and Peers describes moves to bring all the seven local authorities listed above into a wider Mayoral Combined Authority arguing that "we are one economic area after all and it would benefit the region greatly to be able to operate strategically and collaboratively through one organisation. Plus having transport powers would supercharge our ability to connect up inclusive economy programmes and build a prosperous region".

There is more optimism now that new negotiations with government might lead to a new and united way forward. The profile of elected mayors during the Covid Crisis in Manchester, Merseyside, Rotherham and Sheffield has stimulated that process of rethinking and renewed interest. Certainly if the area from Berwick in the north to the whole of County Durham in the south became such a Combined Authority the region would find itself having a single and hopefully powerful voice for most of the areas it comprises.

This could help in raising the region's profile, giving it more of a say in the affairs of the nation and showing too that devolution is not just about national identity but about good governance, a message which might help in tackling some of the problems in the current UK devolution settlement. Such a way forward might also help in informing the work the Labour opposition is currently planning to undertake on our Constitution, work which Keir Starmer is reportedly taking forward in harness with former Prime Minister Gordon Brown.

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COVID AND BREXIT – TWO KNOCK OUT BLOWS FOR THE NORTH EAST, OR A WAKE-UP CALL FOR CHANGE?

NICK FORBES CBE

If you were to stop people on the streets of the North East in early 2021, and ask whether Covid or Brexit has had the greatest impact on our region, I suspect the universal view will be that the pandemic has caused the greatest damage.

This is understandable, as the impact of Covid has been felt immediately and deeply in disruption to our daily lives. We are highly aware of the damage that it has done to our health, the economy, and society. We have seen the tragic loss of life, and serious and potentially long-lasting impacts on peoples' physical and emotional health and wellbeing, whether as a direct result of the virus, or as a result of the economic destruction inflicted by the virus and the essential but damaging lockdowns.

Covid has thrown into sharp relief the many existing, longstanding structural inequalities in our economy that motivated me to get involved in politics nearly 30 years ago. The impact of Covid has been felt, and will continue to be felt hardest, by the most vulnerable members of our communities. Those who are most economically disadvantaged have experienced the pandemic differently as it intertwines with existing health inequalities and social conditions and increases existing adversities; financial difficulties, unemployment, loneliness, social isolation, chronic psychological stress and other psychosocial risk factors, already at higher rates among disadvantaged people, have all been intensified by the pandemic. In addition, the pandemic has impacted those already experiencing inequalities through mechanisms such as the reduced ability to work at home, a lack of access to green space, and being unable to participate in social and health-related activity, impacts made even worse by a decade of austerity.

While Covid has exacerbated the many problems the North East has faced for generations, it has also been a year when the best of our communities has also been on display. We have seen a magnificent response to the crisis, in the strength of our places, and of our people. It is often said that the real test of partnerships is not how they do in good times, but how they do in bad times – and the many partnerships in our region, between partners, between communities, between people – have risen to this challenge in the most humbling of ways.

Central to our response has been local government, and despite being structurally and financially undermined for decades by successive governments, councils have stepped into the leadership role of place that has been so vital in coordinating our collective efforts to beat Covid. As well as being remarkably flexible and nimble in setting up new services, redeploying staff and managing the various government support schemes, councils have been essential to bringing organisations and sectors together to support those in need, protect our economy as much as we can from the shock, and provide clear and consistent public health messaging and advice (often in response to confusing, contradictory messages from central government).

There are some lessons to be learned from the differences in how local, and central government, have approached the Covid crisis. It is local places that mobilised to support the most vulnerable. It is local places that proved most effective in test and trace. Most effective in distributing the millions of pounds of grants that have sustained countless small and medium sized enterprises, the businesses that families have built, that employ local people, and who invest locally too. And it is local places, working in partnership across public health, health, and care, who have enabled the vaccine programme to move at such welcome pace.

What this experience has underlined more firmly than ever is that we cannot talk simplistically in terms of economic implications. Economic implications have social implications. They have health implications. And ultimately, although the thread is often tangled and not easy to follow, they have political implications. The interconnectedness of all of these elements has become increasingly clear as a result of Covid, and our thinking on how we respond to them must be more conscious of their complexity and interdependency.

So Covid has shown us, in technicolour detail, the structural weaknesses and cultural strengths of the North East. It therefore provides us with crucial evidence for how our region should respond to Brexit. Covid has accelerated many changes that were already underway – in our working patterns, our retail habits, how we travel around, how we use our leisure time – and the collective leadership challenge we face is to use Brexit as a point of significant change. More of the same is not an option.

Brexit was, for me, a violent shock that turned my view of the world on its head. My entire adult life up until then was shaped by a sense that our world was on a gradual, progressive march towards greater globalisation, human rights and democracy. The Berlin Wall fell the day after my 16^{th} birthday and I remember with joy the reunification of Germany, and the symbolism of international cooperation that the European Union came to represent. Indeed, whilst virtually all of the debate around the EU has been focused on the economy, in my view its greatest achievement has been to bind together countries and regions that had fought for centuries into ever closer harmony. 70 years of peace is a prize not to be dismissed lightly.

I will continue to regret our departure, and that has informed my view of how our United Kingdom is coming to a crossroads in whether we can remain as a single country, or whether the forces that were so polarised in the Brexit debate and aftermath will continue to drive the four nations of the UK apart.

I am by nature an optimist, and I have great faith in the resilience and spirit of the people of our region. And it is in this context that I very much hope that the Treasury's worst case scenarios for Brexit – and by any impartial reckoning those scenarios were grim reading – do not come to pass. Even if they do, I hope and believe that the people of this region will prove their mettle and the worst impacts will be mitigated and diminished. But I cannot, in writing this, tell you that I believe that some of the already most vulnerable, most disadvantaged, and most worn down by a decade of austerity, those affected already by reductions in welfare, anaemic wage growth, rises in precarious work, will not again bear the brunt of the economic toll to come.

So our task is clear. We must do all we can to minimise that economic damage, with its subsequent social and health impact, whilst at the same time doing our best to take advantage of any opportunities that Brexit does create. One of the ways that we should do that is, I believe, through an active dialogue about our political and constitutional future.

I have welcomed the ongoing discussion that the Federal Trust and These Islands have stimulated around devolution and constitutional reform. While much of that has focused on the union between England and Scotland, and to a lesser degree Wales, it has a resonance for the question of devolution within England, and Jim Gallagher's recent piece England's Constitutional Key is a particularly welcome contribution to that debate.

I agree that what we are looking towards is not legislative devolution, but meaningful fiscal and policy devolution, and decentralisation, that truly empowers places to deliver better outcomes for our citizens. That has to be done alongside a new framing of the relationship between central and local government, recognising what each party should and can do, and why. In a centralised state, central government spends far too much time managing (or mismanaging, more often than not) things that they are not well-placed to do. Local government spends too much time mitigating the impacts of that, as well as chasing funding to do the things which should be able to do to make our places work better for our citizens.

This does to me feel like a constitutional moment because the scale of the challenges we are facing – including growing health inequalities and a huge labour market shock – means we need it to be. Continuing with a centralised approach to recovery, when it is that centralised approach that has exacerbated the impacts of the pandemic, is evidently ridiculous.

In the last year we have, in effect, seen sweeping nationalisations. We have seen the recognition that public policy that effectively leaves the weakest behind is not sustainable, or morally acceptable. We cannot go back to that flawed and discredited philosophy that directly contributed to a lack of resilience in our health service, run 'hot' for too long, or in our other local institutions, starved of funding to provide even basic services on which our residents rely.

Only decentralisation and more local decision making backed by devolved fiscal power can help us build forward better.

I do think there remains a debate to be had over what approach to devolution we take, and what models we adopt. A gradual process of devolution to mayoral combined authorities is one approach, but I fear that this allows Government the whip hand. Even though I have negotiated a few in my time, I am not a massive fan of 'deals'; the very language suggests a naked commercial element which I find distasteful. Limiting the conversation about devolution to who manages existing government economic functions misses two major opportunities – public sector reform and the strengthening of local identity. The first is crucial to tackling our social challenges, and the second is vital to holding the UK together as one nation.

In the mid 2000s, as a relatively newly elected councillor, I chaired the West Riverside Sure Start programme. Supported by additional resources from national government, they created grassroots partnerships between public, private and voluntary sector partners with the aim of giving every child the best start in life. This meant blending some universal services (such as nursery provision) that were available to all families, with targeted support for those that needed it. I remember extremely moving conversations with dads in the West End of Newcastle who were learning to read as adults, because they wanted to be able to read bed time stories to their children. The impact of Sure Start, in reduced child poverty, increased educational attainment, a reduction in health inequalities and a fall in youth crime rates, were only just starting to be apparent when the programme was scrapped by the Coalition Government.

Sure Start was, in my view, an example of the "allocative efficiencies" that can not only improve outcomes for people, but reduce long term expenditure on the public purse by focusing on prevention rather than crisis intervention. It is depressing that such 'system efficiencies' are rare; the silos in central government, with their parallel lines of accountability, set a policy framework which ignores the real value of place and local leadership. Covid proved that, critical to our ability to respond effectively to the new needs the pandemic presented to us, was the strength of local relationships and trust that had been built up between partners over several years of joint working together. You can't, by definition, develop such relationships and trust through centralised structures and decision-making.

So one of the ways in which we avoid repeating the mistakes of the past is for a radically different approach to public service delivery. Instead of increasingly threadbare public services focusing mainly on supporting people in times of crisis, we need a place based approach that matches assets and resources to need in a smart, more efficient way. Local government is clearly key to enabling this to happen, but we should not shy away from being bold and ambitious in a post-Brexit world about coming together to provide more and more public services locally that are currently run from Whitehall. This means a proper debate about what configuration of local government – in its broadest sense – is right to shape a positive future the region.

I am also mindful that there are implications to English devolution that spill over into the ongoing discussion around devolution and the Union. The North East is particularly attuned to those discussions, given our shared border and indeed shared history (even if some of that history involved battles between us!). Like the European Union, I believe the Union between England and Scotland is, even with imperfections, to be admired, and a force for good. Any revision to the way in which central and local government in England works must be mindful of the implications for Scotland and the Union.

Whatever we do, transactional, or radical, it needs to be done with consent: conscious consent. As local councillors we have a democratic mandate to lead this debate, and our polling regularly finds that the degree of trust in local government is much greater than central government.

But this is not a debate for elected representatives alone. It is a debate we must have in a way that is informed by, and in full sight of, the public. Like many champions of greater devolution, I am scarred by the rejection of a Regional Assembly in the 2004 referendum. The 'Yes' campaign had all sorts of sophisticated arguments about democratisation of the Regional Development Agency, and opportunities for structural reform. The 'No' campaign (coordinated by a certain Dominic Cummings) had a blow up white elephant and asked at every press conference how many more highly paid politicians the regional assembly would create.

We must learn from that experience. That means rethinking our approach to the language of devolution. To the person in the street, devolution means little to nothing. And that is a dangerous thing. At its worst, it offers the possibility for people to come to the conclusion that it is, again, something that is going to be done to them, not for them, or with them. That will put us once again on the road to grievance and populism, of pushing back when we should all be looking to push forward, together.

We have to make devolution relevant to people – to convey what will be different and what will change as a result of it. It has been said that devolution is about enhancing the role of the executive within local democracy. To my mind that is a partial and unhelpful definition. Devolution is about enhancing the role of people within local democracy, as a process or means to an end, and improving the quality of life they enjoy, as that end.

The critical element of this is place as the focus of devolution and renewed governance. Effective devolution can, I believe, work only where the public feel a connection to the place they are being asked to endorse and participate in the governance of. Identity is crucial and must resonate clearly in any devolution arrangements.

The North East has a rich and strong identity. It is not just an economic identity, in fact I would argue that our culture is a more cohesive, coherent, and richer driver of our shared perspective. In our thinking about devolution we are clear that the North East should be the starting point of that discussion, a place where identity can lend itself to popular support and shared ambitions to not just build back better, but build back fairer and greener too.

I started by arguing that people in the North East in 2021 would say that Covid, rather than Brexit, has had the greater impact on the region. However, if you were to ask the same question in 2031, I would hope that people would look back and recognise that we heard, and acted on, the call for change to the status quo that I think the vote for Brexit in 2016 represented. I hope that, by then, we will have started to narrow the inequalities gap; that our children will leave school with a greater level of qualifications; that our unemployment rate is below, rather than above, the national average; and that we are on the verge of becoming a region that raises more GDP for the country than we spend on public services. That would be a transformational change for a region that is often – from afar – wrongly characterised as in terminal decline.

One final thought. We cannot see the debate around devolution as a bilateral discussion between the North East and Central Government. Nor can we allow Governments (as they often do) pit regions of the north against each other in competition for limited resources. I helped create the Convention of the North (which I also currently chair) to overcome the pull of parochialism, and build relationships between the civic, political, business and faith leaders across the whole of the north. While the focus of the Convention has to date been primarily about economic devolution, there is, I believe, considerable scope and value in the Convention leading a debate around constitutional reform. As a cross-party, cross-boundary, consensual body, with strong democratic accountability through its member local authorities, the Convention has a voice that Government and others should heed, and I am keen to lead a discussion in this space in the forthcoming months.

3

THE NORTH EAST AFTER COVID-19 AND BREXIT

ALASTAIR BALLS

The North East over the last decade had the highest unemployment in the UK, the lowest employment rate and the lowest growth. More recently, at the end of October 2020, the North East region again had the highest unemployment rate in the UK (6.6%), and the lowest employment rate (71.8%). Unemployment in the 18-24 age group was at 10.5%. All these figures will be affected by Covid-19 and the impact of Brexit . For instance if 50% of those furloughed fail to get their jobs back it could push unemployment in some groups to 20%, a figure never experienced in modern times.

All this is compounded by a raft of data on social conditions in the region – from health, to housing, to social care – and major infrastructure deficiencies influencing the ability to match average economic performance in the UK. And many other disturbing statistics relating to educational attainment, skills, business start-ups, innovation, productivity and capital investment; all impacting on economic performance.

In simple terms the North East has a low value-added economy unfit to meet the challenges and opportunities in the future.

There is a need to look to the long-term – what people will be doing and where and what infrastructure will be needed to make the regional economy successful by 2040: success being measured by a regional growth rate at least at the national average. There are a number of key challenges facing the North East which must be resolved if the region aims to be a winning region by 2040; they center around education, infrastructure and enterprise. This future however is dependent on getting some very basic challenges identified and resolved immediately.

CHALLENGE 1

Developing a quality of provision of education and technical training (5-25) which will bear international comparison.

In attempting to bridge the productivity gap, the North East is starting from a very low base: its current skill mix is more suited to a low value-added economy than a high value-added one. Skills in the work place are partly a result of the employment mix in the North East (many sectors requiring low level skills) and also reflect the poor performance at school level. There have been improvements in recent years but the proportion of 16 year-olds securing 5As or better at GCSE level is still only 14% compared with 20% in Greater London. Fewer people study for A levels in the North East and grades are worse than anywhere else in the country. In

2015 just one A level student in the Tyne and Wear area achieved an 'A' grade in computer science. In the critical 18/19 years old group there are twice as many NEETS (young people not in education, employment or training) as there are apprentices and for every seven 18/19 year olds who go on to higher education nationally only six do so in the North East. In the workplace, only 30% of employees have high level skills (Level 4+) compared with the national average of 36%.

There needs to be a significant shift in performance at school level but, perhaps more importantly, a shift in attitudes in our local communities is badly needed. In too many places there is a chronic lack of aspiration. Not only local communities but businesses do need to understand how the existing educational and skills deficiencies are holding back regional growth and productivity gains. As one indicator, in 2015 GVA per hour in the North East was 88 against a national average index of 100 and the South East recorded 109: every hour of work in the North East produces 12% less output than the national average. There is quite a lot of catching up to do. This will not happen overnight, but the commitment needs to be made now.

The majority of employees in the North East work in the low value-added economy; these are frequently individuals with a low level of skills, often tied to a particular community, generally not mobile and with few opportunities for advancement. This profile typically will have persisted for two or possibly three generations. The challenge is to break out of this mould; for individuals to seek higher level skills (and raising aspirations) to extend their personal horizons in terms of seeking new employment (becoming mobile) and being willing to take risks in the form of personal enterprise. It will be this new workforce that will attract new investment into the Region and support the ambitious and necessary enterprise agenda.

Spending on education and equity in funding are matters that need to be developed through a concerted voice (politicians and business leaders) to Whitehall; however there is much that can be done outside this sphere. The North East would do well to look at best practice elsewhere. In London many new initiatives that have made a significant impact on attainment have been delivered through social enterprises, charities and public/private sector collaboration. Corporate school engagement initiatives for example are widespread in London with employees encouraged to spend time in schools delivering literacy support and personal mentoring. Primary Reading Partners in Hackney harnesses over 1500 employees from large local employers to deliver lunchtime reading sessions in 68 Borough schools. These and other examples of best practice need to be taken on board in the Region.

Getting the most out of pupils at school, creating a seamless transfer to higher and further education opportunities and developing in individuals the competencies (rather than skills) they will need to move through an economic environment over the next two decades that will be very challenging but will certainly favour those individuals and regions which recognize and exploit their competitive advantages is a very big challenge. The challenge is also to develop a quality technical training (16-25) which will bear international comparison. The existing skills deficiencies are holding back regional growth and productivity gains. The creation of a North East Institute for Technology is a start.

CHALLENGE 2

Ensuring that regional Universities and Further Educational Colleges are enabled to make a greater contribution to developing local enterprise.

The North East's ambition to outperform the UK economy by 2040 can only be realized if universities and colleges are fully engaged with businesses in the Region. Universities are well positioned to 'anchor' place-based industrial strategies. The two Russell Universities (Durham and Newcastle) already have links through N8 to other leading universities in the Northern Powerhouse area. Collaboration like this must be encouraged but there also needs to be a clearer emphasis on the links between higher and further education and the Region's business base. The mechanisms to transfer technology into the market place need to be more sophisticated and better resourced, as does the delivery of the appropriate infrastructure to support high tech business growth (here infrastructure covers finance, IT connectivity and business premises).

The Region's Universities already make a huge contribution to the North East through their core activities in education and research – bringing high value jobs, money and energy to the towns and cities that host them. Also the results of pure research – the transfer of technology into the market place – may well have the effect of securing business growth nationally and internationally – which will be good for the internationalization of the regional economy and will also strengthen the science base locally: a win/win situation.

Recent research has demonstrated that the relationship between universities and commerce runs both ways. On a national basis the recent report from the National Centre for Universities and Business (NCUB) notes that, '*the UKs business-university partnership is robust, healthy and growing. But as we enter more complex global competitive conditions... the state of the relationship between businesses and universities has never been more important*'. The report goes on to say that, '*more action is needed to tackle the challenges in the 21st century knowledge-based economy*'. The North East has a proud history in the exploitation of science in the pursuit of manufacturing excellence. However, a step change is now needed which will allow the Region to compete successfully in the knowledge-based economy which will be central to economic success in the future. Universities also contribute through civic, commercial and cultural partnerships, encouraging graduate entrepreneurship and working with SMEs through Knowledge Transfer Partnerships and initiative such as the new business clinic at Northumbria University. Similarly, Sunderland University's Enterprise and Innovation Initiative and Teesside University's entrepreneurs@tees supports small company start-ups and encourages links into the Universities technical and research capacity.

CHALLENGE 3

Improving all forms of infrastructure

Current plans for the North East understandably place considerable emphasis on improvements in the transport infrastructure (road, rail, air and sea); indeed improving internal connectivity and securing better external links are essential prerequisites for the planned growth in output and trade envisaged for the Region.

Whilst these improvements are vital, if the North East is to change gear and develop the international competitiveness which is vital for long-term sustainable growth, there is a need to develop an infrastructure that is fit for purpose. The North East, like many regions in the UK, has an infrastructure which has been built up over decades if not centuries, around the economic needs of a different age. Given the very significant changes in economic activity (the decline of basic industries such as coal, steel, shipbuilding and chemicals) the whole of this infrastructure needs to be re-assessed – not just in terms of upgrading and developing new infrastructure but more fundamentally in starting with a clean sheet and beginning to describe the types of infrastructure needed for the future. In other words we need an aspirational infrastructure 'road map' for the post Brexit landscape.

Infrastructure can be a complicated issue for a regional economy moving from low value to high value output. Hard infrastructure (road, rail, sea and air) is still important but it must reflect the new requirements in the region to improve internal connectivity and external linkages to support wider economic contacts and national and international trade. But equally important is soft infrastructure as evidenced by the need for universal high speed broadband and improved mobile networks in the North East (critical in rural areas) and social infrastructure – the development of networks to facilitate the exchange of knowledge and improve labour market mobility. An analysis of the infrastructure that underpins all the key sectors in the regional economy needs to be part of future plans and housing provision must be a critical component of this work.

For instance, in terms of the rural infrastructure is it adequate to sustain growth in market towns and allow for home working in rural areas, as well as supporting agriculture and industries such as forestry? As regards tourism infrastructure are the facilities in place to ensure the Region secures the maximum value out of the tourist economy? In terms of expenditure, the new infrastructure needs of the North East will be a major draw on existing resources. To secure maximum advantage there will be a need to set priorities, establishing which sectors and areas are the most important in helping to secure international competitive advantage and explore new ways of funding infrastructure (specialist infrastructure funds and pension funds for instance). There will be difficult decisions to take to ensure that the new infrastructure that is developed for the Region maximizes regional advantage: that must be the guiding principle.

CHALLENGE 4

Creating a competitive inward investment marketing capability

For much of the past thirty years the North East has been a major beneficiary of foreign direct investment (FDI). From 1988 to 1997 the North East attracted over 600 projects, which created over 75000 jobs and involved capital expenditure of almost £9bn. These investments also led to profound changes in the regional supply chains, the benefits of which are still being felt today. This level of performance was achieved by a high level of co-ordination between regional and national agencies and quality execution at a local level. Since 2005, however, there has been a steady decline in the number of projects secured and the jobs created as a result.

At the same time a more fragmented marketing and project management approach has emerged. This, of course, is equally true of domestic investment, be it from the private or public sectors. Today, there are in the North East 2 LEPs and 12 local authorities who are all involved to differing degrees in attracting FDI to the Region: key sectors are being targeted independently by several local authorities and there is very little recognition of the bigger picture. Major international investors are not interested in sub-scale partners. They wish to engage with organizations that have the scale, expertise and resources to deal with every aspect of their needs. This is equally true of domestic investment, be it from the private or public sectors. This is an institutional failure, which urgently needs correcting. An agreement has to be reached which allows the North East to compete effectively in the global market for FDI (a market which is still very important to the UK, data for 2016 showing an inflow of £197bn making the UK the largest recipient of FDI in the EU and second only to the USA globally). Competition is intense – between regions and countries in the UK and internationally – and is likely to become more so as the UK seeks to take advantage of the potential opportunities opened up by departure from the EU; however, with its North Sea coast, eastward facing ports and long history of trade with northern Europe and the Baltic States, the North East also needs to develop a distinctive strategy for re-engagement with European trading partners.

The goal is to focus on high value-added inward investment that can also work with and strengthen the regional supplier base: the Region has to recognize that this type of investment has to be secured in competition not only with regions and cities internationally but also with London, the South East and the Cambridge/Oxford corridor. Sights need to be set high to create the desired high value-added economy by 2040, but to compete the institutional capacity has to be improved markedly.

CHALLENGE 5

Expand financial institutions based on local capacity building

Recent reports on regional strategies have all emphasized access to finance as a key weakness in the regional economy. There are two aspects to this issue; on the supply side there are concerns about a shortfall in proof of concept funding and access to debt, mezzanine and venture capital finance and on the demand side there are low levels of new firm formation and business growth. As one indicator, patents granted in the North East are currently 26.5 per million of population compared with a national average of 56.4. Equally, the proportion of GVA spent on R&D in the Region is 1.2% against a national average of 1.9% and finally of the approximately 50,000 SMEs in the Region 87% employ fewer than 10 people.

Overall the North East is less innovative than virtually every other region in the UK. The North East has fewer small companies with the capacity to scale up and a lack of those high level skills necessary to drive high rapid growth: as one indicator the North East has 38 business per 1000 working age residents compared with 60 nationally. To progress the ambitious agenda of economic and social change in the North East the Region needs a Regional Development Bank, locked in by local stakeholders, through a mutual model, but operating as a centre of funding expertise and an agent for securing finance from multiple sources.

The Bank would be headquartered in the North East and would seek to recruit high caliber individuals, able to deal with investors, commercial partners and public sector stakeholders alike, allowing it to react more nimbly to the specific needs and opportunities of the Region – not only in terms of SME finance but more broadly through 'coralling' funding for infrastructure and inward investment projects. The Bank would be funded by institutional sources, potentially with public sector seed funding and could be a resource for the public and private sectors alike. It would earn money commercially through the delivery of progammes and fees on the execution of projects. It would be pro-active – identifying and driving new opportunities as well as reacting to the needs of partners and stakeholders.

Some of the components of such an institution are already in place in the Region (for example North East Finance which runs the highly successful regional JEREMIE programme). The multiplier benefits too – in terms of generating activity within the local professional services sector, graduate retention and developing confident multi-skilled and multi-competent business leaders – should not be underestimated. The creation of Atom Bank in Durham (the UK's leading on-line fintech bank) for example and the collateral benefits this start-up has generated, have demonstrated the powerful impact of locally-based, high quality financial institutions.

Whilst the British Business Bank has an important role to play, specifically in the area of SME finance, by definition any national institution will find it more difficult to respond to the specific needs of a 'place-based' economic strategy. Importantly, the BBB would be well placed to act as a national co-ordinator or partner to a network of such place-based institutions across the UK.

CHALLENGE 6

Creating a climate of encouragement for enterprise

By 2040, the North East economy will have reinvented itself: it will have become a 'beacon region' – highly regarded nationally and internationally. Certainly, there are physical things that need to change – getting the right infrastructure in place, creating a highly mobile, highly skilled workforce, cities, towns and rural communities which are all contributing to regional success and, finally, a North East which contributes more in tax revenues than it draws down in social support.

To achieve these ambitious goals, there needs to be above all a clear focus on promoting a culture of entrepreneurship, providing in-depth support for start-up businesses on a consistent basis, ensuring appropriate access to finance is available along with high level advice, mentoring and high quality business services. This must be allied to developing an enterprise culture in schools, colleges and universities, to ensure there is a constant pipeline of opportunities for individuals to exploit and commercialize. Enterprising people working in an enterprising economy will ensure that success is sustainable over time, providing a successful environment for long-term growth in the North East. These mantras do not apply solely to the private sector; the public and voluntary sectors can equally be guided by these standards.

Already, many private sector initiatives have emerged: the PIE programme in Newcastle; the IGNITE tech accelerator (developed in the North East and now rolled out nationally); the InCredAbles initiative and the hugely influential Entrepreneurs Forum. Many more innovative programmes are emerging spontaneously in London as well as in Berlin, Tel Aviv and elsewhere. The Region needs more of this. There is an urgent need to work with local authorities, social enterprises and businesses (through their CSR programmes) to take these inspiring examples and positive messages to schools and communities across the Region.

CHALLENGE 7

Creating a cadre of individuals able to straddle the public and private sectors who can offer the Region leadership

This is probably the biggest challenge, but one which underpins all that could happen for the better in the North East over the next twenty years. The loss of so many iconic businesses (headquartered here) over the past 40-50 years has clearly impacted the quality and depth of leadership resources. We lack the individuals that can hold their own with Government Ministers or overseas trade delegations, as well as leading successful commercial, public sector and third sector organizations.

There is currently fragmentation of regional leadership in the public sphere – two LEPs, no strong single local government body covering the region, and two elected Metro Mayors, one in the North of Tyne and the other in Teesside – leading to severe weakness in our ability to offer a united representation nationally.

The huge transformational change needed over the next two decades requires dynamic leadership. The challenge is how to bring together the brightest young politicians, public servants, business people and social entrepreneurs with a common interest in seeing the North East succeed.

Note

* This note was prepared following collaboration with John Bridge (ex chair of the regional RDA) and Andrew Mitchell (head of NE finance)

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NORTH EAST ENGLAND CAN BOUNCE BACK FROM COVID AND BREXIT

JAMES RAMSBOTHAM CBE

> "North East England is not a problem to be solved by the rest of the country but an asset that should be maximised on behalf of UK PLC"
>
> *North East England Chamber of Commerce Manifesto 2016.*

THIS REGION of England has so many key strengths which are central to the long-term economic future of the United Kingdom as we establish ourselves in a post-Brexit (and, hopefully, post-Covid) world and as we strive to achieve 'Net Zero'. What will we need to do to deliver this potential?

We are providing so much innovation in green energy, digital, health and life sciences. Our exporting base delivers a consistent positive balance of trade and our expertise in advanced manufacturing has attracted investors from around the world.

The Chamber of Commerce is a constant advocate on behalf of North East England and its business community, and works tirelessly to promote the region and create a strong and vibrant regional economy.

North East England has faced historic underinvestment, it has deep socio-economic divides and is still facing a long-term reduction in GDP per head from the 2008 recession. The North East entered the Coronavirus crisis with higher unemployment, higher economic inactivity and lower GDP per head than the UK average. We are already seeing the economic impact of Covid hitting the North East the hardest and the region now finds itself with the highest unemployment rate, the lowest employment rate and the lowest average hours worked of all British regions. It has never been more important to address these underlying issues, enable all parts of the UK to deliver to their full potential and make genuine progress towards 'levelling-up' the economy and tackling the North-South divide.

As part of the recovery process from the pandemic, we need to understand which parts of our economy and our society will have been most impacted, where support will provide the best opportunities and how best to speed up the economic regeneration. We encourage support to be put in place for the regions and the people most impacted by Covid. The right investment in our region by Government and businesses alike will deliver huge social and economic returns.

We cannot, however, address this without also facing up to the challenges posed by Brexit. The exporting prowess of the North East is based on our geographic location with all our Ports facing East across the North Sea towards Europe. Almost two thirds of our exports are destined for the EU. Damaging our trading relations with this economic bloc will cause greater harm here than anywhere else in the UK.

All considerations of our future must address the very real challenges of both Covid-19 and Brexit. We need to particularly understand which parts of our society and economy are most adversely impacted so that we can take pre-emptive action.

COVID

Impact on the economy

The North East has the highest proportion of small businesses in any region of the UK and a disproportionate reliance on manufacturing and construction industries which are less able to implement working from home policies. The pandemic has, therefore, had a deep impact on the North East's business community and economy. The Chamber's Quarterly Economic Surveys in 2020 have revealed the extent of the impact: on a number of key indicators, including sales, recruitment, training investment plans, cashflow and projected future profitability, Chamber members have reported record low performance and confidence. According to the ONS, 6.9% of businesses in the North East intend to permanently close over the next three months.

The impact of Covid-19 has and will continue to be disproportionately carried by businesses in the arts, culture, hospitality, accommodation, transport and aviation sectors. For many of these industries, recession caused by reduced demand is impacting their ability to operate profitably. According to the Chamber's Quarterly Economic Survey for Quarter 2, reduced demand was considered by contributing members to be one of the main barriers to business success. As well as reduced demand caused by government restrictions, social distancing regulations reduce business operational capacity. It is estimated that outlets in the hospitality sector could make 30% of pre-pandemic revenues with two metre distancing and 60-75% of revenues with one metre regulations. It is likely that social distancing will continue to be necessary for the foreseeable future even as vaccines continue to be rolled out.

For many businesses, the most significant cost is staff wages and benefits, which in a prolonged period of artificially reduced business operational capacity, is unsustainable for many. The Government's recent extension of the Job Retention Scheme is an important step to supporting businesses in badly impacted sectors. However, for much of this quarter, businesses were expecting the Job Retention Scheme to end and to only have access to the significantly less generous Job Support scheme. During this quarter, 314,000 people were made redundant in the UK, far surpassing the previous record high redundancy rate seen in the 2008/2009 financial crisis. The North East's unemployment rate has continued to rise to 6.7%, the highest unemployment rate in the UK.

It is important to mention that the North East's relatively low reliance on tourism and the larger than average public sector has likely mitigated some of the immediate impact of the crisis on the region. However, looking ahead, the North East's existing vulnerabilities of high unemployment, fewer employment opportunities and a generally lower paid and lower qualified workforce could leave the region disproportionately impacted by the pandemic and slower to recover than other regions of the UK.

Impact on society

These job losses will not be spread equally across demographic and economic sectors. Previous recessions have taught us that it is the low paid, the young and those on insecure contracts who are more likely to lose their jobs. However, unlike in previous downturns, this recession has particularly impacted sectors which offer face-to-face services, for example hospitality and non-food retail, which typically offer lower wages and employ large numbers of young people. Data from the ONS in October highlighted that youth unemployment nationally was 14.6% compared to 4.8% for the whole population. Unemployment for 16-24-year olds had increased by 17% over the last six months. This was the most impacted age group in the region where 18% of under-25's are unemployed.

What is more, this crisis is accelerating longer-term structural economic changes, such as automation and digitisation which again could change the types of skills in demand and render some job roles obsolete, leaving 1 million people in jobs which will not return after the pandemic.

Uneven impact of Covid on society

Many of the sectors hit the hardest by Covid tend to employ younger people making the under 25's more likely to be facing redundancy compared to other age groups. Research from the Resolution foundation shows that in all sectors the low-paid are also more likely to be furloughed than their higher-paid counterparts. This disproportionate impact on the low paid and people on temporary contracts will help to entrench inequality in society with Black, Asian and minority ethnic workers and women more likely to be out of work. The Resolution Foundation reports that 60% of low paid employees in 2018 were women and a report from the TUC in 2019 highlights that that Black, Asian and minority ethnic workers were more than twice as likely to be on agency contracts than white workersThere will be less obvious consequences for some – such as those who would have sought to fund their student experience through part time retail or hospitality work who may now decline to attend further or higher education.We need to see measures targeted at people on the lowest pay and working in the most impacted sectors. Economic support also needs to be tailored towards regions facing difficulties before Covid in order for the Government to meet is 'levelling up agenda.'

Impact on towns and cities

Covid has had a large impact on our towns and cities with a reduced footfall and many businesses impacted by public health restrictions. Over recent decades, we have experienced a drift of residential provision to the suburbs leaving city and town centres as cultural, retail, leisure, hospitality and commercial hubs.

The sectors hit hardest by Covid restrictions are those clustered in urban centres relying on the ability to attract people in a face-to-face setting. Increasing working-from-home coupled with requirements for social distancing have devastated many enterprises even without enforced lockdowns. We are in danger of hollowing out these urban cores.

Many of those living in city centres are students and under-25's who inhabit cheap and compact flats, Living Over the Shop (LOTS) and Houses of Multiple Occupation (HMOs). With reduced commuting in to centres this cohort is not going to sustain these urban economies.

Changes in travel patterns with concerns over using public transport and restricted parking in city centres is also having an adverse impact.

Digital divide

The pandemic has highlighted the digital divide in society with some people unable to access essential online services such as job opportunities, benefits, healthcare appointments and online learning at schools and universities. According to the ONS 12.1% of the North East in 2018 were non-internet users and 12% of the population had zero basic digital skills whilst only 6% of people living in London lacked basic digital skills.

Due to public health restrictions an increasing number of services are online. As well as businesses upskilling staff and working with communities in the North East around digital skills, we need the Government to provide digital skills programmes for people and digital equipment for people without access.

People with disabilities across all age groups are all more likely to be non-internet users. At the Chamber we are working with businesses around digital inclusion and how to make online working accessible for everyone as part of a fair recovery.

The economic impact from the pandemic is not evenly distributed throughout society, we need to recognise this and ensure a fair economic recovery process to avoid a recession further entrenching inequalities in the North East. Without support the economic impact of Covid will increase inequalities both within and between regions in the UK.

The requirement for everyone to be digitally enabled and skilled is only going to increase and whilst we may believe that the younger generation is more adaptable in this regard we should be very alert to those who are being left behind.

Multiple whammies for younger generations

Many have focused on the danger of Covid to the over-60's and the ability of many younger people to experience less harmful asymptomatic Covid infections, suggesting that the younger generations have very much less to be concerned about from the pandemic.

The long-term impact on the younger generations may be much more challenging as they experience four changes that will potentially reduce their future opportunities. Firstly, many have had a reduced benefit from school, college and university during the last ten months and a disrupted conclusion to their full-time education. Secondly, the sectors that have been hardest hit also tend to provide many young people with their first experience of employment, from which they learn so much. Thirdly, they will find less long-term job availability as the economic impact of Covid reverberates through the country over the next few years. Fourthly, many of those who are fortunate enough to secure employment are likely to experience less workplace interaction where it is possible to learn so much through osmosis – their whole employment integration will be of lower quality with detrimental results in the longer term.

Future actions to 'build back stronger' should provide additional emphasis on the younger generations if we are to create a society and an economy in which we maximise the potential for everyone to contribute fully and realise their ambitions. This must incorporate increased efforts to digitally enable our younger generations both for education and for employment, both in rural or urban environments. This will require broadband and tablet/laptop provision as well as greater focus on skills development.

BREXIT AND THE NORTH EAST

The economic fortunes of the North East are very dependent upon our ability to trade across the North Sea. We have a long and proud history of trade with Europe. Geographically, the North East is perfectly situated to benefit from close economic relations with the European Union, with seven Eastward facing ports looking East across the North Sea. In part, thanks to this, approximately 60% of our region's exports are sent into the European Union; the highest of all English regions and significantly higher than the UK average (48.20%). This is not a new phenomenon. The Chamber of Commerce was founded in 1815 as Napoleon was defeated and businesses worked together to take advantage of the end of the 'Blockade of Europe'. We have been working ever since to maximise trading opportunities with the Continent. Since the referendum on EU membership in 2016, between 59-61% of the annual value of North East goods exports has been sent into the European Union with nothing to suggest that there is any downward trend. Any hopes, following Britain's choice to leave the EU, that diversifying trade would protect areas such as the North East against the disturbances from leaving the European Single Market and Customs Union have not materialised.

Over the last 40 years many foreign investors have appreciated the opportunities of establishing operations in the North East. Nissan, Hitachi Rail and many others have set up large manufacturing operations close to port facilities providing good access to the EU market. The development of fully integrated supply chains and progressively advanced manufacturing has been transformational.

While the North East has benefitted from the close economic relations between the UK and the EU, our region is disproportionately at risk from the economic impacts of Britain's departure from the EU. A number of specific issues present themselves as Brexit-related risks to the North East's prosperity both in the early months of 2021 and long into the future.

Whilst the Agreement with the EU announced on 24th December 2020 was welcomed as an alternative to a 'No Deal' it compares very poorly with the deal we enjoyed with full EU Membership. The failure to provide for a period in which businesses could adapt to the new arrangements is already having damaging consequences. Whilst the new Agreement has protected much trade from tariffs it has created a great many non-tariff barriers that are costly both financially and in causing delays. There is a huge increase in the administrative burden borne by businesses trading with the European Union through an increase in the required customs declarations and associated paperwork. Adapting to new Rules of Origin is causing many EU and UK businesses to reconsider their supply chain arrangements and there are many additional costs related to VAT and other bureaucratic processes which were previously unnecessary.

The net effect of all of this is to make British exports fundamentally less competitive in its largest market. As a region that has a higher per adult export value than all of England except London, as well as our reliance on the European Union, these barriers to trade disproportionately hurt North East exporters.

The North East has also benefitted significantly from various tranches of European funding over recent decades. It remains unclear how this will be replaced by the 'Shared Prosperity Fund'. There is a fear that this will not be an adequate replacement for EU support which will hamper development for the communities who would most benefit and deliver the greatest opportunities.

Nissan in Sunderland

Sunderland is currently home to an automotive assembly plant owned by Nissan. This plant sources parts and expertise across the region employing tens of thousands of people. It is the largest of its kind in the United Kingdom and, as of 2019, 70% of the 500,000 vehicles assembled here annually are then sent into the European Union. The non-tariff barriers created by Brexit make it much harder to compete within the Renault-Nissan internal market whilst operating a just-in-time supply chain. It will be much more challenging to win new models to the Plant in the future. It is a relief that they have announced a commitment to producing the existing and committed models but the difficulties in reducing operational costs further to win future internal 'beauty parades' will put these jobs at risk.

The Society of Motor Manufacturers and Traders (SMMT) has highlighted that many businesses within automotive supply chains operate with a relatively slim profit margin on their products, in the area of 3-4%. This leaves very little capacity for innovation and R&D and so any erosion of this margin will be disproportionately damaging to the UK automate sector.

The loss of the automotive sector would lead to tens of thousands of job losses but would also cause immense damage to the wider self-confidence of the region. It would re-kindle memories of the loss of other heavy engineering and mining industries in the past. So many other businesses have benefitted in the region from employing ex-Nissan employees who have brought new working practices which have seen huge improvements in many broader sectors. The longer-term loss of this expertise would be very far reaching.

Competitiveness / Customs / Investment

It is already clear that leaving the European Single Market and Customs Union is causing many UK businesses to become significantly less competitive than European rivals. Decisions regarding investment are often determined by 'tie-break' factors if all else is equal – such as the administrative burden associated with each site. With sites in the UK having to complete a significantly larger number of pieces of paperwork and other bureaucratic steps than a similar site in Europe, then there is little incentive to choose to invest in the UK.

Estimates suggest that the number of required customs declarations made by UK firms in 2021 will increase from approximately 50 million to in excess of 300 million and there are already signs of pressure as businesses are working to source the required expertise and staff required to complete these declarations. A significant percentage of both UK and North East traders have previously traded exclusively with the EU enjoying the free movement of goods, meaning that they are experiencing this bureaucracy for the first time. For many, this is not just an additional workload but a brand-new skills requirement making it a significantly more difficult adaptation and something European firms will not have to address.

In 2018/19, the North East had more than one and a half times more jobs per person created due to Foreign Direct Investment (FDI) projects than across England excluding London. This puts the region in an increased position of vulnerability when it comes to changes that could reduce the level of FDI coming into the region as more of our job growth is driven from foreign investment than elsewhere in the country. The North East also has the highest percentage of foreign-owned businesses (4.7%) of all English regions and any change that jeopardises future foreign investment will disproportionately impact the North East.

In addition, the continued delays, pushing back of key dates and lack of progress in negotiations between the UK and the

European Union have brought about a climate of uncertainty about the UK and the North East's economic future. This lack of clarity for businesses has meant that investment decisions for North East firms have been continually delayed, holding back our region's prosperity. As well as this, businesses who have multiple sites across the world have been choosing to prioritise investment elsewhere specifically because of the lack of clarity over Brexit. A number of organisations have said that, before the 2016 referendum, their North East sites were considered the primary choice for investment decisions, but from 2016 onwards it has been harder to justify to senior management investment in our region.

Opportunities?

Britain leaving the European Union may also present some opportunities for the North East.

With an independent trading policy, Britain will be able to sign its own bilateral Free Trade Agreements with other nations which has not been possible since Britain joined the European Economic Community in 1973. When negotiating a trade deal, UK negotiators will be able to better suit the content of a trade deal to the UK economy. The government also has an opportunity now to match trade policy with aims to 'level up' regions such as the North East, by tailoring free trade agreements to sectoral economic strengths in regions such as ours, allowing greater opportunities for export for businesses here. Sectors such as automotive, chemicals, renewable energy, digital and the inclusion of a specific SME chapter in all trade deals would be beneficial for North East traders and help level up our region.

One other way in which levelling up and trade policy could be aligned is through focused efforts to grow the North East export base. The current North East export growth rests on the strong performance of a relatively small group of exporters. As has already been mentioned, North East exports have a higher value per adult than elsewhere in the UK, but the regional figure of 20 exporting businesses per 10,000 adults is the lowest figure across all nine English regions. Expanding the number of firms currently exporting with targeted financial support and tailored guidance, as well as securing opportunities through trade agreements will be of great benefit to future prosperity in the North East.

There is considerable discussion about the establishment of 'Free Ports' providing free trade zones in which businesses can operate without incurring import or export tariffs or restrictions. The ability to import parts from around the world with which to assemble or manufacture finished goods to be exported without customs costs or restrictions is an attractive idea for many. This is best done with direct port access and the ports in North East England continue to offer sites for development (unlike ports in other parts of the UK which are often already heavily congested). However, the nature of the UK-EU Agreement, with many goods free from Tariffs, means that the heralded advantages of Free Ports are significantly reduced and so less attractive.

THE FUTURE

The North East is likely to be more adversely impacted by Brexit than any other part of the UK. We will have to redouble our efforts to automate and digitalise to close the productivity gap and improve resilience. At a time when our younger generations are experiencing so many challenges from the Covid pandemic, as they themselves are transitioning from education into employment, we need to ensure that we do everything possible to provide them with the best possible opportunities to achieve their potential and their ambitions. I would argue, therefore, that the younger generations in the North East require more focused engagement than any other part of society in the UK. Releasing their full potential will deliver lasting benefit to the North East and UK PLC.

Many of our traditional industries are going to have to redouble their efforts to digitalise and automate as Brexit makes so much of what we produce less competitive in the global marketplace. Changing working practices and digitalisation will enable us to reach more customers and clients as well as allowing for increased productivity and flexible working. A new research paper by Siemens Financial Services estimates that digitalisation has the potential to add £1.65 billion to manufacturers' revenues in the North East alone with reduced energy consumption, reduced time to market and improved product quality. Government should consider schemes which allow businesses to invest in digital equipment, upskill their staff and allow for businesses to better adapt to new ways of working. Government should also invest heavily in a comprehensive high-quality digital infrastructure to ensure that people living and working in both urban and rural areas are able to fully participate in the economy.

As part of this we must also reimagine what our places are for. Town and city centres have been places that attract younger generations as locations in which to live, work and play. Covid has begun to accelerate change across our High Streets and we need to find ways to transform our urban areas, which in many places have provided so much to so many but have mainly focused on the provision of residential accommodation to students and young professionals. Whilst we will increasingly return to our offices, there is every likelihood that working-from-home is also here to stay to a far greater extent. The increasing migration to online retailing will see further decline in the physical retail offer leaving many empty premises and fewer customer facing opportunities for those willing and able to work for lower wages. Failure to adapt will leave many behind. Planning restrictions on 'change-of-use' will need to be relaxed. We should look to find new ways to accelerate Smart City development; to green-up our cities; to transform vehicle access and to redesign residential buildings to provide appropriate parking. Whilst we will need to attract a much wider range of people to desire residential accommodation in urban areas, we must remain alert to the impact on the under-25's.

We must try to provide the right environment for smaller retailers but also for innovative start-ups, charity and community activities to ensure that town centres are dynamic, interactive spaces fit for the future. The drift over recent decades to see retail/leisure, commercial and residential activities as distinct and contained in separate 'zones' needs to be re-evaluated. If we are to maintain thriving city and town centres, we will require initiatives that encourage greater urban residential provision. Measures such as reforms to business rates and increasing the towns fund can help to and revitalise towns and cities as centres of economic and residential activity.

We must focus on building an inclusive society that believes it can achieve 'Net Zero' but which develops our rural and urban environment to encourage all generations to be able to work, live and play in the same proximity. In so doing, we should establish a working culture which embraces younger generations with meaningful work experience, provides encouraging induction together with lifelong learning. In a post-Brexit (and, hopefully, post-Covid) world we need to be globally connected and ensure that our younger generations are encouraged and included more than ever.

The North East is bursting with untapped ability but, if we are to realise our ambitions and maximise our contribution to UK PLC, we also need to utilise the natural resources of the Region. We have a surplus of some of our most basic requirement such as water, energy, land and a motivated workforce – we need to do everything possible to optimise their value.

To achieve this, we will require financial investment from Westminster (in the absence of EU funding) and active encouragement for Foreign Direct Investors. This will be particularly important if we are to fully enable future generations both in their education and subsequent employment. It will be central to our closing of the productivity gap and improving the competitiveness of our advanced manufacturing and other world-class businesses to be able to take on the world beyond Europe. We can build back better and ensure that the North East is one of UK PLC's greatest assets.

PART II

LONDON

5

AN AUTONOMOUS LONDON

JOHN STEVENS AND DR ANDREW BLICK

Amongst the more curious consequences of Brexit, given that it was, in part at least, inspired by a rejection of a federal destiny for the European Union, is the revival of advocacy for precisely such a structure for the British Union. This has been more evident on the Left than on the Right. Certainly Sir Keir Starmer's support has been widely interpreted as being so far his most radical policy initiative. But it has extended even into the hallowed high Tory counsels of Lord Salisbury's *Constitution Reform Group*.

The post-Brexit rise of Scottish, and now also Welsh nationalism, obviously represents a serious challenge for the Labour Party, whose losses in its erstwhile northern English heartlands at the last election have led to existential doubts about its capacity ever again to secure power at Westminster without the intrinsically anti-Conservative sentiments Celtic exceptionalism inspires. And Brexit has entrenched the intrinsically pro-Conservative sentiments English exceptionalism inspires, making a Labour majority in England alone seemingly a remote prospect. But it also obviously represents a serious challenge to the Conservatives. Scotland's leaving the British and joining the European Union would not simply threaten the Monarchy, the nuclear deterrent force and the image of England in the world. It would make it very difficult to declare Brexit as anything other than a national fiasco. And Brexit is all that gives contemporary Conservatism any sort of distinctive colour and coherence.

Some form of federalisation of the United Kingdom is thus increasingly considered essential for its preservation. But this is equally widely recognised only to have meaning if England itself is federalised. So there are two issues: can English exceptionalism be persuaded to tolerate sub-division into significant regional entities, in preference to the greater national power afforded by Westminster centralism, and if so, will that persuade Celtic exceptionalism to tolerate remaining in the UK in preference to the greater national power afforded by membership as an independent state of the European Union? London's place in the first of these issues is clearly central. Though the devolution it has been granted by having a directly-elected Mayor and an Assembly placed above the boroughs for several key functions, notably policing and transport, is relatively modest, even when compared to the powers granted to the Scottish Parliament, it nevertheless represents the only significant proto-federal English component of the UK polity. Given this, and the saliency of the integrity of the UK in this May's Scottish elections, it is perhaps surprising that in the simultaneous

London elections, none of the main contesting parties is proposing any increase in the powers of the Mayor and Assembly, let alone to a level equal to that already granted to the Parliament in Edinburgh.

Why might this be? Possibly because much of the present talk of UK federalism is simply an attempt to reverse the rise of Scottish nationalism. Another referendum on independence, if it still delivered another vote in favour of the Union, might create the circumstances in which Scots would settle for a federal UK, but it might equally leave a continued state of resentment that merely looked to yet another opportunity to break with England. For this and other reasons, the present British Government has already declared it will strenuously oppose granting such a referendum, asserting that the 2014 vote was "for a generation". Or perhaps the absence of debate on new powers for London is because it is widely assumed that any sentiment of a distinctive London identity will never reach the stage at which powers comparable to those granted to the Scottish Parliament would be needed to accommodate it?

Both these explanations are very plausible. Brexit has changed much. As to the former, it has provided the most dramatic demonstration of England's domination of Scotland's fate. It was won by arguments which are effectively the same as those now deployed by the Scottish National Party for independence from England. And it must be added, granting another referendum on Scottish independence in any near future would undermine the solidity of the referendum which chose Brexit in 2016. As to the latter, it has led to a significant number of EU citizens leaving London, perhaps never to return. But estimating the impact an independent Scotland in the EU, if that were to come about, might have upon any sentiment of a distinctive London identity is very difficult. Combined with the severely negative impact upon London of Brexit, in financial services, and in the creative and cultural industries, and its vulnerability to the changes to big cities generally which the COVID crisis could entail, Scottish independence might prove the catalyst that created serious demands for a devolution of powers consistent with a fully federal England. Such is London's economic, cultural and political weight, these could scarcely be resisted for long. So London could become the decisive driver creating a fully federal England.

But perhaps these pressures might take London further, to the point where the metropolis' antipathy and resentment towards the rest of England, which imposed Brexit upon it, could only be assuaged by a return of the whole country to the EU? And what course might London take if such a return were refused by the rest of England? All this constitutes an additional source of tension to the resentment of the rest of England towards London which was an important component of the vote for Brexit. A dangerous gap of future fundamental interest and strategy, not merely of prosperity and culture. It is the task of serious politicians to think how this gap can be bridged. In the following essay, Dr. Andrew Blick has some interesting and constructive ideas about how to bring this about. Leavers, in the 2016 referendum campaign, often portrayed the Remain convictions of London as proof it was really a foreign country. Incredible though it would have seemed before 2016, it is now even possible to imagine, if only in this, that they could be proved right.

Perceptions of London

The image of an overprivileged, overpowerful London is a potent one in United Kingdom (UK) political discourse. It has wide appeal as a rhetorical device. Within England, for instance, on the left, Labour metro-mayors outside London can present themselves as seeking more equitable treatment from and with the dominant city. Conservatives, on the other hand, with their newly-found support base in the wake of the 2019 General Election, can depict themselves as seeking to 'level up' – that is elevate less prosperous and fortunate territories onto the same plane as London. Beyond England, for example in Scotland, reference to London, as an English conurbation, can imply the site of what, for many, is an unwanted and even illegitimate constitutional authority and centre of the Union. Advocates of a UK federation, including myself, have held that one of the arguments in favour of the introduction of such a system is that it would enable a dispersal of some of the functions and activities that are presently, to destabilising effect, concentrated in London. In countries such as the US and Germany, financial, commercial, political, and cultural power is more territorially dispersed, rather than being focused on a single point. In this sense, arguments for a federal UK of this type treat London as possessing an unhealthy monopoly, the ending of which might be to the general good.

All of these accounts, though containing many differences of outlook and objective, tend to present London as in a position of privilege, at the expense of other parts of the UK. They have a degree of justification. The UK, for instance, remains a centralised state with key political, legal and constitutional powers and institutions based in one place. London is a UK and world centre for commercial and financial activity and is a location of immense wealth. That – even in a post-devolution UK – it might be perceived as favoured, possibly to the detriment of other parts of England and the UK, is understandable. But a parallel perspective is possible: one that treats London less a beneficiary of the UK political system than might be imagined, and as in some senses on the receiving end of its problematic anomalies and distortions.

The case for autonomy

The concept of London as it appears in the scenarios discussed above often in fact refers to a set of institutions that are located in the city, but do not necessarily reflect the inclinations or perceived interests of the bulk of those living in the conurbation. The borough of Tower Hamlets, for instance, suffers from considerable socio-economic deprivation, yet is proximate to a conduit for financial transactions of vast scale. In some analysis, the economic system with which the City of London is associated contributes to the very inequality that this consideration of its immediate locale makes so stark. In this sense there are two Londons; one of which does not benefit from the privileges of the other.

The political aspect of this paradox is of particular importance for present discussions. A common complaint among advocates of devolution and of independence for Wales and Scotland is that these nations are frequently governed at UK level by groups that do not reflect the election results in these particular territories; and that pursue courses of action detrimental to them. The term 'London' might be used in such depictions of unwanted and malign administrations. But similar complaints might be made on behalf of this very urban centre.

London, overall, is a Labour-inclined territory (though it played a crucial part in advancing the career of the present Prime Minister). It is the case that it prospered economically to a greater extent than other parts of the UK during the 1979-1997 period of Conservative government. The Prime Minister for the first eleven years of this era represented a London constituency. But, in 1986 this administration abolished the Greater London Council (GLC), leaving it without its own single elected form of government, restored in the form of the Greater London Authority in 2000. The last time that the 'winning' party in London at a General Election also went on to form the UK government was in 2005.

In 2016, just under 60 per cent of those who voted in London supported 'remain' at the European Union referendum of 23 June. London (like Scotland and Northern Ireland) can therefore be said to have had Brexit forced on it against its will. Yet the consequences of this course of action for London are disproportionately large. Its economy (which is, for better or worse, of importance to the prosperity of the entire UK) was dependent to a significant extent upon the free movement of people, capital, goods and services that the European Single Market provided. The votes of the 2,263,519 people in London who supported remain were treated as irrelevant. Furthermore, EU citizens residing in London at the time of referendum were excluded even from taking part, because of the franchise employed (which largely, though not entirely, followed that used for General Elections. The 2014 Scottish Independence Referendum included non-UK as well as UK EU citizens, as did European and local elections). As a consequence of Brexit, it is no longer, when living in London, possible to enjoy the rights of EU citizenship, whether as a UK or other national. Furthermore, London no longer takes part in the election of members of the European Parliament. Yet the activities of the European Parliament are likely still to have significant implications for London, perhaps more than many other parts of the UK. A European democratic deficit has therefore opened up. The two General Elections since this referendum have seen further differentiation between the London and UK outcomes. In 2017, over half of votes cast in London were for Labour, and the party increased its majority of seats won in the city. But the Conservatives retained power (albeit with a minority in the House of Commons). In 2019, there was a swing away from Labour in London. But unlike in some other parts of the country, it was towards parties that were more clearly opposed to Brexit, in particular the Liberal Democrats, rather than to the Conservative or Brexit Party.

A model for autonomy

Resentment regarding such mismatches between the balance of opinion in a particular territory and the administrations and policies to which it became subject have been a major source of support for greater autonomy and even independence in Wales and Scotland. They are a reason that both nations now have full devolution, with directly elected parliaments, tax-raising powers, and executives. These systems have come under pressure in the Brexit era (and it is not certain that all the territories involved will, over coming years and decades, remain part of the UK at all). But they provide far more extensive self-government to the areas involved than anything on offer in England, including the GLA.

London devolution was part of an early wave of this form of government, introduced by the Labour government that first took office in 1997 (though there had been an earlier system of devolution in Northern Ireland). It took place broadly in parallel to initiatives for Wales, Scotland and Northern Ireland. All four received prior approval in referendums held in the territories concerned. In this sense they all possess a degree of political entrenchment. The initial Labour plan was eventually to introduce devolution across the whole of England, thereby covering the entirety of the UK. This process stalled following the rejection of a proposed North East Assembly in 2004. In the mid-2010s, the coalition and then Conservative governments returned to the idea of English devolution, generally entailing the transfer of powers to groups of local authorities and the introduction of directly elected mayors. London devolution therefore has origins as part of a subsequently abandoned model. This model was returned to in a different form, but remains incomplete. At present, the GLA – composed principally of a directly elected Mayor and Assembly which performs only a relatively weak oversight role – has powers in the following areas:

- Transport;
- Housing;
- Planning;
- Economic development;
- Fire services;
- Policing

From the outset, London devolution was the most modest of the four devolution systems brought into being under Labour. It remains so, and the gap between it and these others has widened. There have been certain increases in its authority over time, notably in 2007 and 2011. Boris Johnson, a former Mayor of London for whom this office was a staging post on the path to a higher ambition, seems disinclined to bolster the powers available to his successors at devolved level. But even among those who advocate expansions in the powers of the GLA, their proposals – though worthy – tend to be notable mostly for the extent of their adherence to existing paradigms, to the exclusion of any serious ambition. They tend to focus on such matters as limited expansions in the ability to vary certain local taxes. They do not involve the transformation of London governance into an autonomous, self-financing, primary law making entity, able fully to address the diverse needs of the territory, such as will be explored in the rest of this chapter.

Some might hold that London should not be directly compared to Wales, Scotland and Northern Ireland, the first two of which are nations, and the third of which is often regarded as a special case. Yet, though not a nation, London has a history of comparable length to that of these units. It is a geographically, culturally and politically distinct entity, with global visibility. Moreover, to employ international comparisons, there are clear examples of the inclusion of cities or city regions as states within federal systems: for instance – in Germany – Berlin, Bremen and Hamburg. In population terms, London is larger than any of the other devolved territories; as it is by various measures of economic output.

For these reasons, there is political cause for and potential credibility to a claim that London be provided with devolution on a scale comparable to that available at its most extensive in the UK. There seem no defensible grounds for arguing that the people of London can be trusted with self-government any less than those in any other part of the UK. The pertinent model in this case is Scotland, to which the most substantial powers have been transferred. What would be the implications of the application of the Scottish model to London? The following is an initial discussion of prospects, on which more detailed work, this author suggests, would be a useful exercise.

The powers London could expect to obtain (or retain) would fall in areas including:

- Health and social services;
- Fiscal power including income tax bands; air Passenger Duty; and the assignment of a proportion of VAT levied.
- Local government;
- Law and order;
- Education and training;
- Culture;
- Housing;
- Tourism;
- Economic development;
- Transport

Some of the devolved powers, for instance for agriculture, would be of less relative significance than in Scotland, though no doubt there would be decisions to be made and policies to be applied over matters such as standards. Areas including health and education would be immense responsibilities, given the concentration, for instance, of hospitals and higher education institutions in London. The 'reserved powers' model envisaged here is significant. It means that any sphere of activity not expressly retained at the centre is by implication devolved. This arrangement creates potential for creative initiatives, particularly when coupled with the availability of resources. I use the term resources in a broad sense. London has many, to which an autonomous London government would have access. Some are 'soft', resting, for instance, on the status of London as a globally recognised entity. Others involve infrastructure such as public buildings. This discussion leads inevitably to money, and the tax-raising powers that would be transferred to London. Because of the size and nature of the London economy, the sums to which an autonomous London as envisaged here would potentially have access would be far greater than those available to the Scottish Parliament (or its Welsh or Northern Ireland counterparts); providing significant scope for a variety of policy initiatives across the different spheres of operation.

In some senses, devolution in Wales, Scotland and Northern Ireland have been projects made possible by subsidy through revenue transfer. An autonomous London could, if given the power to do so, be in a better position to support itself. Potentially it could use taxation not only as a means of raising revenue, but of economic management. There would probably be complex implications for matters such as the mechanism for the redistribution of funds between parts of the UK. The 'Barnett formula' – long regarded as problematically anomalous – might require replacement by a needs-based mechanism. I recognise that here I engage with matters of utmost sensitivity, concerning what London can properly regard as its own resources and with the recognition that, if the UK is to function as a state, then fiscal transfers are needed to underpin it. However, as I have already noted, there are significant and stubborn inequities within London, partly of a territorial nature, the resolution of which might be better addressed through enhanced autonomy. Moreover, solidarity has to involve both obligations and rights for all involved. If a polity is to be regarded as a group enterprise, in which resources are to some extent shared, this expectation should presumably be accompanied by other principles – for instance, that a major break with existing political arrangements should take place preferably with a broad supportive consensus. A reason that the case for an autonomous London might now gain in force is that Brexit was imposed on the whole UK on the basis of a bare 51.89 per cent majority among those who were allowed to vote and did so (17.4 million in a country with around 65 million inhabitants). If, as seems likely, Brexit produces economic downsides rather than the swift gains its advocates projected, a degree of territorially-linked resentment might generate in London. Its inhabitants could feel disposed to question a form of solidarity that entails it having to suffer the negative consequences of an outcome (and succession of governments) it voted against. Resentment could intensify if they felt that London is being called upon to provide subsidies that will help mitigate this impact in parts of the country that produced 'leave' majorities and therefore invited such an outcome for themselves, as well as imposing it upon areas where it was not supported.

This autonomy proposal has constitutional implications. The GLA would become a Parliament, with primary law-making and extensive tax-raising powers. It might need more members to share the burden of increasing responsibility. The relationship between it and the Mayor – and the nature of the executive office of Mayor itself – would need careful reassessment. So would the balance of power between the Assembly and the Boroughs, and the way in which existing and newly-acquired authorities were shared between them. Having established the principle that it was entitled to broadly equivalent powers to Scotland, London could then instigate a convention, potentially incorporating members of the public along with politicians and experts, to consider for itself how it should manage these new responsibilities. It would address matters including structures, procedures, and election arrangements. Such an exercise could provide an important moment for London as a self-aware, self-governing polity, preparing it for the autonomy to come. In my view, no referendum in addition to that already held in 1998 would be required, since there is now ample precedent for the introduction or extension of devolution taking place without such votes taking place.

To consider the wider UK constitutional picture, the possibility of London autonomy as discussed in this paper would lessen the disparity between London devolution and that elsewhere. It might also trigger or form part of a new wave of English devolution, leading the UK towards a more clearly federal system, in which equivalents to states covered the entirety of the country. While the UK remained a single country, all of these sub-units would need to be contained within a unified internal market, already a subject of contention, however it might be realised. Such developments might also take place in the possible context of one or more parts of the UK leaving or preparing to do so.

Conclusion

A London autonomy movement might on the surface appear to be a regressive project. It could seem likely to acquire an aura similar to that surrounding northern separatism in Italy: a drive by an already advantaged territory to maximise its privileges and leave others to their own more meagre devices. But the project I have sketched here in fact involves the people of London asserting for themselves the same degree of freedom from excessively centralised UK government that has driven devolution elsewhere in the UK. Having achieved it, it will become possible for London begin to address for itself long term social inequalities within the city; and to devise meaningful responses of its own to the aftermaths of the pandemic and Brexit. Other parts of England could follow a similar path, either as part of a coordinated movement or in response to a change for London.

Yet there will be significant limits to what can be achieved while the UK remains outside the EU. No amount of autonomy can provide a substitute to the four freedoms, which proved so beneficial to London. A demand for the same post-Brexit arrangement as that introduced for Northern Ireland, as a means of maximising London alignment with the EU, could have rhetorical appeal. But given the difficulties associated with it even in the territory for which it was designed, there may be practical obstacles to the application of this arrangement to London – as well as there being various political obstacles to overcome at the UK and EU ends. Nonetheless, the development of an autonomous London could be an important step towards a more wide-ranging and radical reconfiguration of the governance of the British Isles. Modes of decision making might need more fully to recognise the need for consent from the different territories; and move away from the currently entrenched winner-takes-all approach to politics.

Some form of federal council, incorporating London and the other devolved systems, might be appropriate. The reductive interpretation of sovereignty employed by the present UK government might well be dispensed with also. At some point the UK could find itself compelled to take important decisions not only about its relationship with or membership of the EU; but also about whether it continues as a single state, perhaps on a model of confederacy or federacy, or if its different components, including London, follow their own paths. In this regard the UK could become a pioneer of new forms of political organisation, just as it once helped set the intellectual agenda for federalism and European integration.

6

LONDON: LEARNING FROM HISTORY

DAVID LONG

> "Written in Chinese, the word crisis is composed of two characters — one represents danger, and the other represents opportunity."
>
> *John F. Kennedy*

THE LATE PRESIDENT'S understanding of Chinese may have been questionable but few would argue with the sentiment he expressed to his Indianapolis audience in April 1959. More than half a century later, JFK's words still sound a powerful note of optimism and encouragement to anyone living in hazardous times.

Our own times certainly fall into that category and the word 'existential' is in grave danger of being overused not just in the press and on social media but in ordinary, everyday conversation. All civilisations decline eventually, goes the most pessimistic argument, so perhaps it is Our Time Now.

This seems unlikely. For millennia societies and civilisations have collapsed for all sorts of reasons. Accusatory fingers have been pointed at earthquakes, disease, climate change, pollution, famine, war, drought, exhaustion of natural resources, coastal erosion or just straightforward depopulation, but more often than not the archaeological evidence suggests that it is rarely one thing which finishes them off but rather the complex interplay between a multiplicity of factors. However, the historical record throws up a quite different picture too, one that highlights the astonishing resilience societies can exhibit and which shows their remarkable ability to evolve and alter. These more successful societies don't just survive potentially fatal circumstances but take advantage of them in order, genuinely, to prosper and grow.

One can argue then, that to a substantial degree, societies actually *choose* to fail or survive. When so many of the threats they face are man-made the means usually exist to reverse them. It may take years or even decades to achieve this, and any disciplined solution will almost certainly involve unusual far-sightedness, persistence, persuasion and a measure of personal sacrifice. But the option to act positively is there in many cases, possibly even most. The trick is to grasp the opportunity before it becomes too late.

For a host of reasons, people are reflecting on this sort of thing more than usual lately. Bouncing around in Brexit's wake (and, perhaps more pointedly now, in the storm of a genuine pandemic and repeated lockdowns), one can be forgiven for wondering which way London might turn – and how it will fare?

Immediately following the 2016 referendum, and not for the first time, there were calls for the capital's independence. Numerous arguments have been rehearsed for recasting London as a modern, self-governing city state, a so-called Singapore-on-Thames. Supporters of the most radical proposals suggest that, with its great wealth and cultural capital, London is ideally placed to become a thriving, independent entity. As an economic powerhouse divorced from the rest of the United Kingdom, London would have the freedom to make new alliances as well as to forge – who knows? – even closer ties to the European Union.

But now another question is being asked as well, which is whether London as we know it can even survive? The capital, after all, was hit first and hit hardest by the coronavirus pandemic. As well causing unusually high mortality rates among its residents, Covid-19 and the lockdown led to a rapid and marked decline in almost every aspect of city life from the purely social to the economic.

As the pandemic continues to drag on this situation seems to have improved hardly at all. Property values inside the M25 have begun to look unsteady and exports have largely tanked. High street and office rents are going unpaid, others threaten to fall as more and more companies question the need to pay for large, prestigious central-London headquarters. City Hall has been haemorrhaging cash running half-empty buses and trains (and shutting off major road routes in anticipation of a 10-fold increase in cyclists which hasn't materialised) while growing numbers of new home-workers say they are thinking seriously about quitting London altogether. As one estate agent put it: after questioning the wisdom of owning or renting an airless, overpriced shoebox, the only real benefit of which is proximity to an office they no longer need to visit, Clapham is moving to Richmond, and Richmond's moving to the shires.

But even before anyone moved anywhere, the simple lack of travellers using London's staggering 598 railway stations has had many other devastating impacts, causing misery and hardship to anyone whose business depends on a hitherto reliable one million commuters a day flooding into London. Everything from heel bars to Michelin-starred restaurants have been negatively affected while the absence of tourists has closed museums, galleries, cinemas, theatres and hundreds of shops, a lot of them very famous old names – almost certainly permanently in many, many cases.

But, wait. London has been through calamitous times before, and it's always come through them. It's taken nearly 2,000 years for a modest Roman harbour carved out of the Thames to grow into this sprawling, chaotic and wildly-successful megacity, but look closely at those centuries and they are pockmarked with countless scars of disaster and reversal. London's expansion from a single square mile to more than six hundred of them has been spectacular, but its growth was never smooth or steady. Even so, literally every time catastrophe struck, the recovery was rapid, and rapidly followed by progress and renewed growth. Perhaps, even more pertinently for our own times, the capital has repeatedly stepped up to oppose those policies being pursued by the rest of the country which looked and were fundamentally detrimental to London's own commercial, and cultural interests

Today, as a result, its position is likely as strong as ever. That people still argue about which is Britain's second city is really just proof that the question doesn't need to be asked. Is it Birmingham, Glasgow or Manchester? The answer is, it doesn't matter. Hardly anyone cares because the first city is so far ahead that the question is irrelevant. That's true regardless of which metric you choose: population size, inward migration (both domestic and foreign), trade, house prices, commercial rents, income, education, tourism, culture and the arts. For centuries manufacturing was based here too and, even when the reins were removed to the Midlands by the Industrial Revolution, it was always London which kept the horses pumped with blood.

Take one, obvious example. Pre-Covid (but post referendum) the volume of clear blue water between London and the rest of the country was stark if hardly surprising. In 2018, according to ONS data, the city's per capita GDP was £54,686. That's almost exactly double the figure for the North-West and 2.3 times higher than the North-East. More impressively, perhaps, it's a full 60% higher than the unquestionably prosperous South-East. And GDP growth over the previous 20 years shows more or less the same, heavily skewed picture: London on 84.4% while none of the regions (including the South-East) can get even close to hitting 50%.

These numbers give us only a snapshot, of course; and naysayers will always argue that the higher the climb the further the fall. But London's story has rarely played out that way, if ever. The focus may be entirely different now – increasingly business is all about financial, legal, fintech and other more advanced technologies – and wise heads know that past performance is rarely the most reliable guide to future growth, but history still matters.

It was Kamâl Atatürk who noted that nations die who don't remember their histories, and much the same is true for cities. Fortunately, London has an awful lot of this, and studying it one can see how certain patterns seem to repeat themselves over and over. Generation after generation, London doesn't just start the ball rolling but goes on to dominate the game from start to finish, as often as not while defending its own legitimate rights and interests.

This isn't simply the default position for all large cities either, and certainly not for every capital. Historically great conurbations have enjoyed many important advantages over smaller ones, but these can be lost or squandered – and they have been, often. Imperial Rome was once the centre of the world but it spent literally centuries in the doldrums. Politically irrelevant, its streets and squares crammed with crumbling architectural follies, at its lowest ebb in the 11th century Rome's population slumped, extraordinarily, from around a million to barely 15,000.

Jerusalem similarly languished, becoming a seedy backwater despite its importance to three major faiths at a time when religious beliefs and observances were pivotal to the lives of virtually the whole of humanity. Its neighbour Jericho, likewise, was once the world's largest city (actually its only one for a while) but now most people would struggle to point to it on a map. And good luck finding Uruk too, or Mari, Ur, Yinxu, Babylon or Carthage. Each, like London and New York, was once the most populous and most powerful city on the planet but now they're all just fields strewn with ancient stones, the curiously melancholy what-ifs of history.

For Roman *Londinium*, however – and Saxon *Lundunwic*, medieval London and the modern city we know – the narrative has turned out very differently. Even when London surrendered its lead to New York in the mid-1920s, it did so only in terms of size. As measures go, population is now almost meaningless. London after all may be only the 29^{th} or 30^{th} largest city worldwide now – one of the also-rans, if you like – but a glance at some of the names higher up the list (sorry, Dhaka; sorry Tianjin and Kinshasa) simply serves to underline the enormous degree to which London continues to punch well above its actual weight.

The truth is it's never been anything but extraordinary. Walking the streets of what is, unquestionably, one of the few, true global cities, it is almost impossible to ignore what led us to here. A crucible shaped by invasion, occupation and immigration, by upheavals as diverse as the Great Fire, the Blitz and 'Big Bang,' London has always been somewhere with a peculiar energy, a city which successfully reinvents itself on an almost perpetual basis. Its skyline may be permanently pricked by cranes and skeletons of steel, but this renewal is only half the story. Atatürk would have understood: roots like London's don't just go back millennia, they explain both its uniqueness and its strength.

The House of Commons, for example, is famously the 'Mother of Parliaments' but how many realise that the world's oldest continuous democratic community isn't the Palace of Westminster but the Mayor and Commonalty and Citizens of the City of London. That's something of a mouthful (usually it's just the City Corporation) but its claim to a thousand years of self-government is no idle boast and none of the many benefits flowing from this have been achieved by accident.

Indeed the reality is that the celebrated Square Mile has spent centuries assiduously protecting and promoting its independence, and in this it has been stunningly successful. So successful, that is, that by adopting aspects of Anglo-Saxon civic practice and adapting Roman law and even Justinian's 6^{th} century *Codex*, it still enjoys (and profits from) the sorts of powers and privileges that no other metropolitan authority would even dare ask to ask for let alone expect to get.

The Corporation's electoral ward system and court hustings, for example, look archaic and increasingly anomalous but these work well and can be traced directly back to Saxon 'folkmoots'. Back then, citizens – a Roman word, of course – would have been summoned to by the bells of St Paul's, and well over a thousand years later their Lord Mayor is still chosen at such a gathering and by just a handful of elders or aldermen. By tradition they make their selection on the Feast of Michael and All Angels (Michaelmas Day) – but don't be misled by the pomp and pageantry. Of course there's plenty of both around Mansion House, Guildhall and the Livery, and it's charming, but this stuff is real and it's deadly serious.

It's because it's so serious that it has always been something which even sovereigns have tended to respect, and not just the benign ones either. William the Conqueror, for example, famously laid waste to much of England in 1066 yet the records clearly show that he 'came friendly' to London. In what might be termed a hostile takeover, the Norman warlord's imposing White Tower was one obvious reminder about who the new masters were. But after his Christmas Day coronation at Westminster Abbey, England's new king was quick to make a pledge to London that was both special and unique. In it he explicitly recognised the freedom of London's citizens and their autonomy, and took steps to fortify *their* city (not his, you'll note) against attack from barbarians and outsiders.

By this he meant non-Londoners rather than foreigners like him, and that too is highly significant because this first royal charter turned out to be the first of many which favoured London over everywhere else. Like William's, successive charters all guaranteed (and as often as not extended) this city's unique position and powers while reinforcing its extraordinary separate- or otherness from the rest of the country. Directly as a result of this, London had become so powerful by 1215, and the status of its mayor was so high, that the incumbent was one of only two individuals named in Magna Carta and given the responsibility of ensuring that King John kept his side of this epoch-defining bargain. The same document also acknowledged, and quite explicitly, that the Corporation (by 'ancient right') was second only to the

Crown while promising that 'the City of London shall have all its ancient liberties by land as well as by water'.

On the few occasions when such considerations were forgotten or swept aside, it nearly always ended badly. In 1571 when the Crown attempted to seize valuable armour and plate from the Livery companies, the office of the Remembrancer was created to 'remind the king of his debt' and ensure that the City's interests were never again affected by Parliament. Centuries later, when his growing autocratic tendencies led Charles I to attempt to reform London, the eventual outcome saw him kneeling on the scaffold; when his sons, Charles II and James II, similarly sought to assert their respective authority over the Corporation it led to the Glorious Revolution.

The latter produced yet another charter in the city's favour in May 1690, this one declaring even more emphatically 'that the mayor, commonalty and citizens of London shall for ever hereafter remain, continue and be, and prescribe to be, a body politic, in *re, facto, et nomine* … and shall have and enjoy all their rights, gifts, charters, grants, liberties, privileges, franchises, customs, usages, constitutions, prescriptions, immunities, markets, duties, tolls, lands, tenements, estates and hereditaments whatsoever.'

The rhetoric here might be overlong and confusing, but the message is crystal clear: hands off. At a stroke William and Mary's charter reversed all recent attempts to remove London's right to elect its own rulers and restored to it the valuable privileges which had been seized by Charles II and his brother. The seizures were recognised as both 'illegal and arbitrary' and the relevant legislation – known simply as The London, Quo Warranto Judgment Reversed Act, but described in full 'An Act for Reversing the Judgment in a Quo Warranto against the City of London and for Restoreing [sic] the City of London to its antient Rights and Privileges' – guaranteed that in future no similar efforts would be made to forfeit the City's charters or to damage its authority.

Indeed, in our own times it is instructive to note that, while the City lead much of the opposition to H.M. Government during the century following the Act, Parliament did not dare to make even a single retaliatory move to overthrow the Corporation or end its autonomy. It's also interesting to note that the office of the Queen's Remembrancer still exists. The bewigged and bestockinged incumbent still sits directly behind the Speaker of the House of Commons and is the only person in the chamber who is neither an MP nor a civil servant. At least one past holder has boasted he was there to "oppose every bill which would interfere with the rights and privileges enjoyed by the Corporation" so perhaps it is unsurprising that critics have suggested the Remembrancer's is really there as a spy or even a lobbyist put in place to thwart or derail the intentions of the country's elected representatives.

When Labour's post-war prime minister Clement Atlee claimed that "over and over again we have seen that there is in this country another power than that which has its seat at Westminster" he wasn't joking, but it is perhaps that political and administrative power that enables the right choices to be made, between oblivion and opportunity. This, surely, is why many of London's supporters feel the capital is as well-placed as it is to guide the population out of its current crises. If, as a historian might suppose, we find ourselves in the early stages of a new round of assertiveness on the part of London, the strength of the City's authorities, and the status of its Lord Mayor, could well enable it to influence Parliament as it has in the past and in this way to steer the future direction and governance of Britain (or, conceivably, just England).

Consider too that, aside from these privileges and powers, the capital's citizens and institutions have repeatedly shown the necessary resilience and mettle to achieve the most positive outcomes. London, it is true, was abandoned once – but only once, and not for long. When the first Saxons arrived the incomers mostly chose to live outside London's old Roman walls. Even they didn't stray far, however, and many settled along what is now the Strand and at Covent Garden, perhaps because in large part they were farmers rather than builders and townsfolk. But even this period was brief and before very long the Venerable Bede was able to describe London as once again a place of significance. He called it 'a trading centre for many nations who visit it by land and sea' thereby neatly echoing the words of Tacitus, who hundreds of years earlier had described London as 'the great mart of trade and commerce'. Incidentally, this also explains the modern name 'Aldwych' which comes from the Anglo-Saxon *Ealdwic*, meaning an old market or trading place.

The next great test was the Black Death in 1347-48, the first of nineteen pandemics which struck London between the 14th and 17th centuries. This was by far the worst and it didn't merely decimate the population. As bubonic plague swept through the crowded streets, far more than one in ten were killed and historians now believe that between a third and a half of all Londoners were carried off by the disease. By any standards that's an extraordinary statistic, although with infections doubling every 43 days it was actually no worse than elsewhere in Europe. Among the fatalities were two ex-chancellors, and three archbishops, and bodies of ordinary men, women and children were soon being stacked at least five deep at one plague pit near Smithfield. Plenty more such pits have come to light in the years since, most recently during the Crossrail excavations, and a large black slab in Westminster Abbey's south cloister almost certainly conceals the remains of the abbot and more than two dozen of his monks.

Naturally Parliament was prorogued through all this, and those Londoners who could do so fled in droves to the countryside in the (often mistaken) belief that this would save them. The city itself more than survived, however, and commercial life bounced back at least as quickly as anywhere else in the British Isles. Even when the population was still below 40,000 (down from around 70,000) the most important chancery, exchequer and government offices were manned and functioning effectively. Wages also rose sharply as, in the words of one leading chronicler of the plague, 'the gaps left [by the dead] were filled up by an influx from the provinces and from abroad in the course of two to three years.'

The scale of these increases should not be overstated, however. They may merely have reversed the decline brought about by an earlier calamity (the Great Famine of 1315-21) and they were anyway quickly limited by a new Statute of Labourers which worked very much to the benefit of London's merchants and other wealthy employers. Unsurprisingly this was added to the labourers' already lengthy list of complaints, and when these culminated in the Peasants' Revolt in 1381 London was quick to show which side it was on. Within literally minutes of the king seeming to accept many of his subjects' demands, the city's lord mayor lunged at the peasants' leader with a dagger. Wat Tyler survived somehow and fled, but he was shortly afterwards caught and beheaded on the mayor's orders. William Walworth's dagger, it hardly needs saying, is still displayed in the City more than 600 years later, and is proudly shown to guests at Fishmongers' Hall.

Walworth's move was brutal and impulsive, but it was also bold and decisive which are characteristics he shared with the city he served. Around this same time, when new mercantilist laws introduced by the Crown threatened to curtail business by taxing, regulating, and restricting the all-important wool trade, the city quickly established an effective monopoly for itself via the Merchants of the Staple (later accommodated in Staple Inn on Holborn). This proved hugely profitable, at least initially, although like many monopolies the benefits were short-lived and eventually fatally damaged the industry. The response was a shift away from raw wool to the export of finished cloth, and once again it was the capital which took best advantage.

It did this with a new organisation, the Merchant Adventurers of London, who ultimately came to control three-quarters of all foreign trade and not just wool. Later, when this purely mercantile approach no longer suited London's interests, the arrangements were dismantled with equal speed. Nor should the existence of such monopolies be taken as proof of a centralising or narrow 'little Englander' mentality. From 13th century Italian bankers in Lombard Street to the Hanseatic League's *Stalhof* or steelyard beneath Cannon Street Station, the city has always found a place for foreign expertise.

When the final major outbreak of plague hit, more than three centuries after the first in 1665, the rate of spread was even faster although in London the pattern of retreat and recovery was largely the same. With infections doubling every eleven days according to a very recent analysis, the population panicked as a quarter of them perished and thousands more loaded up their carts and escaped to the country. Yet just months later London's markets and workshops were as noisy and as productive as ever, and such were the numbers flooding back into the city that Lord Chancellor Clarendon could report that 'the streets were as full, the Exchange as much crowded, the people in all places as numerous as they had ever been seen'.

We don't just have to take his word for this either. Within a year, burials had returned to pre-plague levels and Hearth Tax returns had normalised. Baptism records similarly suggest the size of the population had recovered, more or less, and merchants and makers were clearly back in business. The same could not be said for all other large urban centres, Ipswich for one, although in London's case the impressive revival turned out to be something of a false dawn. With horrifying speed, the next great calamity struck the city in September 1666.

The Great Fire of London famously killed hardly anyone. Only six deaths have ever been verified which compares well to the almost 40,000 dead in Istanbul's own conflagration six years earlier, although the destruction of property – private, church, state and commercial – was prodigious. After a drought lasting nearly a year, more than 80% of the tinder-dry city fell to the flames, including a staggering 13,200 private dwellings. Almost overnight this left a similar proportion of the population homeless, at least 65,000 people but possibly as many as 100,000, and in the words of one Hoxton priest, 'the trade of London [was] shattered and broken to pieces'.

Ambitious plans to rebuild were presented with truly breathtaking speed, especially given that England was at this time at war with both France and the Dutch Republic. These included an unlikely scheme of Sir Christopher Wren's to redraw the map as European grid of avenues and piazzas, but like similar schemes from Robert Hooke and Sir John Evelyn it was quickly rejected. War or no war, Londoners made it plain they preferred the familiar if inefficient pattern of medieval street, although in every other regard their determination to put things right was progressive and now looks impressively far-sighted.

In the absence of buildings insurance, for example, it was agreed that the cost of the calamity should be shared rather than falling on those most affected by it. Much of the rebuilding fund came from the introduction of a novel tax on coal. This was levied at a shilling (5p) a ton and, cynically, it remained in place for the next 200 years, long after the work had been paid for. At the same time a whole raft of thoughtful new building regulations were devised to reduce the odds of a repeat performance further down the line.

Once reconstruction work actually began, things moved faster still. Building owners were given just a fortnight to remove all debris from their foundations, and workmen spent less than nine weeks staking out thousands of individual plots. Several new livery halls were completed in under two years, but even more remarkable was the astonishing speed with which the authorities were able to resume their control over the devastated city.

Faced with unparalleled destruction and disarray, with Guildhall severely damaged and the Royal Exchange wrecked, the most pressing demand on the Lord Mayor and his aldermen was the need to establish a new base from which to administer their civic and mercantile powers. To do this, they moved into Gresham College and several buildings around Bishopsgate before the ruins had even ceased smouldering. From these, orders were promptly issued for trade to resume *immediately* and to make this possible permission was hastily granted for merchants to set up temporary markets in sheds and stalls erected on Bishopsgate Street and Leadenhall, and at Tower Hill and Smithfield.

Inevitably none of these rushed arrangements were perfect, but they illustrate how quickly London got back on track. Coal shipments from Newcastle to London for 1667-71 were much as they had been for 1660-64, another important indication, and the capital's expansion continued almost without missing a beat. From a pre-crisis population of approximately 400,000 in 1650, it reached 575,000 by the century's end or nearly 12% of the national total. Despite the clear and present dangers of 17^{th} century city life, London had evidently lost none of its magnetic power. With such history, such energy, it's hard to think it ever will.

That last line may sound a bit glib, and of course the events described here, like the wartime Blitz, differ in more than detail to the threats London faces in 2021. But there are lessons we can learn from each of them. These earlier threats were all genuinely existential, no-one can doubt that. They were also unprecedented, or will have seemed that way to a population almost wholly ignorant of history. They also required a response from London that was radical and determined and far from simple to put into effect. That, too, sounds an awful lot like now and the months to come.

7

LONDON'S FUTURE AS A CITY

JEREMY MELVIN

As London emerges into a world shaped by two large uncertainties, Brexit and the effects of Covid-19, especially how it has dealt with previous crises, may offer clues for future strategies. Covid and Brexit represent, to some extent at least, the two factors that have driven the evolution of London's built fabric and in particular the framework of legislation and custom that has shaped it, public health and economic management.

Underlying this is a dichotomy: on the one hand a reluctance to impose instrumental, top-down interventions on London's development, and on the other a political necessity to manage the economy. What unlocked the first was a series of public health crises in the 19th century which led to legislation with far-reaching effects for London's physical character and governance.

For reasons outlined below, relative success in managing public health contributed to a belief that other social issues such as the economy might also be manageable through spatial and physical planning. It is this belief that informs much of the planning legislation across the UK including London, though the strategies for mitigating Covid such as social distancing also have clear implications for the physical environment. So proposed changes to the planning system offer an opportunity to unite its two driving factors. Whether the opportunity will be or even can be taken (in light of the structure of London's governance) is an open question.

Top-down planning in London is a relatively new phenomenon, which reflects a cultural and political reluctance to impose solutions from above. New development was left largely to the interaction between common law (with its emphasis on property ownership rights) and laissez-faire capitalism. For much of London's history that worked relatively well. Its apogee came with the reconstruction and expansion following the Great Fire of 1666 and the development the Great Estates of Mayfair, Marylebone and Bloomsbury in the following century. Though in the fire's wake various Acts of Parliament came into force which affected the shape and materials of new buildings, what resulted largely followed the methods set out by the great 'projector' and early economic polemicist Nicholas Barbon (c1637-1698). Through this London acquired a pattern for expansion and a physical fabric that underlie its commercial success and physical growth. Though it directed wealth to a few ultra-rich families it retains certain advantages, especially where, as is the case with the biggest beneficiaries, the Grosvenor family, it involves reinvesting in the public realm on their landholdings.

But it was the city's rapid growth and the threats that posed to public health in the first half of the 19th century that ushered in significant governmental interventions to London's fabric. Recurring epidemics of diseases like cholera overwhelmed the ramshackle system of parish vestries which were the only institutions of local government outside the boundaries of the City Corporation (essentially the 'square mile').

The result was a stream of central government legislation. Examples include the 1839 Act which created seven major cemeteries, the 1855 Metropolis. Management Act which created the Metropolitan Board of Works (responsible for the Thames Embankment as a solution to the serious and health-threatening problem of sewage), the 1875 Noxious Trades Act which banished the most egregiously polluting industrial processes to the east of the River Lea, and legislation which paved the way for creating the London County Council – London's first elected city-wide authority – in 1889.

All were motivated by the desire to improve public health which, by 1889, included slum clearance and the creation of new, higher-standard homes, though the LCC was also charged with improving governance after corruption scandals rocked its predecessor, the Metropolitan Board of Works. This desire led to the Ministry of Health taking responsibility for whatever spatial planning system existed for more or less 100 years from the mid-19th century. By the

1930s, this situation was seen as unsatisfactory from two standpoints. One was challenges to economic policy posed by the Great Depression; the other was the emerging approach to city planning promulgated by the Congrès International d'Architecture Moderne (CIAM) and its English offshoot the MARS (Modern Architectural Research) Group.

Eventually that removed spatial planning from public health and made it a tool of economic management. This division neatly follows the dual challenge of addressing Covid and Brexit, one being at root about health and the other about economics. Arguably the prevailing system of governance embeds that split by siloing it into different ministries, thus hampering any serious attempt to address the two in association with each other. As Covid and responses to it have shown, the divide between health and economic concerns is artificial.

Both economic concerns and the new approach to planning in the 1930s had a strong influence on London's built fabric, the consequences of which persist, to some extent, to the present. Two Royal Commissions sat to tackle the economic problems (essentially how to match centres of population to those of employment): the Macmillan Commission (whose leading intellectual force was JM Keynes); and from 1937 the Barlow Commission. The latter, through its minority report (which unusually was preferred to that issued by the majority), resulted in the establishment in 1942 of a Ministry of Town & Country Planning. It took over control of spatial planning from the Ministry of Health, which would shortly in any case have its hands full with creating the NHS.

In 1947 the new ministry produced the Town & Country Planning Act which embedded the CIAM/MARS view of the city, and still forms the framework of national planning legislation. Its overriding goal was to create a base for managing the economy in a loosely Keynesian way. Such thinking had already been translated into a context for London's post-World War II development via the Greater London Plan of 1944, often known as the Abercrombie Plan after its principal author, Sir Patrick Abercrombie, successively professor of town planning at Liverpool University and University College London. It was he who penned the Barlow Commission's minority report; to work on his London plan he gathered together various young architects who had all drunk deeply from the CIAM/MARS well. It remains the most comprehensive surviving vision for the capital as a physical entity and its conclusions and assumptions still underlie much of London's planning.

Both Abercrombie's general principles and the split between health and economic management as the main goal of spatial planning survived various reforms in London's governance. They include the replacement of the LCC by the Greater London Council in 1965, expanding into a larger geographical area and created the 32 boroughs which, together with the City Corporation, remain the main agents of local government across London. It also persisted after the GLC was abolished in 1985 and subsequently the establishment of the position of an elected, London-wide mayor and the Greater London Authority in 2000.

Whether this has significantly improved London's governance is a moot point. It has certainly changed how it works, with the mayor and assembly taking responsibility for Transport for London and some planning powers (both to approve and to block), while other planning powers remain vested in the boroughs who also run education. Central government retains control of health as well as most forms of taxation, and ultimately planning.

This division of authority does not make preparations either for Covid or Brexit straightforward. Each separate function has its own particular needs, and these may vary from area to area. But within this overall maelstrom certain trends can be identified, with implications ranging from city-wide policies to small-scale local and one-off initiatives.

Transport is fundamental to London's future, with corollaries both for health and the economy. The long-delayed Crossrail route which runs east-west in each case beyond London's limits is due to open in 2021. It will slash journey times from certain poorly served communities such as Thamesmead to the centre as well as relieving heavily congested routes. Whether the Estuary Airport, a favourite of Boris Johnson while he was London mayor and which was included in Norman Foster's infrastructure plan for the UK, will make a comeback is yet to be seen. It was considered and would be very expensive, but compared to the eye-watering costs of dealing with Covid it may seem like small change.

But both the airport and Crossrail reflect what were perceived as London's priorities pre-Covid and pre-Brexit, essentially addressing existing transport needs and patterns. All of that may prove anachronistic. As Nick Tyler, a transport engineer who undertakes consultancy for TfL and is a professor at UCL says, it is more or less unthinkable that there will be a return to the pre-Covid levels of public transport usage, when 4.5 people were crammed into each square meter on tube trains. London buses can have 'shocking' levels of CO_2 of 3,500 parts/million compared to general levels across the city of 440 ppm. Both present an enormous risk of infectious disease transmission, even when that is brought under control by vaccines. Many people, having spent months working effectively at home, may not wish to return to such travelling conditions.

Tyler proposes an ingenious strategy. TfL could provide small scale 'internet café' style workplaces, with desks rentable for short periods, in locations they already own around transport hubs. They would be geared towards people who might work primarily at home, but may want for relatively short and not necessarily regular periods to work externally but without significant travel. With more dispersed and multi directional travel patterns, it would also help to balance passenger volumes on services TfL has to run rather than being full in one direction and empty in the other.

Architect and office design expert Andrew Chadwick has researched how to square the circle of the right to work at home, which may be enshrined in law, with the enormous investment in city centre offices – with all the knock-on economic effects ranging from investment funds to small businesses dependent on office workers. Over several years he has devised the 'space time office', defined as 'the space you need for the time you need it'. That may sound bland, but it inverts the conventions of office occupancy where users sign up to a lease which specifies a term of many years in return for a guaranteed rent, with no relationship to actual use across time.

Chadwick's key innovation is the 'square foot hour' as a unit of occupancy and charge, allowing individuals or companies to rent a limited amount of space for a short time, leaving, expanding or contracting according to need. The cost could vary between peak and non-peak times of the day. A commission to find a use for the mezzanine floor above the Grosvenor House Hotel's foyer unlocked the possibility. Needing to provide services 24/7, some of the basic operational costs were already met – allowing individuals using the facility to purchase services as they desire.

He is applying the principles for more conventional office-occupier clients such as the insurers Zurich. Their focus is to make the office so attractive as a place to spend time that people will willingly return – but only for work which cannot be done elsewhere. The savings on quantity of space might pay for significantly enhanced facilities, increasing the amenity available to workers, while also taking advantage of the office's main benefit – to allow quick and informal interaction which underpins innovation and problem-solving.

Such principles could be extended to ensure life and economic activity return to the city centre. Indeed, the space/time office concept expressly facilitates denser occupancy so, subject to security concerns, An extension of IT systems used to reserve space and facilities could also benefit local economies by advertising office workers of opportunities and allow them to make purchases or reservations.

Both Tyler's and Chadwick's work show how different elements of London's built fabric and its social and economic life could adapt both to Covid and the post Brexit world. In particular choice and flexibility of working arrangements will allow people to find and deliver new sources of income and workstreams.

Chadwick outlined his proposals in a contribution to the Virtual World Architecture Festival in early December 2020, for which the author of this paper is curator. Several other contributions to the same event addressed how buildings for other functions might change.

Architect Laurie Chetwood explored how retail might adapt in city centres where high streets have been under long-term pressure and competition from on-line retailing and out- and edge-of-town centres. Some of his thinking echoes both Tyler and Chadwick in advocating more diffuse and networked patterns of use both from suppliers and consumers.

His proposals are logical, relatively simple to deliver and have far-reaching effects. Reviving leisure and amenity uses such as health alongside retail will make high street activity more robust. This could be encouraged by fostering the sense of a club which people visit for a range of opportunities rather than specific reasons. Locating logistics, the key to the future of retail, in such places could also foster their revival and survival, if they develop ways of fostering forms of social use in addition to their primary purpose of storing and moving merchandise. Repurposing infrastructure such as car parks, could also help to create low-cost space suitable for social activities or to reduce the cost of traditional retail. So neither retail in general, nor London's hundreds of local high streets, are necessarily condemned to decline.

Design for healthcare, one of London's most important activities, also came under scrutiny. It has long had a determining effect on London's physical form from the middle ages onwards. Many of London's hospitals, such as St Bartholomew's and St Thomas's, have their origins in monastic foundations which were the only institutional providers of healthcare at the time. Many, as well as subsequent 'fever hospitals' were located for obvious reasons to follow what might now be termed 'social distancing'.

The question is whether traditional locations are the optimal ones for contemporary healthcare and whether, despite extensive recent redevelopment, for instance at UCH and St Mary's Paddington, their buildings are fit for purpose. Ralph Johnson and Jean Mah, respectively the head of design and principal in the healthcare division at the giant American architectural firm Perkins + Will, gave an insight into the future of healthcare design.

Buildings for healthcare bring together many different social groups and activities including pure scientific research, various levels and intensities of medical treatment, and often education. They also tend to have relationships with their immediate surroundings, as well as, sometimes serving people from far outside it. They are often very large and embedded in large campuses.

If they are to function effectively, they need to resolve all these factors in their design to make them both a part of their physical environment and the worldwide medical community. All this is in addition the need to incorporate the most sophisticated technology and be flexible to allow for quick response to emergencies such as epidemics, terrorist incidents or catastrophic accidents.

Perkins + Will have yet to deliver a major medical building in London, but Johnson and Mah gave a glimpse of what such a building might be like. Its public areas would operate without the need to touch any surface with plenty of space and as much natural light as possible. Community health could be provided in buildings similar to public institutions. Areas for medical treatment would be where technology and flexibility come together, while science and research would be combined in another family of spaces with characteristics such as good light, long sightlines and easy communication and movement.

Housing provision and design, too, is being driven by several unforeseen factors. Even the most sympathetic view would have to note that housing provision has not kept pace with demand over the last 25 years, as London's population has grown by about two million people. So prices are unaffordable.

Most new housing in that time has been in large apartment developments (itself a break with Barbon's formula of narrow terraced houses which survived in several forms for more than 300 years). The complicated and far-reaching fallout of the Grenfell Tower disaster and revelations at the subsequent ongoing public inquiry has called into question many of the construction techniques and materials used, especially in potentially flammable external cladding materials. This will almost certainly lead to new legislation, possibly to include financial measures to replace materials found to be a danger.

Far-sighted housing providers are also taking the effects of Covid into account. Many are trying to ensure that their homes offer workplaces either within individual units or with some form of shared office. This is unlikely to have an effect that will alter the urban fabric, but it does have implications for transport, local amenities and potentially how homes are financed.

So, especially given the impending revisions to the planning system, what might the future portend and what steps might this include to mitigate both Covid and Brexit?

The original proposals for a new London Plan have run into criticism from government which could put paid to it as the relevant minister has to sign it off. These focus on housing targets and a series of detailed, related policies. Simultaneously, two trends are undermining the influence of the boroughs: one is the 'localism agenda' where communities can strongly influence planning decisions in their area; the other is that, anecdotally at least, boroughs have been depleted of experienced planning staff with the effect of delaying decisions.

So planning policy, which as we have seen has been a tool of both health and economic management, has reached something of an impasse. The main recommendation is to unblock that.

This is not at all straightforward. As noted above, the division of responsibility for different functions makes 'joined up' policy formation difficult if not impossible. One approach would be to devolve responsibility for physical planning and health to the mayor and authority, stressing the linkage between them. But this would require devolving tax-raising powers too, and it is unclear whether the institutional architecture of the administration could cope with such a huge expansion of its responsibilities.

At present the mayor depends on two paradoxical strategies to generate revenue and to increase housing supply. The first is the congestion charge, which aims to reduce congestion and so undermines its purpose as a revenue stream. The other is to require as a condition of planning consent for almost all housing developments, that some of them be available on social tenures. Negotiations over this cause delays, and in effect either reduce supply or increase prices.

Another difficulty, at least from central government's point of view, is the enormous contribution of London to the national economy as well as providing healthcare and higher education well beyond its limits. It is hardly likely to retreat from controlling its capital.

That does not affect the urgency of reforming the income streams available to London's local government. Options include allowing boroughs or the authority to control business rates or allowing them to use the receipts from council house sales to provide new homes.

It may be possible for central government to set overall goals, while leaving local or city institutions to work out the tactics for delivering them according to the needs of their area. So the overriding challenge is to find some legislative or administrative means to combine the two historic drivers of planning policy, health and economic management, which (as history implies) have never been successfully combined before. Whether London's governmental and administrative structures, and the umbrella of central government above them, as well as the structure and capabilities of the relevant professions – medical and built environment – are adequate to this challenge is a pressing but, at this stage, unanswerable question.

8

AI, LONDON AND EUROPE

DR HUGH LAWSON-TANCRED & HENRY C.W. PRICE

Mankind's last invention

AT THE PRESENT critical juncture of world history, it is of vital strategic interest for the European Union to develop the capacity to match and perhaps outstrip the progress made in the USA and the People's Republic. To achieve this, a crucial role should naturally fall to London.

Information travels through silicon (let alone graphene or quantum carbon nanotubes) 10 million times faster than through organic tissue. The brain, on the other hand, consists of 100 billion neurons, with roughly as many as the stars in the Milky Way, with perhaps a quadrillion connections. Neuro architecture is fantastically complex but amazingly we are beginning to understand it[1]. Once the engineering concept of artificial replication of dynamic network storage of information is established, as it has already been, the process whereby silicon brains overtake carbon ones is unstoppable. In many areas, such as formal games, natural language translation, the extraction of objects from the visual array, suprahuman levels of achievement have already been reached or are imminent[2]. It is true that human-transcendence is, so far, confined to specific skills. It is far from obvious how, or whether, these advances can be extrapolated to the modelling of general artificial intelligence (AGI). However, there is clearly a spectrum of performance between an AI mastering the game of Go and full AGI, and each step along this spectrum will have profound implications[3].

Vladimir Putin is surely right to say that whoever controls A(G)I will control the world. If we can invent anything like a general AI, then it will indeed be our last invention. Everything else that we need, it will invent for us, at inconceivable speed. It will also, at the same rate, increase its own capacity, thereby raising the alarming prospect of an intelligence explosion, by which artificial intelligence vastly and uncontrollably exceeds human, as graphically forewarned by Nick Bostrom[4].

The road along the spectrum to AGI is fraught with peril. As Bostrom also stresses, the strategic case for a first strike against any power perceived to be on the threshold of AGI will be extraordinarily strong[5]. In such circumstances, the development of AI would ideally be governed by international treaties comparable to those regulating nuclear energy, than which it is arguably still more dangerous. However, there is currently little realistic prospect of such an accord. Instead, as we enter the third decade of the century, research in AI is dominated by two major powers, America and China. All other players, including Russia, India and, especially, Europe (with by far the world's largest concentration of basic science) currently lag far behind[6].

What it takes to "get AI done"

What, then, is required to become a major player in AI? There are four crucial requirements. The first is scientific talent. Current progress in AI is driven by an army of researchers with a number of conspicuous rock stars[7]. They are, of course, concentrated in Silicon Valley but are also distributed around the world. From the European perspective, there certainly seems to be no reason to fear a fundamental shortage of the necessary technical abilities. The second requirement is hardware. The progress in the last two decades has largely been driven by the arrival of ever higher powered processors, made commercially viable by the appetite for gaming and sufficiently robust to cope with the network structures required for deep learning. These continue to be developed at warp speed and, crucially, they are about to be joined by the still greater potential of quantum computing[8]. Here again, Europe is not at a disadvantage, as much important research on quantum computers is conducted in our continent. The third crucial ingredient is funding and political will, on which more below, while the final and in some ways most vital precondition is an abundance of suitable and available data. Here, Europe stands between China with its billion data subjects and the US, with access both to its own 300 million and to many other originators of data around the world. The

European Union, with a first-world population of slightly under 500 million, is in a competitive position in this respect as well. Crucially, the stricter European data protection regime is not an impediment, indeed possibly a stimulus, to the effective development of AI[9].

The current leaders

In order to see how the EU could emerge as an AI giant, we need to look briefly at the background to the current dominance of the USA and China. The American case is clearest. At the dawn of the computer age, the two leading players were the USA and the UK. Both played an equal role in the deployment of computing in the course of the Second World War. What happened in the 15 years after that, however, could not have been more different. While the British were driving Alan Turing to suicide and cyber visionary Donald Michie to despair, the Americans, under President Eisenhower, were pouring vast funds into the newly created Defence Advanced Research Projects Agency (DARPA). Much of this money went to the West Coast and effectively seeded Silicon Valley. American readiness to write blank cheques for fundamental research paid off handsomely[10].

This is not a lesson which has been wasted on the Chinese. They too have developed an industrial strategy with a clear emphasis on advanced technology. The Chinese academic infrastructure both on the mainland and in Hong Kong (with an impressive five of the world's top 100 universities) has risen at astonishing speed to rival the much older American centres. The Chinese authorities have encouraged the collection of the data generated by their citizens and imposed a liberal regulatory burden on the use of the data harvest. There is a similar willingness to devote effectively limitless resources to what is regarded, rightly, as a key strategic area[11]. There are indeed also signs that the Chinese have ambitions to move into one area of particular interest to London, namely fintech[12].

The Cummings message

Dominic Cummings is a man now thought to need burial rather than praise. However, it is important to distinguish what was right in his vision from what was absurd. Cummings, albeit in a vainglorious and amateurish manner, understood the need for an industrial strategy focused on AI. The absurdity of his position was the fantasy that the UK would be able to achieve a global position by adopting such a strategy on its own. It is to be hoped that the departure of Cummings will put an end to that delusion. However, the need for a systematic strategy across multiple agencies to foster the development and deployment of AI remains critical and has still been insufficiently grasped in the corridors of Brussels power. Europe is behind in the game, but it is by no means impossible for it to catch up and indeed in the vital interests both of the continent and of the whole world that it does so.

Europe

Where then, we should ask, is European AI at the moment and what needs to be done? This question can be answered from both a bottom-up and a top-down perspective.

From the bottom-up perspective, the position is looking pretty promising. There are many advanced centres of AI research around the continent, and scholars from such institutions have now created the hugely promising initiative of the European Laboratory for Learning and Intelligent Systems (Ellis) to coordinate the activities needed to launch a truly Europe-wide platform[13]. Ellis is still very young, but already it has shown a capacity to dynamise the huge latent talent available to create a European AI giant. Europe has the lion's share of the scientific talent and funding in the world. Yet its performance in using it for Big Science has been mediocre. Whereas the Americans have repeatedly followed the logistical triumph of the Manhattan Project, nothing similar has occurred in large-scale scientific coordination in Europe, for all the eye-catching but sporadic successes of the European Space Agency. The shortcomings of European Big Science were only too painfully revealed, for example, by the Human Brain Project. It is vitally necessary that the bureaucracy listens to the scientists. If the funding agencies can respond appropriately to the burgeoning initiatives from within the European scientific community, there is absolutely no reason why European AI could not rapidly rise to match and indeed surpass what is happening in China and even America.

The top-down view is dominated by the Commission White Paper of January 2020, but there are also some practical initiatives that the Union is taking to promote AI directly. The White Paper was of course unluckily timed, discussion of it immediately drowned out by the pandemic. In some ways, however, this is not a bad thing. For the White Paper was a document conspicuous for its modesty. The Commission is open to the criticism of concentrating more on the moral hazard of AI than on its industrial potential[14]. (Even so the loudest objections came mainly from those feeling that it took insufficient account of ethical considerations[15].) It is indeed a crucial advantage for the EU to be able to seize the moral high ground in AI as it has already done in data. This ethical premium is likely to be a vital competitive edge in the coming decades. However, an ethical premium on its own is not enough. It needs to be flanked by a systematic policy of creating structures and systems both to comply with and embody the ethical principles and to achieve state-of-the-art results. It is in this area that the Commission White Paper is particularly disappointing. There is certainly nothing in it to hint at a willingness to make the massive deployment of resources needed to create an environment for the evolution of AI in Europe comparable to what has been achieved in America for two generations and is rapidly emerging in China. This urgently needs to be addressed.

It is true that the Commission has taken certain practical initiatives. For example, the Elise programme is a systematic attempt to integrate research on AI across the continent. This is certainly a step in the right direction, but unfortunately, it also is a timid step. The total budget for Elise is €12 million, whereas the provision should really be measured in billions[16]. Obviously, we currently live in an age of fiscal stress, but the long-term vision must be for a much greater orientation towards the infrastructure of AI. Crucially, this is not in any way at odds with the green revolution, indeed it could be argued that a meaningful green revolution will only achieve its goals if bolstered by AI. There is huge scope to use AI to identify the best ways in which the difficult balance can be struck between economic well-being and ecological sustainability. Expanding the currently timid AI initiatives and harnessing them to the ambitious green ones will be a key success factor for Europe in the next two decades[17].

The British wildcard

How, then, in the current dispensation do the British fit into this European initiative? It is certainly true that among the individual European nations the British are the leaders in AI. Even leaving aside the special position of London, the universities of Edinburgh, Sussex, Oxford, Sheffield, Birmingham, Cambridge and Warwick are all at the cutting edge, as is the Alan Turing Institute established and driven by those universities, the London colleges and many other UK institutions. Indeed, of the medium-sized European nations it is only the British who could even harbour the fantasy of becoming an AI superpower on their own. It is only one of the most damaging consequences of Brexit that this enormous UK pool of talent is at risk of being excluded from the European AI initiative. It should, of course, hardly need to be mentioned that, although these are British institutions, a huger proportion of the actual scholars come themselves from the European Union[18]. Were research to focus on a separate British initiative, it is quite likely that these European scholars would revert to their home member states, still further undermining the British effort. The continuation of the extraordinarily fertile collaboration of European academics with British institutions which has been such a feature of the last 40 years should obviously be prioritised wherever possible.

This applies across the UK, but the political reality is that it will be easier to ensure the continued presence of London at the heart of European AI than that of Britain as a whole, at least for the moment.

London

What then of London? London has a unique combination of advantages, potentially putting it in pole position across the entire world. It has an unmanaged concentration of world-leading academic institutions, spearheaded by the four members of the Golden Triangle (ICL, UCL, KCL and the LSE). In addition, especially in the Knowledge Quarter, it has a unique ecosystem for academics and scientists to talk to entrepreneurs and venture capitalists. On top of this, London enjoys the benefit of gold-standard regulation in both finance and technology. Finally, London has a unique cultural environment making it extremely attractive to the inflow of creative talent. All these benefits have, of course, been hugely magnified by membership of the European Union and are now correspondingly put at risk.

It is vital that Brexit is not allowed to detach London from its European intellectual hinterland. London as the central hub of a Europe-wide AI initiative makes perfect sense. London, on the other hand, as the flagship of a separate British programme would create a deep structural imbalance and, if it achieved anything, merely render the British playing field still less level.

Indeed, London could prove to be the crucial catalyst in forging the link between the relatively unresponsive bureaucracy of the European Union and the energetic AI talent that it harbours. London can act as a kind of crucible. Nowhere else in Europe is it so easy for scientists from different member states to meet, discuss and create. The continued performance of this function by London is therefore crucial for the transition to the European age of AI. It is also, obviously, a vital factor for the continuation of the prosperity and well-being of the inhabitants of London and indeed for their ability to continue to support and foster the economy of the wider UK as a whole.

It is therefore an urgent political project to ensure that, in some form, the detachment of London from the continent in the scientific, technical and in particular AI sectors is minimised and contained as much as possible during the Brexit phase. At the very least, this will require an absence of meddling by the Westminster government in the development of AI policy in London. All attempts by Westminster politicians to lock the AI talent of London into purely British strategies should be resisted. (It is unclear how much this remains a threat after the departure of Cummings and the sheer chaos of the current administration may in itself diminish the risk, but constant vigilance is nevertheless still required.)

Going beyond this negative provision, it surely makes sense for London to institutionalise an ongoing connection with European AI. One obvious way for this to happen would be for London to have a direct and separate integration into the Horizon Europe programme[19]. Would it not be possible for London to make a separate contribution to the central funding in order to be able to ensure that it is included in the programme whatever stance is adopted by the UK government? The overall coordination of this relationship would be handled by theoffice of the Mayor. An encouraging step in this direction has already been taken with the commissioning of a major survey of AI in London from the consultancy CognitionX[20].

A still further and more effective guarantee of continued London involvement in Europe would be for the declaration of a kind of AI Freeport, with a specific regime of both data compliance and strategic integration between a defined area of the UK and one aspect of the larger European economy[21]. If such a Freeport London continues to contribute taxes to the UK economy, then all three parties seem to win. London taxes will be able to support at least some measure of “levelling up” in the North (and possibly even retain Scottish membership of the UK). London itself will be able to prevent or mitigate the impairment of its capacity to “prosper mightily”. And the European Union will have a crucial instrument for the project of achieving global stature for Europe in AI which, unlike the Cummings vision for Britain, is a real possibility.

What we need, then, is a European Cummings. We need a gadfly to sting the slumbering European beast into activity, and, we would suggest, the most natural form that this gadfly would take would be that of a dynamic London AI community closely integrated with the other great centres across the continent in terms of industrial strategy as it already is in terms of fundamental research. This does not require the creation of some ambitious new infrastructure, merely the funding and leadership to allow what already exists to continue on the natural trajectory which has been so recklessly put at risk by the destructive folly of Brexit.

Linking London into the EU in this way would form a crucial bridge to integrate and engage the other major AI centres around the British Isles as much as possible into the dynamic European project. Other major institutions could point to the success of London and organise themselves at local level to join it. Crucially, London would at all stages welcome and encourage such initiatives. London could form the spearhead for a more general re-engagement of the UK AI community with the European heartland, as a kind of first among equals. London is the only centre currently in a strong enough position to be able to lead this intellectual return and therefore play a crucial role in one important element of the British return to the European home. It must all start in London.

Notes

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9

BREXIT: ENDING THE CITY'S DOMINANCE OF EUROPEAN FINANCE?

GRAHAM BISHOP

THE FUTURE of the financial services industry – centred in the City of London – matters enormously to the health of the United Kingdom's economy. The Trade and Co-operation Agreement (TCA) has few provisions on financial services and the UK now appears set to drive a wedge between EU and British rules so it can "benefit" from its new-found Brexit freedom. In reality, this "wedge" is unlikely to benefit the economic prospects of the City or the United Kingdom.

There can be no doubt that the EU will use the "autonomy of its decision-making process" – as stressed in the TCA. If the UK wishes to row alongside the EU super-tanker and "take" its rules, then the UK will remain "equivalent[1]". But current UK policy intentions suggest there will be an ever-widening gulf by the end of this Commission's term in 2024 – as the logical outcome of UK policy. The internationally mobile financial services industry will undoubtedly take account of this probability in planning the location of future business opportunities.

How might this play out by say 2024? Could the divergence cause the end of the City's dominance of European finance? It might well do.

Size matters

The relative scale of the EU and UK economic systems after the Brexit cleavage needs to be kept firmly in mind. The City makes a great play about the location of trading in euro-denominated investment assets such as equities, bonds and derivatives. But the euro assets being traded overwhelmingly belong to EU savers – not British – as the data below show:

- **59 CET January 31, 2020:** European Union financial service rules applied to €25 trillion of investment assets belonging to 513 million EU citizens and others (e.g. sovereign wealth funds) – derived from the EU's €16.4 trillion GDP
- **01 CET February 1, 2020:** British financial services rules applied to €6 trillion of investment assets belonging to 67 million UK citizens derived from the UK's €2.6 trillion GDP, and €3 trillion belonging to foreigners. According to the 2021 edition of the City of London Corporation's "Total tax contribution of UK financial services", UK financial services contributed £75.6 billion in 2019/20, similar to the 2019 total and the highest total since the survey began in 2007. The financial services sector

> employed 3% of the UK workforce, generating 7% of economic output and close to 10% of total UK Government revenue – £825 billion in 2019/20. (To illustrate the significance of this contribution, replacing say half would require[2] the basic rate of income tax to rise from 20p to 28p in the £.)

Data sources: European Commission, City of London Corporation, European Fund and Asset Management Association

The TCA and financial services

The treaty texts are indeed massive – running to 1259 pages – but only about six pages are relevant to financial services and largely covered in just four Articles.

The Commission provides a simple Q&A to illustrate that the TCA has treated financial services in much the same way as in the EU's other Free Trade Agreements (FTAs). Crucially, it is very explicit about equivalence in an effort to dispel some illusions in the UK: *"The Agreement does not include any elements pertaining to equivalence frameworks for financial services. These are unilateral decisions of each party and are not subject to negotiation."* (Details in the Technical Appendix)

There is an "MoU" to be agreed by March 2021 and some commentators appeared to believe that it would be the mechanism to introduce a wide range of equivalence decisions. However, reading the actual text (link) should disabuse any expectations about the EU giving up any of its autonomy. The MoU may well amount to little more than an agreement to talk to each other – presumably with appropriate telephone numbers/e-mail addresses provided!

UK policy intentions after Brexit

Three policy statements – a useful starting point for analysis

1. The scene was set in October 2020 when the Treasury launched a review of financial regulation. The Ministerial Foreword by John Glen (the eighth Economic Secretary since 2010) was explicit about the aims: "*Leaving the EU means the UK has the opportunity to take back control of the decisions governing our financial services sector. We can now be guided by what is right for the UK, regulate differently where we need to, and regulate better.... the government is also determined to seize opportunities to provide policy leadership in key areas of financial regulation, including on Green Finance and a low carbon future, fintech and payments innovation, financial crime, financial inclusion and the levelling-up agenda.*"
2. According to the Financial Times (FT) on 11th January 2021, "*Chancellor Sunak told MPs in the House of Commons that the conclusion of the Brexit process would now allow Britain to "start doing things differently and better" in terms of regulation.*" The FT reported that the Chancellor went on to say "*Referring to Brexiters who claimed that the City could now enjoy another 1980s style leap forward, Mr Sunak told City AM that they "make a really, really good point". Referring to the Thatcher-era deregulation*

reforms that opened up the City to more competition and foreign investment, Mr Sunak added that people were free to "call it Big Bang 2.0 or whatever"

3. Bank of England Governor Bailey also appeared before the Treasury Select Committee: "*Will the UK become a rule taker in financial services? In our session with the Bank of England yesterday, Andrew Bailey told us: "I would strongly recommend that we do not become a rule-taker. [...] If the price of that is no equivalence then I am afraid that will follow.*"

All these statements imply that British polices may well be radically different in future, and that the UK will certainly not feel bound to "take" any future EU rules. Instead, the UK may well seek to "lead" international rules. The stage may now be set for a period of serious divergence in rules – driven by the new goals of UK regulatory policy.

Some analysis of the policy implications

1. **How will UK-based market participants respond to any radical changes?** The FT reported "*City of London bosses warn against post-Brexit deregulation. Business chiefs say there is little need for wholesale rule changes in the UK."* If there is no particular appetite for UK rule changes, it begs the obvious question: what happens when EU rules change – as they surely will as it seeks to meet its stated goals of strengthening the monetary union and responding to Covid/climate change (see below).The process of changing rules also matters

enormously to market participants – if the new rules are to command respect and therefore compliance. The Treasury's consultation on the Future Regulatory Framework has just closed and our Technical Appendix contains some key extracts about the process. "*The government proposes a general arrangement whereby the regulators consult HM Treasury more systematically on proposed rule changes at an early stage in the policy-making process and before proposals are published for public consultation... It would not give Ministers a veto over the regulators' rule-making functions or act as a constraint around the regulators' policy discretion when designing rules."*Anyone familiar with "Yes Minister's" Sir Humphrey Appleby may notice striking parallels when reading this officialese! Carefully translating the officialese into plain English, this means that "Ministers" (the Economic Secretary for this year), let alone the elected Members of Parliament, will not have "taken back control". Instead, Brexit will have taken power away from the people and handed it to the officials – Sir Humphrey (aka "Sir Braddick-Bailey"[3]).Market participants are now used to the open, inclusive EU process and may not be willing to buy in to `Sir Braddick-Bailey's' new British rules when globally-accepted EU rules are already being used – especially after a major `sunk cost' investment in compliance. Moreover, they will need to ask if UK rules will make firms acceptable to their trading counter-parties and customers.

There will be a narrow band of acceptability for these new rules:

(i) If the levels of, say, required capital – always a key issue – are raised beyond standards in competing jurisdictions, then firms will migrate to the cheaper area.

(ii) Conversely, if capital adequacy is lowered in the UK, banks elsewhere may face capital add-ons to reflect their exposure to apparently-weaker UK firms.

(iii) However, the third option is politically the most fascinating: if rules remain closely aligned as EU rules change, then the UK will have become a vassal "rule-taker" so Brexit was entirely pointless. Hardly the clarion call of the Leavers!

1. **Will the new UK process reflect `best endeavours' to implement international standards – as agreed in TCA Article 5.41?** Existing EU Directives/Regulations to implement the current international standards were all agreed by the UK – both as a member state of the EU and as a member of the relevant international fora. It will be a fine, nuanced line to remain compliant with the international rules while deviating from the EU's implementing rules. (There are a limited number of instances where the EU chose not to implement some of the international rules.)"Leading" the international standard-setters may well take the UK out of compliance as extremely cumbersome international bodies seek to catch up some years

> later with the UK's "agile rule-making powers" – a potentially clear breach of the "best endeavours" obligation undertaken in the TCA. Sensible suggestions remain sensible whatever the country of origin. However, if "agile" British suggestions turn out to be designed to undercut EU rules, then the EU and its member states weigh much more heavily in these fora than the UK. Clearly, this would not be a process that would induce the EU to make wide-ranging findings of equivalence between EU and UK rules.

EU financial policy objectives: 2019 – 2024

UK commentators and academics devote much effort to studying the details of policy proposals from the EU in an attempt to infer the underlying policy goals – a kind of reverse-engineering. However, there is an easier (and more certain) approach: simply read the policy goals formally adopted by the EU's co-legislators – the European Parliament and the Council of the EU.

Every five years, a new European Commission is elected to office – upon nomination by the Member States and then election by the European Parliament as direct representatives of the peoples of Europe. In September 2019, Ursula von der Leyen (UvL) published her "Agenda for Europe" – the Political Guidelines for the incoming Commissioners for the period 2019-24. This Agenda is the equivalent of a British political party's Manifesto. Unsurprisingly, the civil service – in this case, the

Commission Services – then set about implementing the new policies mandated by Europe's democratic system.

The Agenda stated "*A strong, integrated and resilient capital market is the best starting point for the single currency to become more widely used internationally*." (More) These goals define what the EU sees as its "interests" and it has stated unequivocally in the TCA that it reserves its autonomy to pursue its "interests".

About a year later, DG FISMA (Financial Stability, Financial Services and Capital Markets Union) published its "Strategic Plan 2020-2024" to deliver these policy goals, naturally taking the Commission's political agenda as the starting point. As would be expected in a management strategy, the texts are accompanied by Key Performance Indicators – 10 pages of them. The plan is to calibrate objectives in every field of financial activity. The EU has detailed its "interests" <u>and</u> the means of measuring progress in achieving them. This is "autonomy" in action.

Some of this work was already underway before the new Commission took office. But a glance at the list of Consultations since then shows 19 items that cover most aspects of banking, capital markets, asset management, insurance, and payments systems – as well as digital and sustainable finance. A hallmark of the EU's system of financial regulation since the 2001 Lamfalussy Report has been regular reviews of existing legislation. All measures since then have incorporated a review requirement – usually after two years in force – to ensure the legislation remains up to date with technology and market developments (currently those driven by Covid) yet ensures financial stability through proper prudential standards.

The entire development of the Single Market during Britain's membership has been designed to incorporate these "prudential" goals since EU Commissioner Lord Cockfield's *White Paper* "Completing the Internal Market", was published in 1985. This 300-directive programme implemented Mrs Thatcher's vision of a single market throughout the EU and came into force in 1992. Successive waves of subsequent financial services legislation responded to market and technological developments. The global financial crash of 2007-9 produced a tsunami of reactions and the combination of Covid and climate change is triggering another.

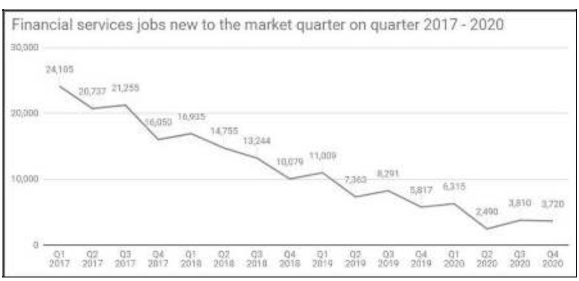
Accordingly, it is a racing certainty that virtually every aspect of the EU's body of financial regulation will be reviewed by 2024 – even if legislative proposals are not fully enacted by then. This *acquis* (and the implementing measures of the European Supervisory Agencies) has now grown into something of a super-tanker as national rules are steadily replaced by European rules designed to provide a genuinely single market. There will be tweaks on the rudder at times, and maybe significant course corrections as storms such as the Covid pandemic hit. But the EU's course is clear and will take no account of the "interests" of a former member that is about one-sixth of its size. Why should it?

Some recent developments

- If US dollar financial activity gravitates back into the jurisdiction of its "central bank of issue" (the natural home?) and the EU succeeds in its goal of moving the international role of the euro towards its economic weighting, then what is left for the UK? The trading of EU shares shifted from London the moment the transition period ended, and is now barely 4% of the UK total – down from 43% in 2019. The UK share of trading in interest rate swaps has also fallen significantly already – probably the most totemic measure of financial power.
- In the massive new field of sustainable finance, the EU has already – and intentionally – established a global lead in setting standards such as the EU Taxonomy. It is a classification system for environmentally sustainable economic activities that was developed by the European Commission. Global market players seem to be adopting this system. Is there room for a rival UK system? Intercontinental Exchange (ICE) has just announced plans to move its €1 billion daily market for European carbon emissions contracts to the Netherlands from London – a significant blow to U.K. aspirations to build a `green finance' powerhouse after Brexit.
- One of the most hotly debated issues is the movement of jobs from London to the EU as it is an extremely sensitive issue for firms – for relations

> with both staff and government. Ernst and Young's most recent Brexit Tracker states "*The number of jobs that could relocate from London to the EU remains flat at around 7,000. Alongside relocating UK staff, Firms are continuing to hire locally on the continent as a result of Brexit. Since the Referendum, 43 Financial Services Firms have announced plans to make local hires for existing or newly created roles, equating to over 2,400 new jobs.*"

This approach highlights that jobs may well shift by switching recruitment for new posts from the UK to the EU. Morgan McKinley's data (below) shows a strong reduction in UK recruitment as firms implemented their Brexit plans.



But the Brexit pressures are superimposed on other driving forces – Covid most recently. Many firms have realised that their staff can achieve much by working from home. But does that home have to be in the UK and close to the City? Technology has delivered the means to disperse employment – challenging the old ideas of critical mass in `localised clusters' such as the City of London.

As a student 50 years ago, this author recalls that Stock Exchange firms were obliged to have their office within 400 yards of the Exchange so that messengers (including students!) could quickly walk round to banks with bearer securities that were just pieces of paper. A necessary technique was to stick a foot in the bank's door to stop it being closed (at 3pm sharp) while the security was delivered against a cheque drawn on the Bank of England: delivery versus payment!

All that was swept away long ago and Covid may have accelerated the next phase. Half a century ago, banks and stockbrokers clustered close to the Bank of England; insurance close to Lloyds of London; shipping round the Baltic Exchange etc. Now, the exchanges are clustering in Amsterdam, the asset managers in Dublin or Luxembourg; mid-offices in Warsaw etc. But they are all linked by technology so that physical location is increasingly unimportant.

The EY Brexit trackers show how firms have been preparing for a `hard Brexit' for quite some time – as they were required to – very forcefully by the regulators on <u>both</u> sides of the Channel. EU regulators are now insisting these plans be fully implemented. Once these changes have been made, would firms dismantle their new structures if there were a sudden rash of equivalence decisions by the Commission in the fullness of time? They might contemplate that the Commission decisions are unilateral and can be withdrawn at short notice. As they observe the probable gulf between UK and EU rules opening up (see above), what chance of any equivalence decisions surviving for long? In any case, the TCA itself is up for review in five years. Might parts of it (for example, in financial services) just be allowed to lapse if the UK has systematically breached its commitments e.g. on `best endeavours'?

The financial services industry is very innovative so the question always has to be answered: where to locate the new "sunrise" business? It is all too clear where the "sunset" businesses are located – London. There is a danger that these "sunrise" businesses will gradually migrate to the EU. If for instance an originally UK-based organisation sends a few of its key and most profitable staff to Amsterdam, then the business there will be hugely profitable because all the back-office costs are still booked in the UK. Dutch tax inspectors will notice the `super profits' generated in their country and want their fair share of the tax take. The natural commercial response will then be to shift those back-office costs into the EU entity in [Amsterdam] to minimise the `super profits' subject to [Dutch] tax. Such a process would be spread over several years but the logic is inexorable – leading to reduced profits (and therefore taxes) in the UK as revenues/profits are now located in the [Netherlands]. As UK tax revenues fall, could that be the trigger for the standard rate of UK income tax rising from 20p to 28p?

Brexiteers may not have grasped that the international financial services industry is both highly mobile and highly profit-seeking. After an initial burden of `sunk costs' from post Brexit re-configurations, the international financial services industry will not be damaged, but its former home – the UK – may well be.

The revenues that leave the UK will not all go to the EU but maximising purely `economic transactions' has never been the EU's objective. Instead, it continues to strive for the vison of European unity launched by Churchill in his series of great speeches after World War II. The modern, mile-stone along the long road to achieving that objective is to maintain the financial stability of the Single Market – through the mechanisms agreed for the period 2019-24 in the election of the current European Commission. If British financial rules are not designed to achieve the same outcome, then they cannot be "equivalent".

The Brexit chickens are quickly coming home to roost after only a month. *Quelle surprise!* Amsterdam has overtaken London in share trading and will be the new home for trading the ICE carbon contract. Swap Execution Facilities (SEFs) in the US are seeing a rising share of derivatives trading. Apparently technical changes – but the jobs that operate these activities (and the taxes) are on the move very quickly. In perhaps half a decade, the City may look very different – with major impacts on the UK's tax revenues, employment and foreign exchange earnings. But the global financial services industry will have accommodated itself permanently to the new situation.

Technical Appendix

Key TCA provisions on financial services

- Article 3.5 – Most Favoured Nation provisions are specifically dis-applied to "prudential measures" as defined in GATS. This is the well-known "prudential carve out" (more below)

- Article 5.38 Definitions. — seems to be a comprehensive listing of most significant financial services activities embedded in existing EU regulations
- Article 5.39: "Prudential carve-out". The article is extremely specific that a Party can maintain "measures for prudential reasons... protection of investors, depositors... or ensuring the integrity and stability of a Party's financial system".
- Article 5.41 commits both Parties to "make their best endeavours" to implement "international standards" agreed by the usual international fora: G20, Financial Stability Board etc.
- Finally, there is a "Joint declaration on financial services regulatory cooperation..."

In more detail:

The Commission has published a useful set of Q&As to summarise these massive texts. The key issue is whether the EU will find UK regulations provide "equivalence" to its own. (Author's emphasis added.)

"Does the Agreement cover financial services?

The draft EU-UK Trade and Cooperation Agreement covers financial services in the same way as they are generally covered in the EU's other FTAs with third countries.

In particular, the Agreement commits both parties to maintain their markets open for operators from the other Party seeking to *supply services through establishment. The parties also commit to ensuring that internationally agreed standards in the financial services sector are implemented and applied in their territories. Both parties preserve their right to adopt or maintain measures for prudential reasons ('prudential carve-out'), including in order to preserve financial stability and the integrity of financial markets. The parties will also aim to agree by March 2021 a Memorandum of Understanding establishing a framework for regulatory cooperation on financial services.*

"What about the equivalence decisions on financial services?

The Agreement does not include any elements pertaining to equivalence frameworks for financial services. These are unilateral decisions of each party and are not subject to negotiation.

The Commission has assessed the UK's replies to the Commission's equivalence questionnaires in 28 areas. A series of further clarifications will be needed, in particular regarding how the UK will diverge from EU frameworks after 31 December, how it will use its supervisory discretion regarding EU firms and how the UK's temporary regimes will affect EU firms. For these reasons, the Commission cannot finalise its assessment of the UK's equivalence in the 28 areas and therefore will not take decisions at this point in time. The assessments will continue. The Commission has taken note of the UK's equivalence decisions announced in November, adopted in the UK's interest. Similarly, the EU will consider equivalence when they are in the EU's interest."

HMT Treasury

- (2*) "The government's proposed approach involves moving regulatory requirements that apply directly to firms and markets from the UK statute book and into the regulators' rulebooks..."*

Some of its phraseology is quite wonderful [author's emphasis added] e.g. 3.31 "*The government proposes a general arrangement whereby the regulators consult HM Treasury more systematically on proposed rule changes at an early stage in the policy-making process and before proposals are published for public consultation. The aim here is to give the Treasury sufficient time to consider any broader public policy implications that regulator proposals may have and to allow the opportunity to feed back views to the regulators if necessary. It is important to stress that this policy coordination arrangement would only allow the Treasury to feed in views as regulator policy is being developed. It would not give Ministers a veto over the regulators' rule-making functions or act as a constraint around the regulators' policy discretion when designing rules."*

Commission

- UvL's Agenda specified "*I will prioritise the further deepening of the Economic and Monetary Union.... I will also focus on completing the Banking Union. This includes a common backstop to the Single Resolution Fund, a last-resort insurance measure in the event of a bank resolution... we need a European Deposit Insurance Scheme... These are the missing elements of the Banking*

Union... I will also put forward measures for a robust bank resolution and insolvency framework. I want to strengthen the international role of the euro ..., A strong, integrated and resilient capital market is the best starting point for the single currency to become more widely used internationally."

- About a year later, DG FISMA (Financial Stability, Financial Services and Capital Markets Union) published its "Strategic Plan 2020-2024" to deliver these policy goals, naturally taking the Commission's political agenda as the starting point. "*DG FISMA will concentrate its efforts on achieving the goal of the Commission's political headline 'an Economy that works for people'. It should be underlined that DG FISMA's specific objectives and initiatives will also contribute to achieving other Commission's political priorities, such as a European Green Deal, Europe fit for the digital age and a stronger Europe in the world. DG FISMA will also contribute to the work in the context of the EU recovery plan, which will guide and build a more sustainable, resilient and fairer Europe for the next generation*". This last point reflects the impact of Covid on the EU economy and its financial system.
- Again – as would be expected in any management process – the multi-year strategy is broken down into annual deliverables – the Management Plan 2020: *"Part 1 of the Annual Management Plan focuses on delivering on the Commission's priorities. It presents the expected deliverables of DG FISMA stemming from new policy initiatives, regulatory simplification actions, evaluations and fitness checks, consultations,*

> *enforcement actions and communication activities. All actions are linked to DG FISMA's specific objectives as outlined in the Strategic Plan. A detailed annex with performance tables presents the actions and provides the expected delivery times."*

Notes

[1] The TCA states that "equivalence" means the capability of different laws, regulations and requirements, as well as inspection and certification systems, of meeting the same objectives. So "equivalence" does not require word-by-word matching but an equivalent outcome. This is determined unilaterally by the European Commission itself and "*the EU will consider equivalence when they are in the EU's interest*." – see Q&A in the Technical Appendix
[2] HMRC tax ready reckoner: 1p on basic rate of income tax would raise about £5 billion
[3] A composite of Katherine Braddick – HMT Director General, Financial Services and Andrew Bailey – Governor of the Bank of England