

The economic impact of Brexit on London

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Executive summary

This report summarises the evidence on the economic impacts of Brexit on the London and UK economies. It looks both at the impacts that have been already observed since the EU Referendum (eg impacts on investment and GDP) and at potential future impacts, both in the short and longer term.

While an extension has been agreed to UK membership of the EU until 31 January 2020 the threat of a no-deal Brexit remains. In terms of future Brexit scenarios, therefore, the report focuses on no-deal scenarios.

Highlights

1. The loss to the UK economy from the anticipation of Brexit has been estimated at close to 3% of GDP compared with a counterfactual of no EU Referendum.
2. The Bank of England (BoE) and the Office for Budget Responsibility (OBR) have both concluded that the likelihood is that there will be a recession in 2020 if there is a no-deal Brexit.
3. The long-term losses to the UK of a no-deal Brexit have been estimated at between 3 and 10% of GDP.
4. In London, business births have fallen, business closures have risen, and there has been a marked decline in the net start-up rate, from 6.1% in 2016 to 1.0% in 2017.
5. 14% of jobs in London are held by European Economic Area (EEA) workers, compared with 6% for the rest of the UK.
6. Migration controls will reduce labour supply growth, and output growth.
7. 60% of jobs held by EEA workers in London would not meet the proposed skills and salary criteria of the government's proposals.
8. Productivity growth is likely to be lower than if there had not been an EU Referendum, and is likely to feed through to lower wage growth (after inflation).
9. Exchange rate depreciations make everyone worse off. The sterling-euro exchange rate fell by 11% in June 2016 after the EU Referendum, and a further 4% in July 2019.
10. The BoE estimates that a 5% depreciation will increase the prices of food and non-alcoholic beverages by 1.3% over the long term. The effect of tariffs from a no-deal Brexit might increase prices by 5.0%.

Macroeconomic consequences of Brexit

The referendum result was a demand side shock, indicating that the economy would in due course be less open. In response, there were significant devaluations of sterling in June 2016, and July 2019. This has also manifested itself in:

- Lower net migration;
- Lower business investment;
- Lower productivity growth, and;
- Lower output.

By October 2018 the loss to the UK economy from the anticipation of Brexit had already been estimated at between 2 and 2½% of GDP compared with a counterfactual of no EU Referendum. Analysis published in October 2019 found the loss may now be closer to 3%.

London's economy has continued to grow at least as fast as the UK since June 2016, although also at a lower rate than in the past. UK growth in 2019 so far has been close to zero.

In the short term, a global economic slowdown, and the adverse effects of leaving the EU may slow the economy further. The BoE and the OBR have both concluded that the likelihood is that there will be a recession in 2020 if there is a no-deal Brexit.

In the longer term, leaving the EU will reduce the openness of the London and UK economies, as there will cease to be free movement of goods, people, services and capital across borders. The introduction of tariffs, non-tariff barriers (NTBs), and customs procedures will be a supply side shock. It would raise costs for businesses and will most likely make some businesses uneconomic. There will be impacts through the economy, and direct impacts on firms exporting to the EU. The harder is Brexit the greater will be the loss of openness.

The long-term losses to the UK of a no-deal Brexit have been estimated at between 3 and 10% of GDP. Modelling typically suggests that London is not expected to suffer as much economically as other parts of the UK. It remains though that London will be worse off under Brexit.

Impacts on businesses

The dynamism and openness of London's business environment makes it more vulnerable to external factors. There is a high number of business births and closures, and nearly a fifth of all UK private sector businesses are located in London.

There are specific risks to London and its specialisation in export-oriented service sectors, and particularly:

- Finance;
- Information and communication, and;
- Professional services.

These three sectors account for nearly two-fifths of London's output¹. The vulnerability of the last two sectors is heightened because 90% of businesses have fewer than five employees, compared with 80% of all London and UK businesses.

These are high productivity sectors, and lower productivity growth may be associated with a shift in economic activity, and jobs, to lower productivity firms serving domestic markets. There is some evidence that this may already be happening in London. Uncertainty around the terms of future trading relationships with the EU may have deterred some firms from taking full advantage of exchange rate depreciations. In London business births have fallen, business closures have risen, and there has been a marked decline in the net start-up rate, from 6.1% in 2016 to 1.0% in 2017.

London is the leading world city for inbound Foreign Direct Investment (FDI) projects and hosts the European or global HQ of 40% of Fortune 250 companies. The available evidence suggests there is a risk of lower FDI with reduced openness, although until now FDI in London has been remarkably resilient. It continues to be the leading world city for inbound FDI projects and the number of projects continues to grow². The introduction of immigration controls may make London less attractive to international HQs if it reduces the pool of high-skilled workers for recruitment.

Impacts on migration and visitors

International migrants also make a disproportionate contribution to London's economy. 14% of jobs in London are held by EEA workers, compared with 6% for the rest of the UK. Migration to the UK has held fairly steady since June 2016, at around 600,000 people a year³, with some important compositional changes:

¹ 38% to be precise, see Appendix A

² Source: fDi Markets

³ Source: ONS International Passenger Survey

- Student numbers from outside the EU have been rising, possibly because a lower exchange rate makes the UK more attractive – this is likely to have been of benefit to London’s universities.
- Offsetting this, migration for work-related reasons from the EU has declined from 190,000 in the year to June 2016 to 92,000 in the year to March 2019⁴.

The impact on the London labour market has been in step with the rest of the country, and the decline in net EU migration for work-related reasons appears to have stabilised for the time being.

These developments have happened while there is still free movement of labour for citizens of the EEA, and the expectation is that residency rights of EU citizens already in the EU will mostly remain unchanged. Meanwhile, the Government has set out plans for a ‘skills-based’ immigration system post-Brexit. The expectation is that controls will limit migration, which in turn will reduce labour supply growth, and output growth. Overall, 60% of jobs held by EEA workers in London would not meet the proposed skills and salary criteria of the government’s proposals⁵.

In 2018, London had the third largest number of international arrivals of any world city, 20.7 million⁶. Sterling depreciation should also, other things equal, make it cheaper for international visitors to stay in the UK. Against a rising trend in previous years there was a slight dip in international visitor numbers and nights in 2018. There may be a number of factors influencing visitor numbers, beyond the exchange rate, including wider international macroeconomic developments impacting on household income and affordability, and competition from other destinations.

Impacts on households

Until now, September 2019, consumer confidence has remained positive in London, unlike the UK, buoyed perhaps by a tight labour market and real wage growth. There may be a concern about the preparedness of households that 60% of Londoners think the economy will be little changed, or slightly worse, over the coming year⁷. This is despite half of Londoners believing the economic warnings of the effects of Brexit⁸.

The sterling-euro exchange rate fell by 11% in June 2016 after the EU Referendum, and a further 4% in July 2019 when the possibility of a no-deal Brexit became firmer. Exchange rate devaluations have made everyone worse off as this leads to higher import prices, and higher inflation. The BoE estimates that a 5% depreciation will increase the prices of food and non-alcoholic beverages by 1.3% over the long term. The effect of tariffs from a no-deal Brexit might increase prices by 5.0%⁹.

Lower productivity growth is likely to feed through to lower wage growth (after inflation).

Food, fuel, and medicines are most likely to have shortages according to Government analysis¹⁰ if there is a no-deal Brexit. This will impact on low income households and may impact London more than elsewhere in the UK as poverty levels are higher in London (after housing costs) than in any other UK region. These households have already been disproportionately adversely affected by welfare reform. And it is these households whose likelihood of staying in work are most likely to be diminished by a recession.

⁴ Source: ONS International Passenger Survey

⁵ See the supplement to [London's Economy Today - Issue 204 - August 2019 | London City Hall](#) and [Potential impacts of skills-based immigration policies in London | London City Hall](#)

⁶ See [Top 100 City Destinations 2018](#) – not all people arriving in London will stay in London

⁷ Source: GLA/YouGov polling, May 2019

⁸ Source: YouGov polling, November 2018

⁹ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#). This assumes tariffs would be set at the EU Most Favoured Nation rates trading on non-preferential World Trade Organisation terms

¹⁰ See [Government response to Humble Address Motion - GOV.UK](#)

Some relief for Londoners is that rents and house price growth have been easing, perhaps because households are unwilling to make large commitments because of the uncertainty around Brexit.

Economic policy response

Macroeconomic stimulus would be beneficial to address the sluggish performance of the economy. Indeed, the economic effects of Brexit, and the depth of any recession, will depend on the policy response by the Bank of England and HM Government. There will be pressures to reverse the effects of austerity, support struggling and failing businesses, increase investment, and support struggling households. There are strategic choices with distributional consequences about how this is done, and so how the impacts are felt through the economy.

1 Introduction - What is Brexit?

1.1 Focus of this paper

This report summarises the evidence on the economic impacts of Brexit on the London and UK economies. It looks both at the impacts that have been already observed since the EU Referendum (eg impacts on investment and GDP) and at potential future impacts, both in the short and longer term.

The UK voted to leave the EU in the EU Referendum vote in June 2016, and originally this was expected to happen on 29 March 2019. While an extension has been agreed to UK membership of the EU until 31 January 2020 the threat of a no-deal Brexit remains. In terms of future Brexit scenarios, therefore, the report focuses on no-deal scenarios.

The risk of a no-deal Brexit scenario (with the UK leaving with no withdrawal agreement and no transition period) have increased in recent months. This arises from the ongoing political stalemate in the UK Parliament and the negotiating stance taken by the current UK Government with the EU. Accordingly, this paper also focuses on the potential impacts of a no-deal Brexit among various alternative scenarios.

1.2 Alternative Brexit scenarios

At the EU Referendum vote the UK voted to leave the EU through the Article 50 process of the Lisbon Treaty. This was originally due to happen on 29 March 2019 and has since been extended to 31 October 2019. There are a number of ways this could happen reflecting the degree of political and economic integration between the UK and the EU.

There are four pillars of the European Single Market of free movement of goods, people, services and capital across borders¹¹. By leaving the EU there will cease to be reciprocal arrangements between the UK and the EU. The form Brexit takes will affect the degree of openness in interactions between the two parties. Reduced openness is associated with lower economic output. This is because there are gains from trade through specialisation and exchange.

A number of potential scenarios for Brexit have been identified. For example, in January 2018 Cambridge Econometrics (CE)¹² analysis for the GLA included five scenarios of exit for London and the UK. HM Government analysis in November 2018¹³ had similar scenarios, the precise explanations for which are in the footnotes to this list:

- 1) A 'close to status quo' scenario where the UK remains part of both of the single market and the customs union
- 2) A scenario where the UK remains part of the Single Market but not the Customs Union¹⁴
- 3) A scenario where the UK remains part of the Customs Union but not the Single Market¹⁵
- 4) A no-deal Brexit scenario in which trade between the UK and the EU falls under World Trade Organisation (WTO) rules with a two-year transition period
- 5) The same no-deal Brexit scenario without a two-year transition period¹⁶

¹¹ See [The European single market | Internal Market, Industry, Entrepreneurship and SMEs](#)

¹² See [Mayor warns hard Brexit could lead to 'lost decade' of growth and employment | London City Hall](#). The explanations of the Single Market and the Customs Union come from this publication.

¹³ See [Exiting the European Union: Publications - GOV.UK](#)

¹⁴ The HM Government has an EEA-type scenario, reflecting average NTB costs

¹⁵ The HM Government scenario is a hypothetical Free Trade Agreement (FTA), with zero tariffs, reflecting average Non-Tariff Barrier (NTB) costs

¹⁶ The HM Government no deal scenario based on an assessment of average non-tariff barrier costs between countries trading on non-preferential WTO terms, and applying EU Most Favoured Nation tariffs

The Single Market incorporates all the legislation supporting the four freedoms, and competition and state aid rules, and all the accompanying measures on social policy, consumer protection and the environment. It also provides for participation in funding programmes, in particular the main “Framework” programmes on research and innovation. It does not cover the common agricultural or fisheries policies, Justice and Home Affairs, nor foreign and security policy. The Single Market covers the EEA which is the EU, plus Iceland, Liechtenstein, and Norway.

States in the EU Customs Union follow a set of common rules in exercising customs controls over goods entering the area from outside, and so are subject to a common tariff. Goods made inside the area of the union, or which enter that area can circulate freely without being subject to tariff at the internal borders within the union. Turkey is a member of the EU Customs Union, but not the Single Market.

While service exports are not subject to tariffs they can face non-tariff barriers (NTBs) – both sets of modelling take account of the emergence of NTBs if the UK leaves the Single Market. NTBs are administrative, technical, and regulatory obstacles to trade, and so increase the costs of trade. Some, NTBs, such as customs procedures, and rule of origin requirements can be incurred at the border, while others can be incurred “behind the border”. Regulatory barriers include loss of mutual recognition of qualifications, divergence of product standards, or restrictions on the provision of services, limitations on the movement of people, and the loss of “passporting” of financial services and data protection regulations. GLA Economics has previously reported on these impacts by sector¹⁷, and, for convenience, this analysis is reproduced with minimal changes in Appendix A. Analysis for the Scottish Government¹⁸, and by the BoE and Confederation of Business Industry (CBI)¹⁹ has also looked at this issue.

No-deal Brexit is also not a single idea and has a number of dimensions. In November 2018, the BoE²⁰ talked about:

- A disruptive scenario, where tariffs and other barriers to trade are introduced suddenly. No new trade deals are implemented within a five year period, but the UK replicates deals acquired by virtue of EU membership. While the UK recognises EU product standards, the EU does not reciprocate.
- A disorderly scenario, where the UK loses existing trading arrangements that it currently has with non-EU countries through membership of the EU. The UK’s border infrastructure is assumed to be unable to cope smoothly with customs requirements. There is a pronounced increase in the return investors demand for holding sterling assets. There are spill-overs across asset classes.

The current position is most likely a mixture of these scenarios.

1.3 Overview of UK preparedness for a no-deal Brexit

In September 2019, Mark Carney, the Governor of the BoE concluded²¹ that a disorderly exit would be less severe than previously expected because there were better border preparations, a temporary deal for financial services companies to access UK markets, and a deal on the market for financial insurance products. Further, HM Government has also announced UK-EU measures to ensure that flights and road transport, including haulage, will continue to run smoothly after the UK leaves the EU²². Of course, there are plans across a range of areas of what HM Government is doing to get ready for Brexit, and for what will

¹⁷ See [London and Europe - Facts and figures | London City Hall](#)

¹⁸ See [Brexit and businesses: sectoral impact analysis - gov.scot](#)

¹⁹ See [What comes next? The business analysis of no deal | CBI](#)

²⁰ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

²¹ See [No-deal recession less severe now, says central bank boss - BBC News](#)

²² See [Protection for flights and road transport after Brexit reaffirmed - GOV.UK](#)

change if the UK leaves without a deal²³. Nevertheless, the Government's own reasonable worst case planning assumptions²⁴ identifies that a wide range of possible adverse impacts remain.

As noted, in the absence of an agreement on the future relationship between the UK and the EU the two parties will need to act separately to ease flows of goods, people, services, and capital. The Institute for Government (IfG)²⁵ and the Confederation of British Industry (CBI)²⁶ argue that while the UK is relatively prepared in policy terms to avoid a disorderly exit the EU is not. Financial services is an exception where the BoE reports²⁷ that, "Most risks to UK financial stability from disruption to cross-border financial services have been mitigated".

The UK has not reciprocated many of the FTAs that it has with non-EU countries through membership of the EU. There are 36 such FTAs. It has managed to roll over 13, but many of these do not offer full continuity as they are considered to be incomplete²⁸. These make up around 5½% of the UK's total goods trade²⁹. As a comparison HM Government modelling estimates that new trade deals after leaving the EU could add up to 0.2% to GDP³⁰.

With regard to border requirements, the IfG notes that, "The new systems and processes that are needed for no deal continue to be developed and implemented."³¹ There will be Transitional Simplified Procedures for customs checks at the border, and a temporary waiver on security checks³². At the same time, the Customs Declarations System should only be partially in place by October, while ferry contracts to protect the supply of critical goods like medicines need to be re-procured³³. To put this into context, HM Revenue and Customs estimates that the costs to UK and EU businesses of submitting customs declarations for the new import and export procedures to be £15 billion a year³⁴.

More difficult to assess is business preparedness. BoE Agents reported in March that 90% of businesses had contingency plans, while by August three quarters of respondents said that they considered themselves 'as ready as they can be', and just under a fifth described themselves as 'fully ready'³⁵. In contrast, the British Chamber of Commerce found³⁶ there were, "conflicting political messages over the likelihood of no deal and remaining gaps in government guidance", and that, "two-fifths (41%) of UK businesses had not done a Brexit risk assessment. Those that trade internationally (63%) are far more likely to have carried out a risk assessment on the impact of Brexit to their business than their counterparts that trade in the UK only (35%)." Any business which is part of a supply chain may be affected by export barriers, and all businesses will be affected by higher prices regardless of where they source their materials.

Other research finds lower levels of business preparedness:

²³ See [No-Deal Readiness Report - GOV.UK](#)

²⁴ See [Government response to Humble Address Motion - GOV.UK](#)

²⁵ See [Preparing Brexit: No Deal | The Institute for Government](#)

²⁶ See [What comes next? The business analysis of no deal | CBI](#)

²⁷ See [Financial Stability Report and Record - July 2019 | Bank of England](#)

²⁸ See [Preparing Brexit: No Deal | The Institute for Government](#)

²⁹ See [Inflation Report - August 2019 | Bank of England](#)

³⁰ See [Exiting the European Union: Publications - GOV.UK](#)

³¹ See [Preparing Brexit: No Deal | The Institute for Government](#)

³² See [Inflation Report - August 2019 | Bank of England](#)

³³ See [Preparing Brexit: No Deal | The Institute for Government](#)

³⁴ See [HMRC impact assessment for the movement of goods if the UK leaves the EU without a deal \(third edition\) - GOV.UK](#)

³⁵ See [Inflation Report - August 2019 | Bank of England](#)

³⁶ See [BCC: Business still unable to prepare fully for a no-deal Brexit](#)

- The London Chamber of Commerce and Industry (LCCI) found in September 2019 that³⁷:
 - 9% of London businesses were prepared for a no-deal Brexit;
 - 16% intended to plan for a no-deal Brexit, and;
 - 16% said their business would be affected by a no-deal Brexit but won't be planning for it
- The Federation of Small Businesses (FSB) reported in November 2018 that:
 - Only one in seven small businesses had started planning for a no-deal Brexit³⁸
 - A further 41% believe that a no-deal Brexit will have an impact on their business but haven't yet started planning for the possibility.

By 19 August 2019, 72,000 out of the 245,000 most at-risk businesses had done the minimum to signal they were actively preparing for no deal, by completing an export registration form³⁹. Only 27% of businesses that trade solely with EU states had obtained an Economic Operators Registration and Identification (EORI) number. In response, the Government stated that they would allocate numbers to over 88,000 VAT registered companies, but there will still remain 85,000 non-VAT registered companies that trade with the EU which do not have an EORI number. There may also be knock on ramifications, as firms which are part of supply chains may not realise that their activity supports exports.

The ramifications of a no-deal Brexit are more marked. The government's assessment⁴⁰ is that, "Public and business readiness for a no-deal will remain at a low level, and will decrease to lower levels, because the absence of a clear decision on the form of EU Exit (customs union, no deal etc) does not provide a concrete situation for third parties to provide for."

Nearly 90% of London First members expect some, or significant, disruption if the UK leaves the EU without a deal on 31 October 2019, (Figure 1.1), and almost all felt the need to prepare. Half, or over half, of respondents felt that it was uncertainty around freedom of movement and future status of EU citizens, the future trading terms or relationship, and the exit date, which were the major obstacles to planning, (Figure 1.2). In comparison, 38% of respondents reported that lack of government guidance was a significant obstacle. While London First⁴¹ is not representative of the wider business community the economic modelling in Chapter 2 concludes that government decisions on freedom of movement, and the future trading relationship could have quite different outcomes for the UK economy. The lack of clarity about what happens after exit gives businesses an incentive to delay difficult to reverse investment decisions⁴². The BoE also reports⁴³ businesses stockpiling when the exit date was 29 March, and for 31 October. So, the exit date did matter, unsurprisingly, to decision making.

³⁷ From interviews with 505 London business leaders between 31 July and 12 September 2019, see [London Chamber of Commerce and Industry - 9% of London businesses polled prepared for no-deal Brexit](#)

³⁸ In a survey of 1,234 businesses in September 2018, see [Small businesses entirely unprepared for chaotic no-deal Brexit](#)

³⁹ See FT 21 August 2019

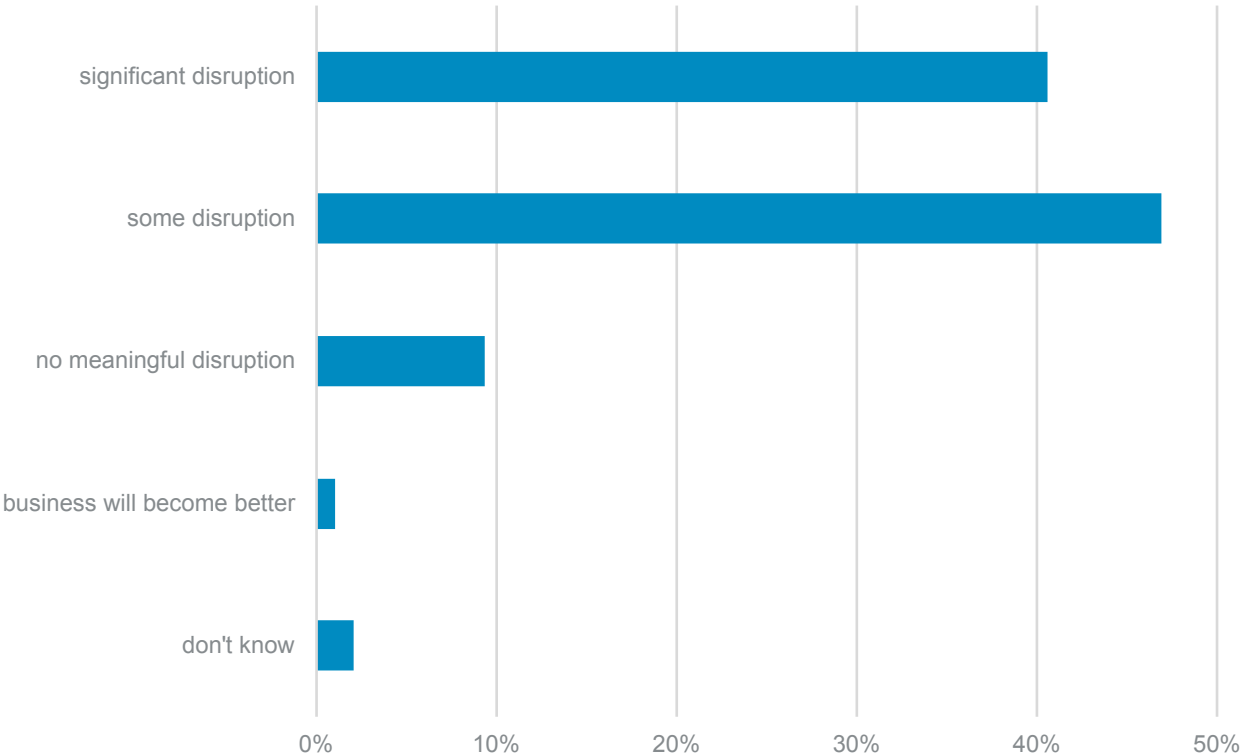
⁴⁰ See [Government response to Humble Address Motion - GOV.UK](#)

⁴¹ London First has 200 members weighted towards large organisations in Construction and Real estate. Around half responded to this survey

⁴² See Chapter 2 of [IFS Green Budget 2019 - Institute For Fiscal Studies - IFS](#)

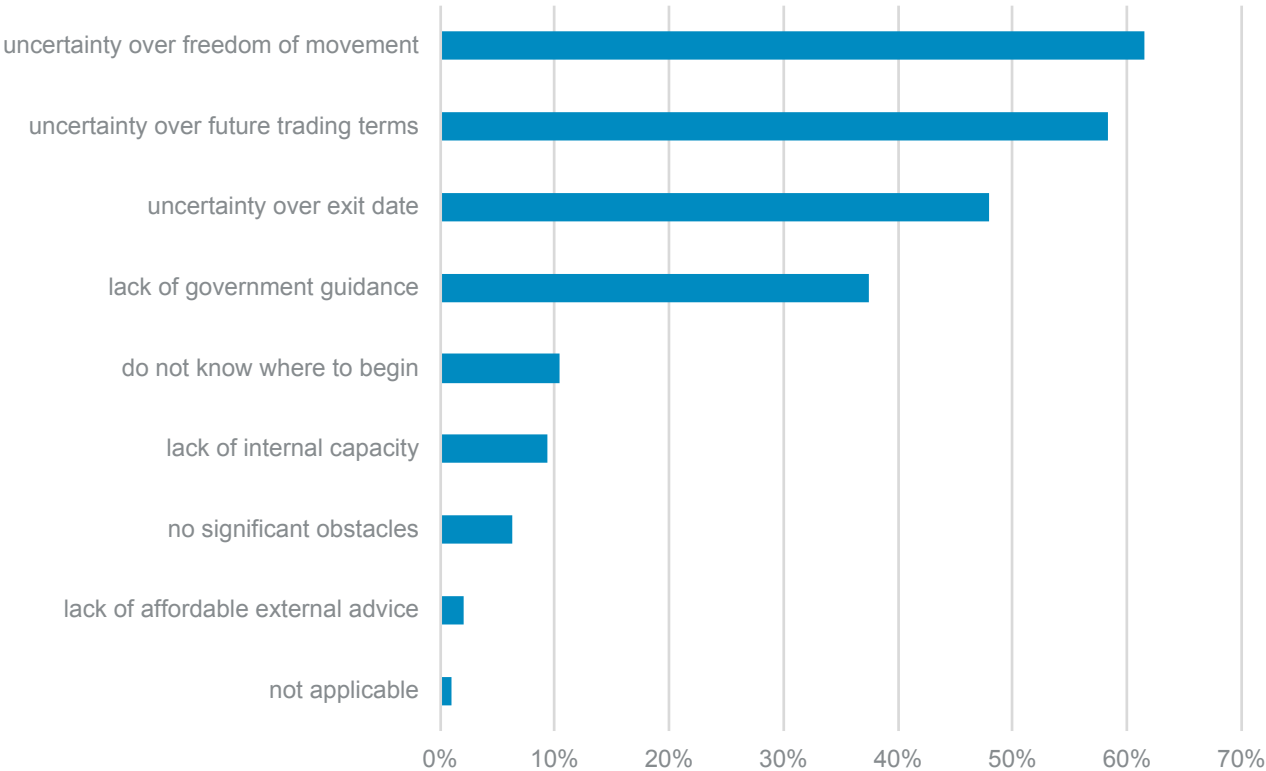
⁴³ See [Agents' survey on preparations for EU withdrawal - 2019 Q3 | Bank of England](#)

Figure 1.1: Expected impact for businesses of leaving the EU without a deal on 31 October 2019



Source: London First survey of members

Figure 1.2: Biggest obstacles to businesses in preparing for a no-deal Brexit, multiple answers possible



Source: London First survey of members

In support, an August BoE survey found that, “even companies that felt ‘ready’ for a no-deal Brexit still expected output, employment and investment to be markedly lower in that case compared with a deal and transition period”⁴⁴. The third of companies who said they were ‘not ready’ for a no-deal Brexit tended to have a more pessimistic outlook in both scenarios.

Carolyn Fairbairn, the director-general of the CBI, has offered a more trenchant opinion of the possibility of ‘no-deal’. She observed that “it’s bad enough for large companies, which have prepared contingency plans. They are at least ready with plans to implement post Brexit — lost jobs and factory closures”. Adding that “a bigger worry is the 80 per cent that are smaller and simply don’t have the resources to plan up front. The shock they will face is severe”⁴⁵.

Indeed, as Brexit is a process the implications will become apparent over the short, medium, and longer term. The uncertainty around the outcome of the process has in itself been detrimental to the UK economy since the EU Referendum vote in June 2016.

Brexit will not end on a certain date, as the UK will need to develop new trading relationships with the EU. It can easily take five years or more to agree a trade deal⁴⁶.

There are other published analyses which provide an overview of the range of possible impacts of Brexit, such as those by UK in a Changing Europe⁴⁷, and HM Government⁴⁸. There is common ground across these assessments of the likely effects, even though there is considerable uncertainty around the size and timing of some of them.

1.4 Structure of the paper

The remainder of the paper considers the economic impacts of Brexit (both those that have already happened following the EU Referendum and future impacts) on the UK economy. Specifically, it considers the following:

- Macroeconomic consequences of Brexit
- Impacts on businesses
- Impacts on migration and visitors
- Impacts on households
- Economic policy response

Finally, Appendix A reproduces with minimal updates analysis by GLA Economics⁴⁹ of the potential impacts of Brexit on London’s sectors.

⁴⁴ See [Agents’ survey on preparations for EU withdrawal - 2019 Q3 | Bank of England](#)

⁴⁵ See [UK businesses watch Brexit political chaos with ‘sense of horror’ | Financial Times](#)

⁴⁶ The IfG provides examples of how long trade deals have taken. See [Preparing Brexit: No Deal | The Institute for Government](#)

⁴⁷ See [No-deal Brexit: issues, impact, implications - UK in a changing Europe](#)

⁴⁸ See [Government response to Humble Address Motion - GOV.UK](#)

⁴⁹ See [London and Europe - Facts and figures | London City Hall](#)

2 Macroeconomic consequences of Brexit

2.1 Overview

It has already been noted that reduced openness is associated with lower economic output than would otherwise be the case, and that the uncertainty around the Brexit process has contributed as well. This chapter looks at the mechanisms by which this occurs, what has happened since June 2016, and what may happen. The effects on migration and public finances are considered in later chapters.

HM Government summarised the beneficial effects of trade agreements⁵⁰: “In the long run, theory and evidence suggest that international trade increases output and raises living standards through four key channels:

- a) Domestic specialisation allows each country to put more resources into what it does best, leading to higher productivity and real wages
- b) Greater variety of inputs and products for businesses and consumers, with increased competition and lower prices leads to:
 1. More efficient production for businesses
 2. Increased consumer choice
- c) Access to new markets allows firms to scale their production up, leading to efficiency gains where there are increasing returns to scale
- d) Exposure to competition leads demand to shift away from the least competitive firms while the most competitive (and productive) firms gain opportunities to expand into new markets.”

It continues, “In addition, increases in productivity may have an impact on the returns to capital, the level of investment and the overall size of the capital stock. Changes in the size of the capital stock can in turn have further impacts on productivity.”

The Bank of England (BoE) identifies a number of complementary effects⁵¹:

- “Barriers that result in economies becoming less open result in lower trade and foreign direct investment
- Reductions in trade and foreign direct investment tend to reduce productivity
- Less open and less productive economies tend to have lower real exchange rates
- Depreciations in the exchange rate tend to have large and protracted pass-through to consumer prices in the UK ...
- Slowdowns in the economy are often associated with tighter financial conditions and an increase in uncertainty. In turn, these weigh on demand
- Weaker demand tends to increase the rate of unemployment and significant structural adjustment can increase the natural rate of unemployment
- Weaker economic conditions tend to reduce net inward migration.”

That is, Brexit will have both demand and supply effects on the UK economy.

⁵⁰ See the Technical Reference Paper at [Exiting the European Union: Publications - GOV.UK](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544443/Exiting_the_European_Union_Publications_-_GOV.UK.pdf)

⁵¹ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](https://www.bankofengland.co.uk/economic-articles/2016/eu-withdrawal-scenarios-and-monetary-and-financial-stability)

2.2 The period to 31 October 2019

The impact of a number of these effects has already been observed, and was expected prior to the UK's exit from the EU. In October 2018, the OBR published a discussion paper on Brexit and the OBR's forecasts⁵², and reviewed GDP growth trends since the EU referendum result. They noted that:

“Following the June 2016 referendum result, we made some broad-brush adjustments to our forecasts in our November 2016 EFO [Economic and Fiscal Outlook] to reflect the fact that it was now Government policy to leave the EU: notably that trade intensity, net inward migration, business investment and productivity growth would be weaker than would otherwise have been the case. We also took on board the significant fall in the exchange rate that accompanied the referendum and its outcome. In terms of near-term impact, we reduced our forecast for real GDP growth between the second quarters of 2016 and 2018 from 4.4 to 3.0 per cent; the ONS [Office for National Statistics] currently estimates that growth over this period was 3.2 per cent. Studies based on synthetic ‘doppelgangers’ for the UK economy suggest that output in mid-2018 is around 2 to 2½ per cent lower than it would have been in the absence of the referendum”.

Analysis for the Institute for Fiscal Studies (IFS) Green Budget published in October 2019, and also using synthetic ‘doppelgangers’, concluded that the loss may now be closer to 3%⁵³.

The OBR predictions were largely in line with those of other forecasts prior to the EU Referendum by HM Treasury, the OECD, and NIESR. There was a sharp fall in the exchange rate following the decision to leave the EU and a notable drop in output, if perhaps more gradually than some forecasters expected. What did not happen was a rise in unemployment⁵⁴. The prolongation of the Article 50 process will have extended the period of uncertainty, and so the realisation of these effects.

The slowdown in economic growth at the UK level since June 2016 has also occurred for London, (Figure 2.1). It continues the historic patterns that:

- London has grown at a faster rate on average than the UK as a whole
- Year-on-year changes in GVA growth for London mirror UK trends

The annual growth rate in the UK economy has been at 2% or lower for most of the period since 2016, and for 2018 was around 1.4%. Growth in the London economy has been higher, although it was also around 1.4% in 2018. Growth by the last quarter of 2018 was close to zero, and the latest data for the UK indicates that there has been little change in 2019 with some volatility month-on-month⁵⁵. Services was the main driver of UK GDP growth in the three months to August 2019, although growth in the sector has been weakening through 2019. This is significant as the sector accounted for 90% of London GVA, and 80% of UK GVA in 2017⁵⁶.

⁵² See: [Brexit analysis - Office for Budget Responsibility](#)

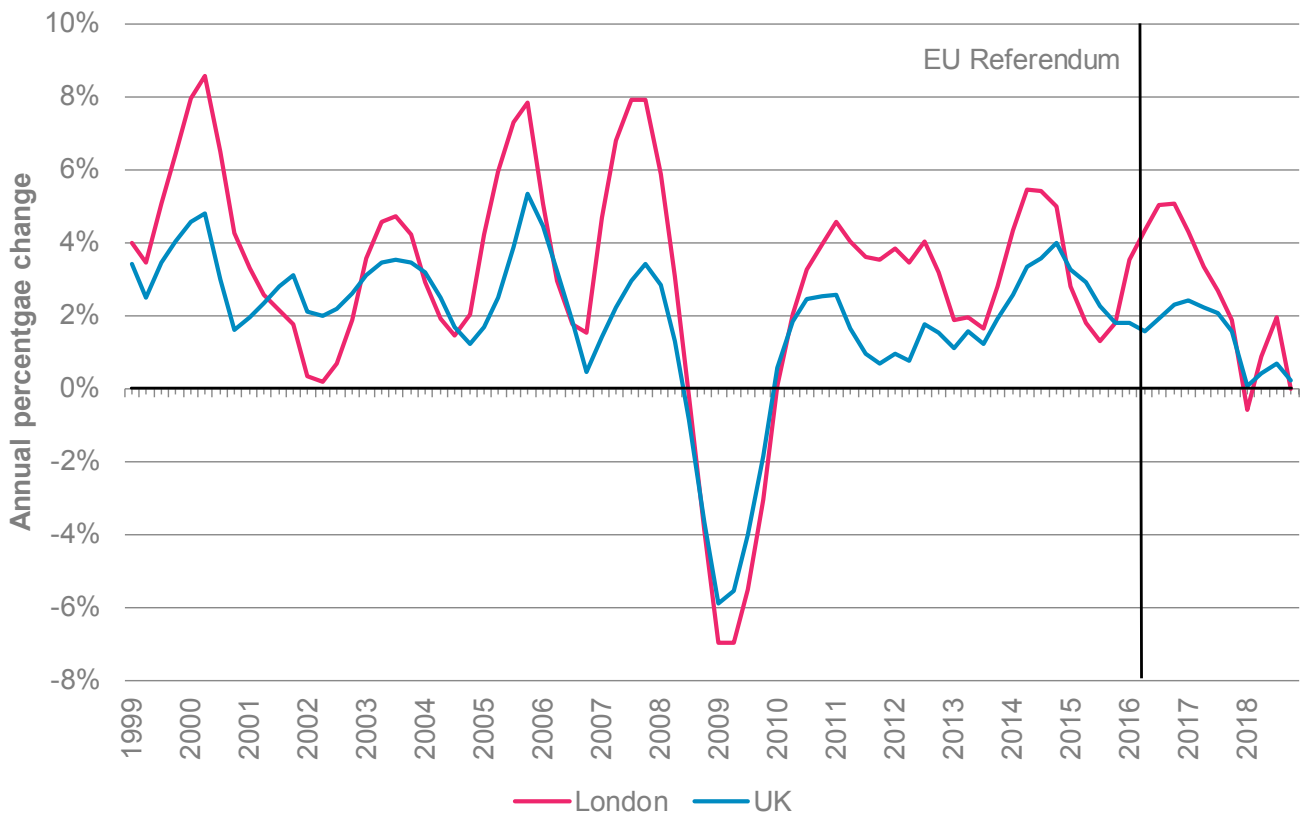
⁵³ See Chapter 2 of [IFS Green Budget 2019 - Institute For Fiscal Studies - IFS](#)

⁵⁴ See [London's Economic Outlook: Autumn 2018 | London City Hall](#) for a review

⁵⁵ See [GDP monthly estimate, UK - Office for National Statistics](#)

⁵⁶ See [Nominal and real regional gross value added \(balanced\) by industry - Office for National Statistics](#)

Figure 2.1: Annual rate of GVA growth, London and the UK, 1998Q1-2018Q4



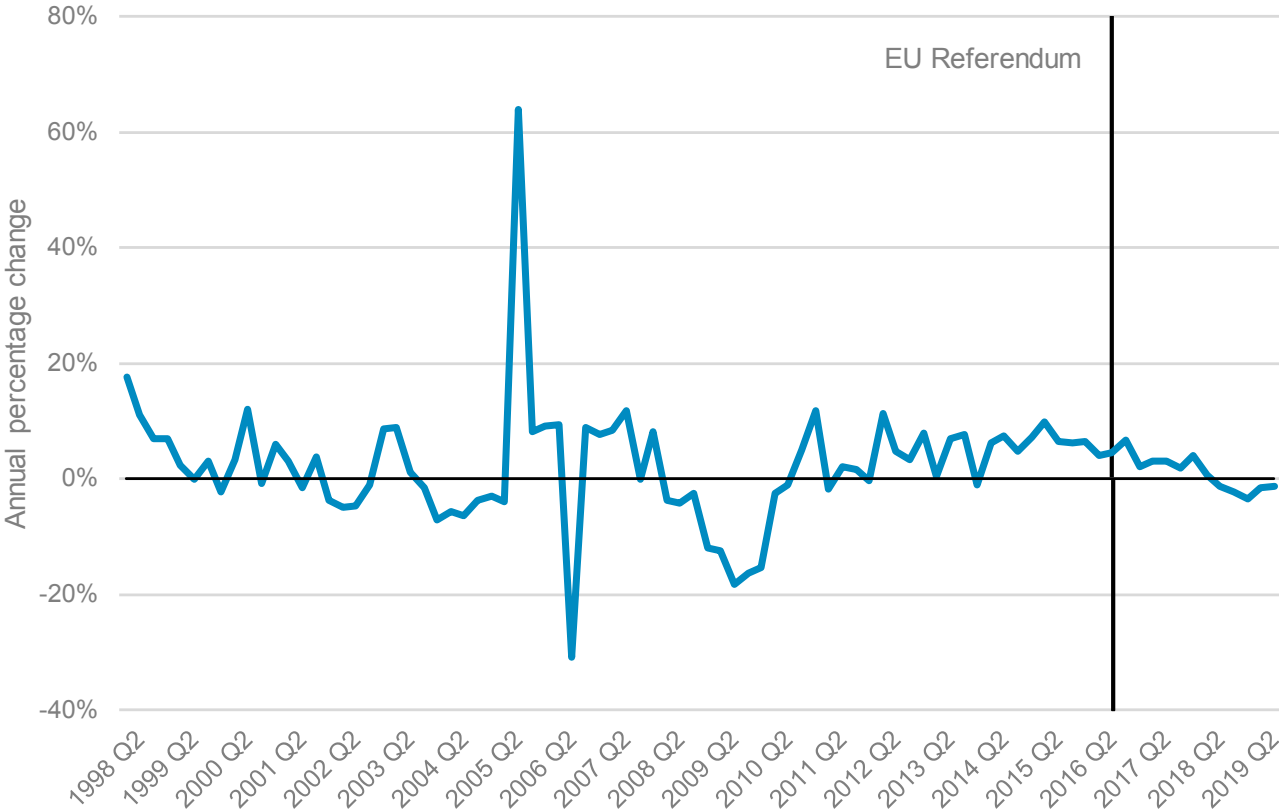
Source: GLA Economics calculations of ONS GVA data to 2017 spliced with ONS GDP growth rate estimates for 2018⁵⁷

One explanatory factor is a slowdown in business investment reflecting the uncertainty around Brexit. Since June 2016, it has increased by less than 0.5%, which is low by historic standards, and has been falling since 2019Q1, (Figure 2.2). Research suggests that in the three years since the EU Referendum the level has been 11% less than it would otherwise have been⁵⁸.

⁵⁷ ONS has published regional GVA data from 1998-2017, and regional GDP data from 2012-2018. To provide a timely time series the figure splices the GDP growth rate for 2018 to the GVA series. GVA is a measure of output which excludes taxes and subsidies unlike GDP.

⁵⁸ See [The impact of Brexit on UK firms | VOX, CEPR Policy Portal](#)

Figure 2.2: Annual growth in UK business investment, after inflation, 1998Q1 to 2019Q2

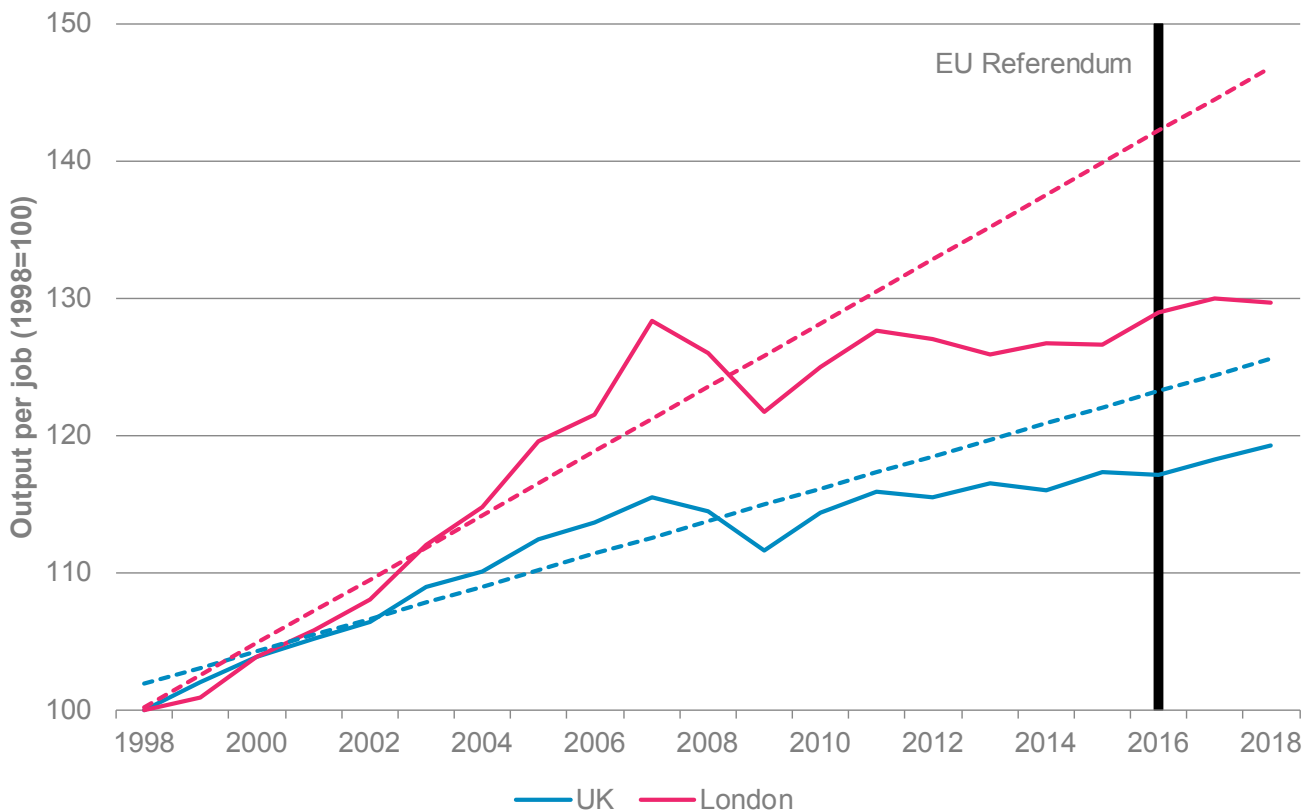


Source: ONS

Since 2011, productivity growth⁵⁹ has been below its historic trend. By 2018 productivity growth had stalled further in London, although less clearly so for the UK, (Figure 2.3). There is, though, data for the UK for the year up to 2019Q2 when productivity growth declined, and there was no growth in output per job⁶⁰.

⁵⁹ Measured by output per workforce job

⁶⁰ See [Labour productivity, UK - Office for National Statistics](#). Measure is output per hours worked

Figure 2.3: Productivity growth, output per job, London and the UK, 1998-2018

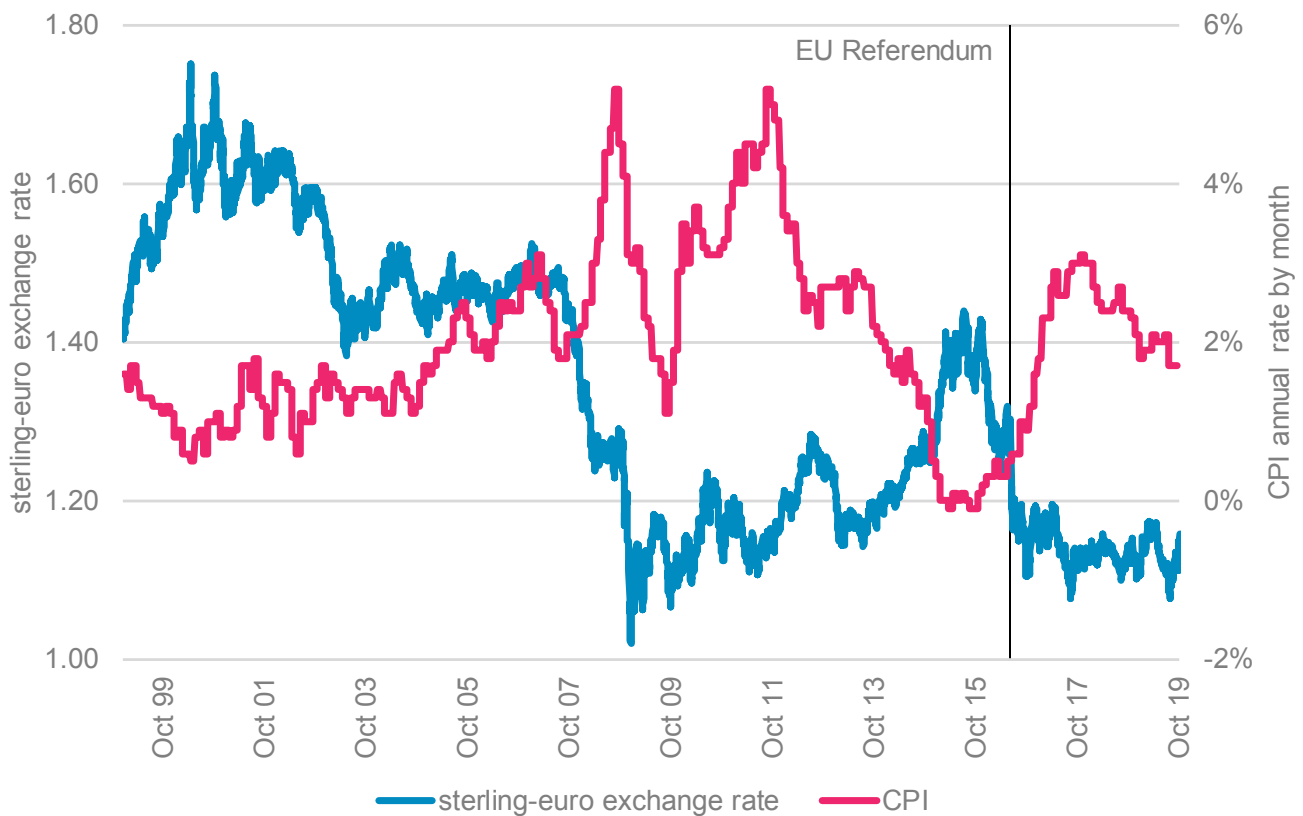
Source: GLA Economics calculations of ONS Workforce Jobs data, ONS GVA data to 2017 spliced with ONS GDP growth rate estimates for 2018⁶¹

Research finds that the level of productivity is 2% to 5% lower three years after the EU Referendum than it would have been if there had not been a vote⁶². It estimates 1.8% to 4.5% of this change to intra-firm effects, that is the shifting of activity, and jobs, from more productive to less productive firms. Firms which were more productive prior to the EU Referendum have experienced greater levels of Brexit uncertainty and have gone through greater reductions in size. One natural explanation is that more productive firms have a higher propensity to trade, and it is the case for London, see Chapter 3, that more productive sectors have a higher propensity to trade. Thus, the UK's decision to leave the EU is likely to have already led to a re-allocation of activity away from more productive global businesses towards less productive domestic firms.

Sterling fell by 11% against the euro after the UK voted to leave the EU in June 2016, (Figure 2.4). While it was not clear what form Brexit would take, it was clear that the UK would be a less open economy, and its competitiveness would reduce as the costs of trade increased. The effective market for goods and services has become smaller, reducing competition between providers, which is also detrimental to productivity gains. While a no-deal Brexit was always a contingency it only looked likely that it might happen in July 2019, at which point there has been a further fall in the exchange rate of 4%. A fall in the exchange rate is associated with higher import prices, and higher inflation. The consequence is that everyone is worse off because there has been no corresponding increase in incomes.

⁶¹ ONS has published regional GVA data from 1998-2017, and regional GDP data from 2012-2018. To provide a timely time series the figure splices the GDP growth rate for 2018 to the GVA series. GVA is a measure of output which excludes taxes and subsidies unlike GDP.

⁶² See [The impact of Brexit on UK firms | VOX, CEPR Policy Portal](#)

Figure 2.4: Sterling-euro exchange rate and Consumer Price Inflation, 1999-2019

Source: BoE and ONS

While it is the remit of the BoE to maintain stable CPI inflation at around 2%, it has pursued accommodative monetary policy following both the significant exchange rate depreciation after the 2008 recession, and the EU referendum. Interest rates fell from 5.75% in July 2007 to 0.5% in March 2009. There was a further fall in August 2016 to 0.25% before rising to 0.75% by August 2018.

A falling exchange rate makes exports cheaper, and imports more expensive, and so, other things being equal should reduce the trade deficit.

London exports were £153 billion in 2017, of which £36 billion were goods exports and £117 billion were service exports⁶³. UK exports were £607 billion, of which £328 billion were goods exports, and £279 billion were service exports. London exports two-fifths (42%) of UK service exports, but only a tenth (11%) of UK goods exports, (Table 2.1). London's service exports are a fifth (19%) of all UK exports. Exports are around a third of output for both geographies.

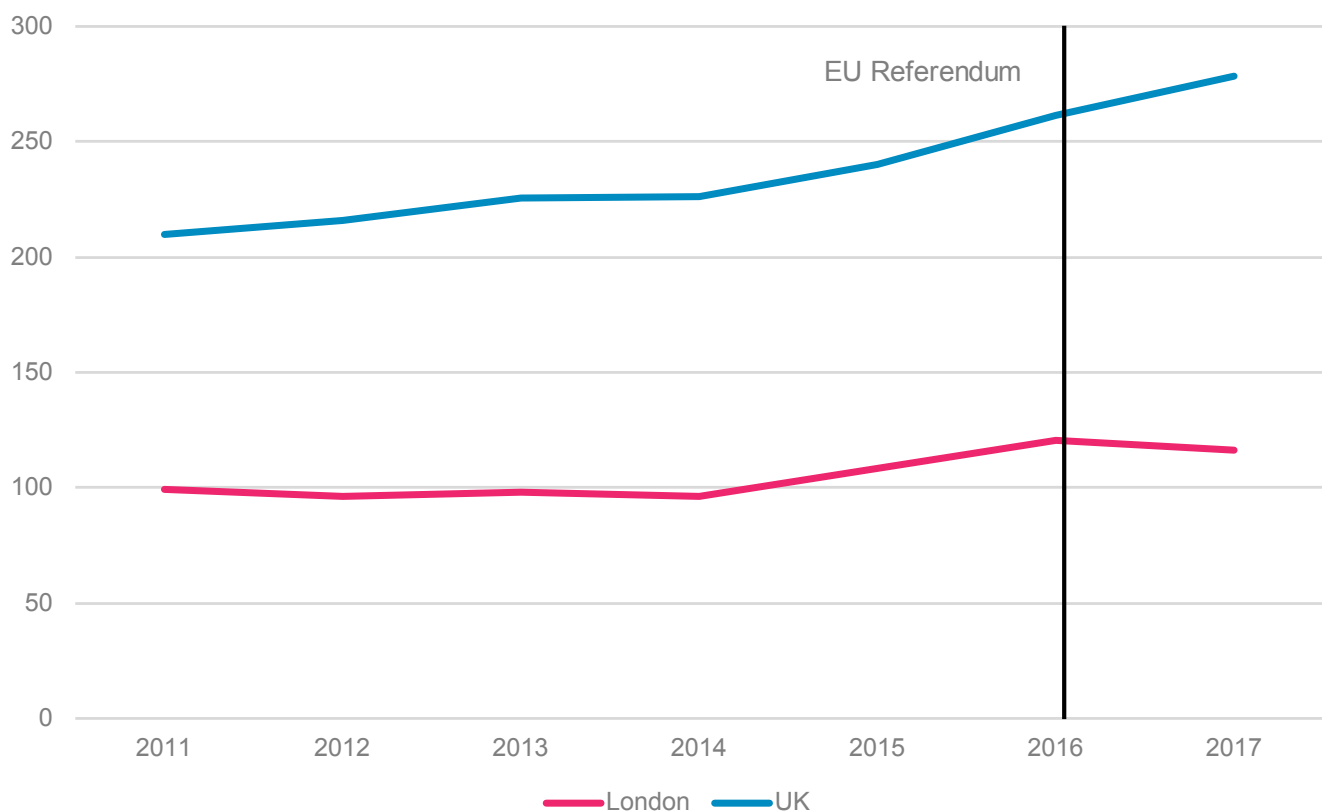
⁶³ For more information on London's exports see the supplement to [London's Economy Today - Issue 198 - February 2019 | London City Hall](#)

Table 2.1: London and UK goods and service exports, £ billion, and exports as a share of GVA, 2017

	London	UK	London share
goods exports	£36bn	£328bn	11%
service exports	£117bn	£279bn	42%
all exports	£153bn	£607bn	25%
GVA	£431bn	£1820bn	
service exports/GVA	27%	15%	
exports/GVA	35%	33%	

Source: HMRC Regional Trade in Goods Statistics, and ONS service exports statistics, and ONS GVA estimates

Despite the importance of the service sector to the London economy its service exports stagnated in 2017⁶⁴, while UK service exports continued to grow, (Figure 2.5).

Figure 2.5: Annual London and UK service exports, 2011 to 2017, £ billion, 2017 prices

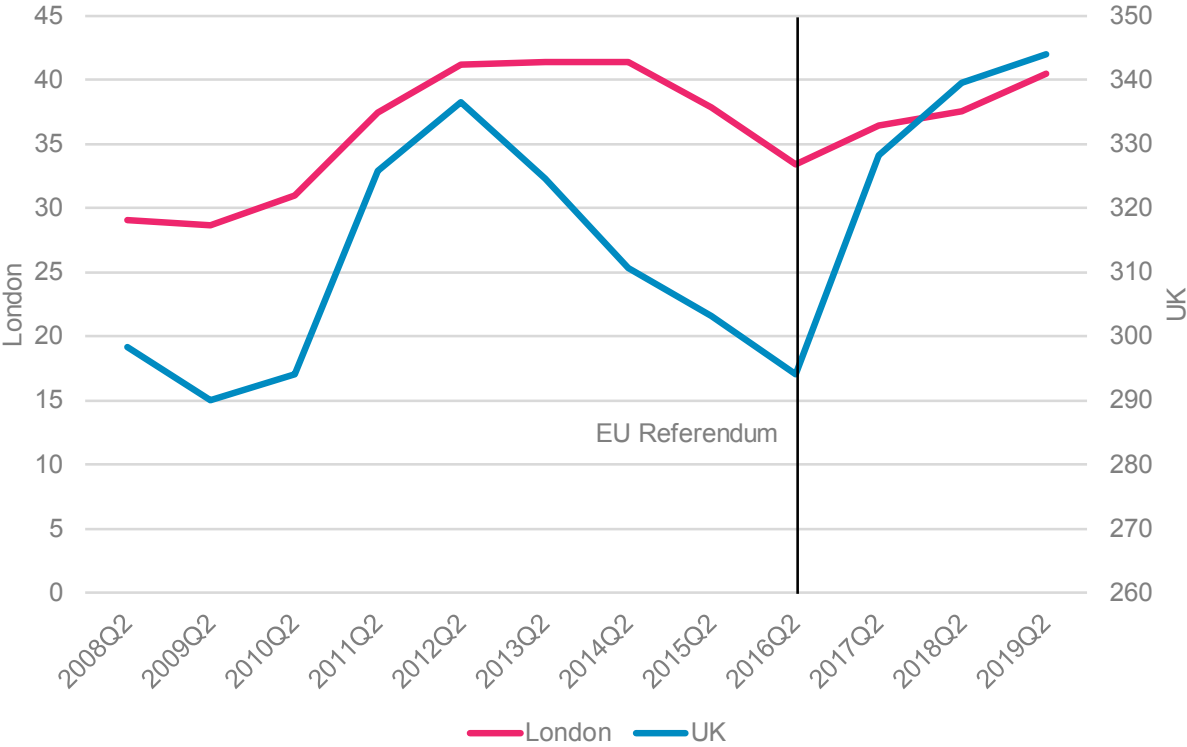
Source: ONS service trade statistics, and ONS CPI

Goods exports from both London and the UK have increased since June 2016 reversing years of decline, (Figure 2.6). Less expectedly, goods imports did go up for the UK, while for London they have fallen before

⁶⁴ The service exports figures for 2017 have been produced on a slightly different basis to the figures for 2011-16, and so there is a slight discontinuity in the series. For more information, see [International exports of services from subnational areas of the UK - Office for National Statistics](#)

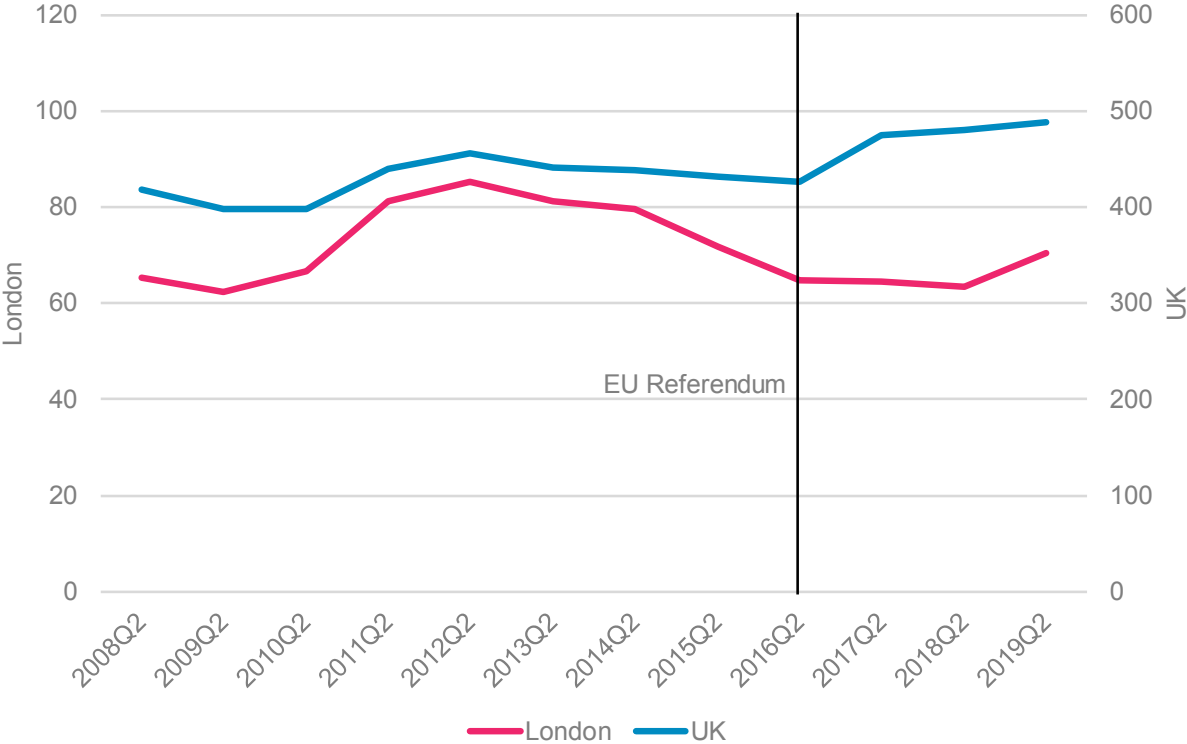
rising in the last year, (Figure 2.7). As a result, the goods trade deficit has gone up for the UK, and down for London, (Figure 2.8).

Figure 2.6: Annual London and UK goods exports, 2008Q2 to 2019Q2, £ billion, year to 2019Q2 prices



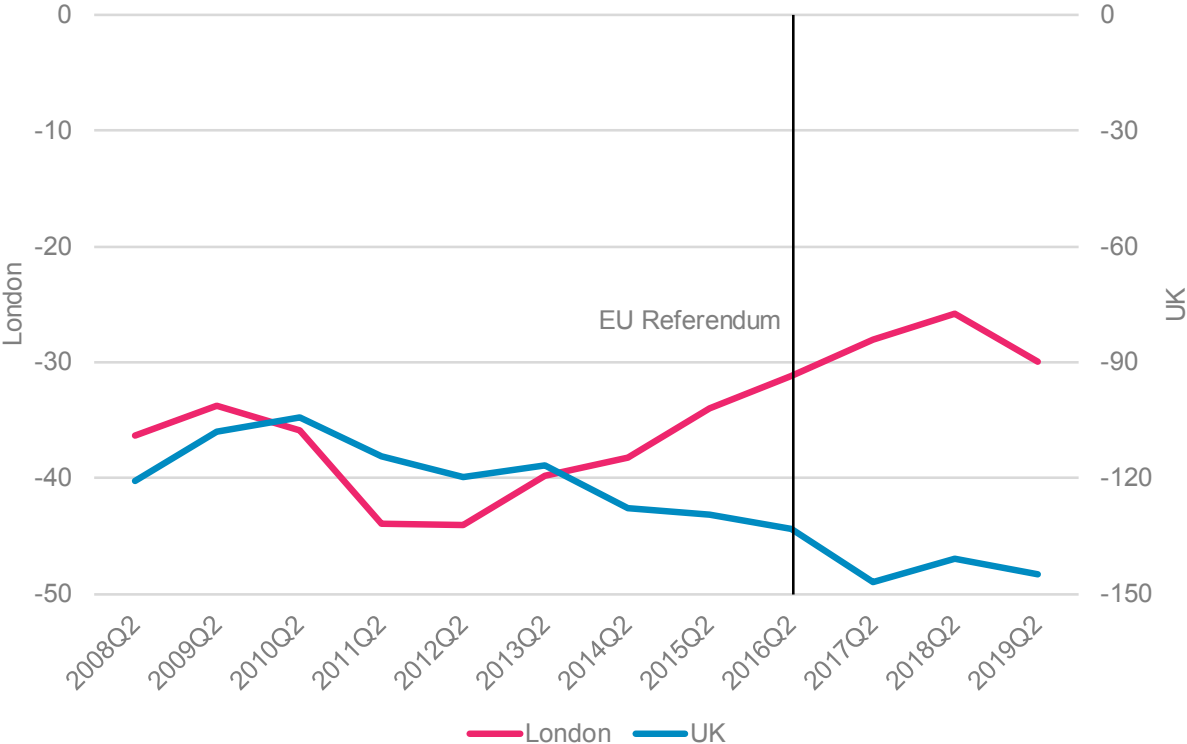
Source: HMRC Regional Trade Statistics, and ONS CPI

Figure 2.7: Annual London and UK goods imports, 2008Q2 to 2019Q2, £ billion, year to 2019Q2 prices



Source: HMRC Regional Trade Statistics, and ONS CPI

Figure 2.8: Annual London and UK goods trade deficits, 2008Q2 to 2019Q2, £ billion, year to 2019Q2 prices



Source: HMRC Regional Trade Statistics, and ONS CPI

In summary, trade patterns have not been in accord with a simple theory of the effects of exchange rate movements, and may reflect wider effects of the EU Referendum result. There are a number of possible factors:

- the increase in imports across the UK may reflect the importance of manufacturing supply chains
- there may have been some re-allocation of activity from more productive export-oriented firms to less productive domestic firms⁶⁵
- trade policy uncertainty around future tariff regimes may have deferred investment, and so entry into new markets, and led to exit from existing markets⁶⁶
- some firms may have increased their price mark ups rather than increase export volumes after the exchange rate depreciation, constraining the improvement in the underlying competitiveness of the UK economy⁶⁷

2.3 After leaving the European Union

The EU Referendum result was a demand shock which had an adverse effect on the exchange rate, and a number of macroeconomic variables. As this exchange rate adjustment did not incorporate an expectation of a no-deal Brexit, the process to reach this eventuality has brought and may bring about further demand shocks. Reduced demand for goods and services will adversely affect profitability. Additionally, on leaving the EU there would be a supply shock in that the costs to business would rise from higher tariffs on exports to the EU, and disruption to those exports. A particular effect of this change is that it will impact on the profitability of affected businesses, making some, including those in supply chains, uneconomic.

This can be divided into shorter and longer-term effects. The shorter-term effects will be contingent on the nature of the government response, and are discussed in Chapter 6.

A number of organisations have conducted modelling of the long-term effects of Brexit over the last three years. This section focuses on analyses which provide results for London, namely the analyses by Cambridge Econometrics (CE), and HM Government discussed in Chapter 1. The scenarios adopted were also explained there. The HM Government report discusses the results of other analyses⁶⁸, and the findings most relevant to London are reported here.

The CE analysis for the GLA, published in January 2018, showed, that the more severe the type of Brexit, the greater the negative impact on London was expected to be⁶⁹. The results showed that Brexit will not only reduce the size of the economy (compared to what it might have been if Britain remained in the Single Market and customs union – Scenario 1), but also put it on a slower long-term growth trajectory, (Figure 2.9). In a worst-case scenario (with no transition, no membership of the Single Market or customs union, and no preferential trade agreements – Scenario 5), the UK could experience a loss of 3.0% (£54.5bn) in GVA by 2030 compared to the status quo scenario, while London could experience a loss of up to 2.1% (£10.8bn) in GVA.

⁶⁵ See [The impact of Brexit on UK firms | VOX, CEPR Policy Portal](#), and discussed above

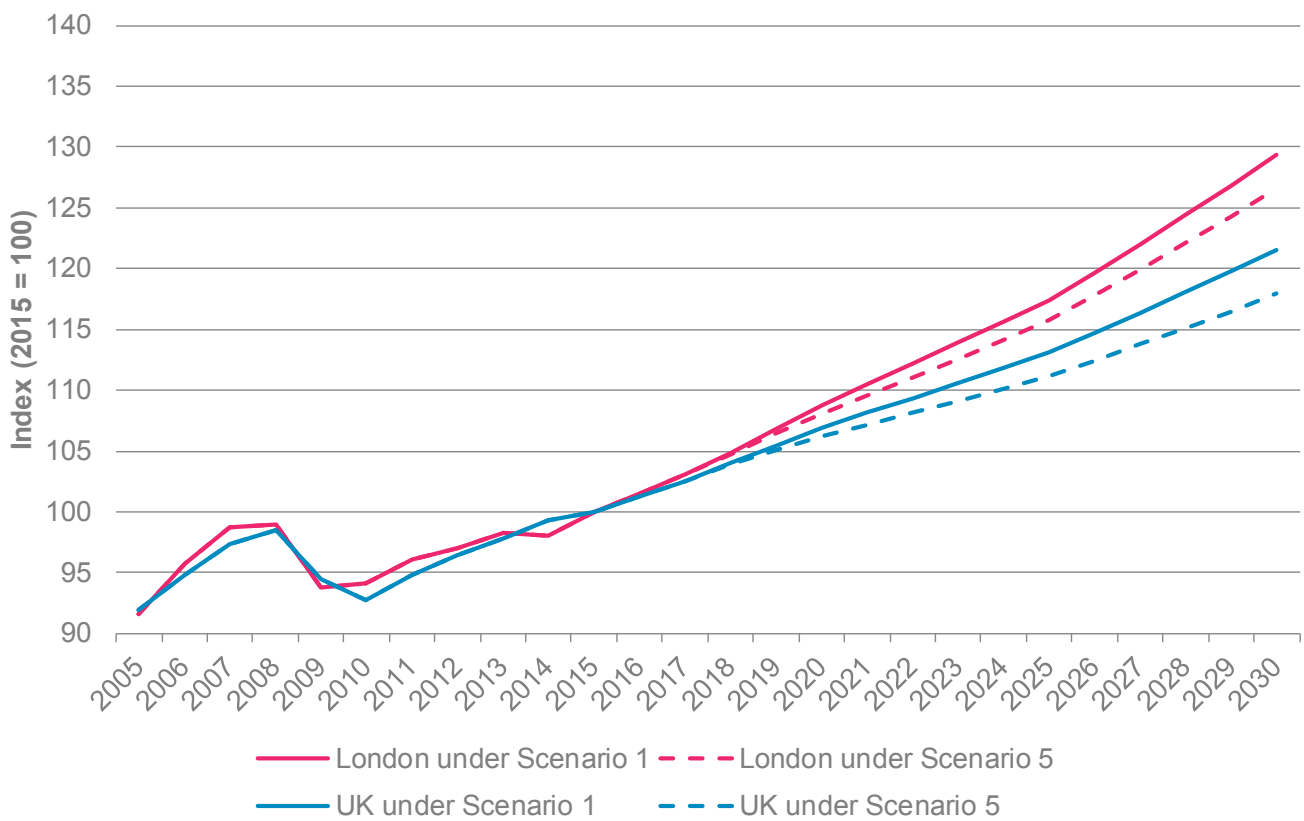
⁶⁶ See [The impact of Brexit uncertainty on UK exports | VOX, CEPR Policy Portal](#)

⁶⁷ See [The sterling depreciation and UK price competitiveness | VOX, CEPR Policy Portal](#)

⁶⁸ See the Technical Reference Paper at [Exiting the European Union: Publications - GOV.UK](#)

⁶⁹ See [Mayor warns hard Brexit could lead to 'lost decade' of growth and employment | London City Hall](#)

Figure 2.9: GVA growth in the UK and London



Source: CE for the GLA

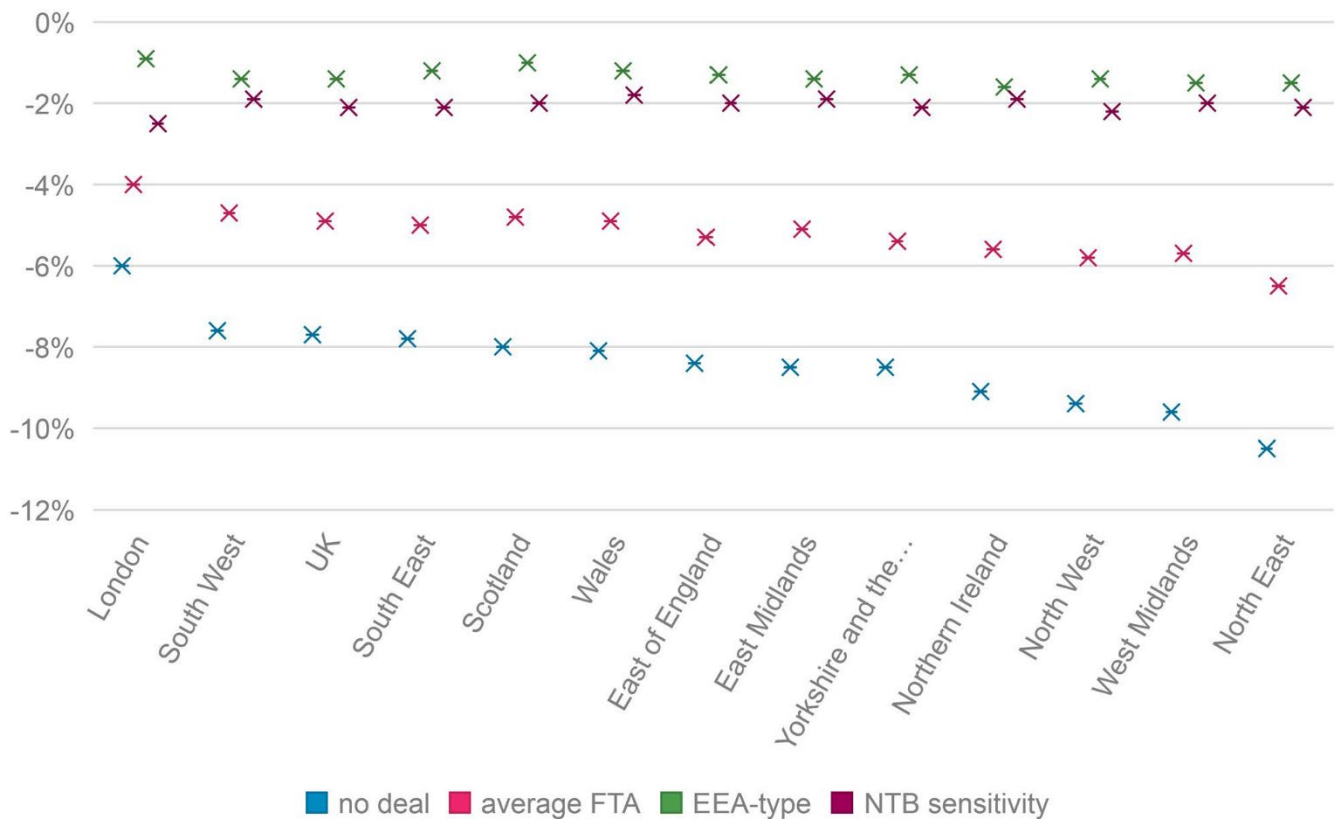
The Government’s own impact assessments, published in November 2018⁷⁰, also found that all forms of EU exit would reduce long-term GDP, and this would depend on the decisions taken. Its estimates were higher than the CE work, and a no deal exit might reduce GDP by 7.7% over the long term. The main scenarios were similar, but not identical with, scenarios in the CE work. Nevertheless, the conclusion is the same that London would also be worse off under every scenario, but would do better than the country as a whole, and indeed all other regions under each scenario, (Figure 2.10). London’s GDP might reduce by 6.0% if there was no deal.

The modelling exposed particular risks to London. If a deal with the EU focused on trade in goods London might do comparatively less well, especially as it is exposed more to NTBs than all other regions of the UK⁷¹.

⁷⁰ See [Exiting the European Union: Publications - GOV.UK](#)

⁷¹ HM Government modelled a July 2018 White Paper, “The future relationship between the United Kingdom and the European Union”. Key features are no tariffs, and no customs-related costs. There would be minimal additional barriers to goods trade, and new barriers to trade in services. The NTB scenario in Figure 2.10 was a sensitivity to this scenario.

Figure 2.10: Long-term trade only GVA impacts of Brexit scenarios on UK regions compared with current arrangements, percentage reduction



Source: HM Government, *EU Exit: Long-Term Economic Analysis, Technical Reference Paper*

The BoE has also argued that the introduction of NTBs might have a significant effect⁷²:

“Studies ... suggest that many NTBs are at least as restrictive as tariffs and exert a higher drag on trade. That is in part, because tariffs have been gradually eroded over a long period of successive trade negotiations ... [T]he average ... of NTBs can be high as 48%, and ... existing NTBs almost double the level of trade restrictiveness imposed by tariffs.”

Separately, HM Government also modelled migration effects. If there were zero net inflows of EEA workers GDP might fall by 9.3%. HM Government would have some regulatory freedoms on leaving the EU. This is estimated to add 0.1% to GDP in the long run based on the assumption of improved regulatory efficiency. The government analysis would not indicate that more extensive deregulation would change the order of magnitude of this effect.

The IMF has reviewed other studies of the effects of Brexit, which find negative effects on UK output of between 3 and 10%⁷³. CE and HMG estimates fall within this range. HMG reports⁷⁴ that most other studies find that goods sectors tend to be relatively worse affected than service sectors, and so areas in northern England, and the Midlands, are typically estimated to fare worse. The exception⁷⁵ placed relatively more

⁷² See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

⁷³ See [World Economic Outlook, April 2019: Growth Slowdown, Precarious Recovery](#)

⁷⁴ See Technical Reference Paper at [Exiting the European Union: Publications - GOV.UK](#)

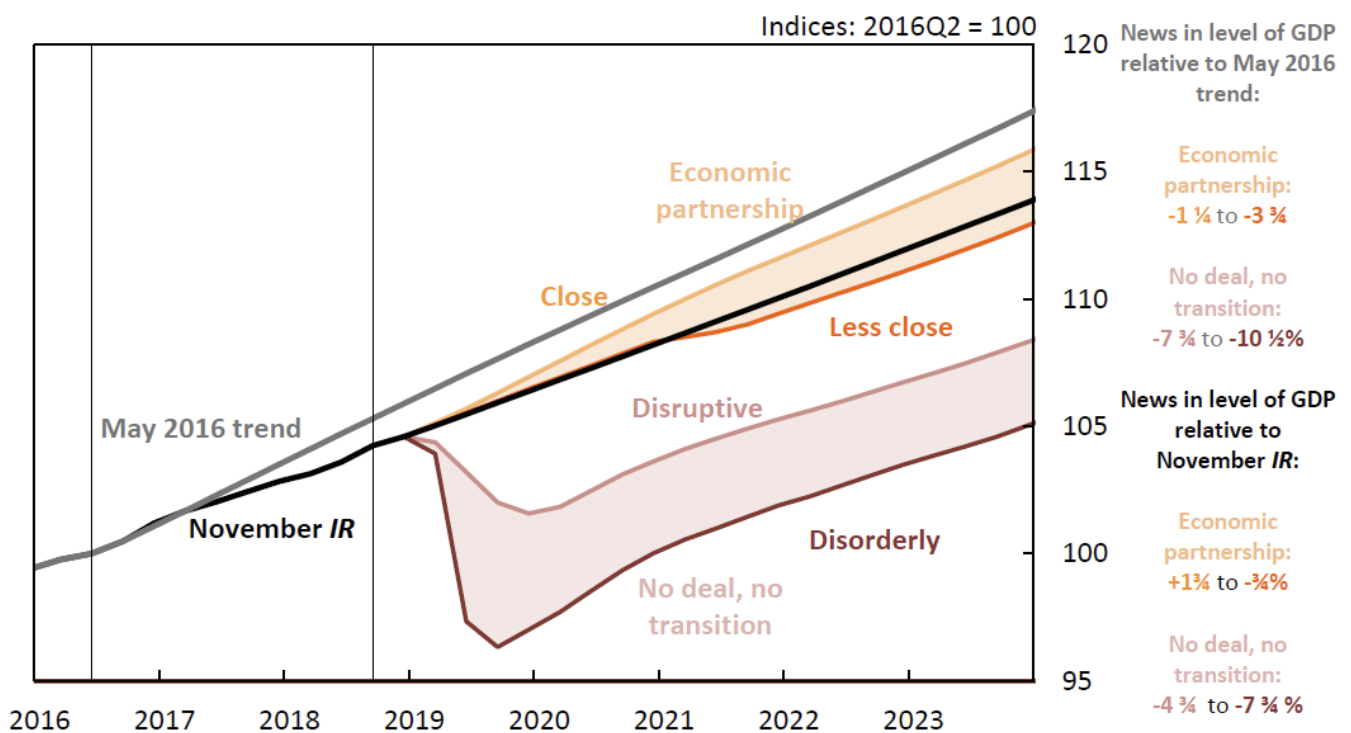
⁷⁵ A study by the LSE Centre for Economic Performance, [Local economic effects of Brexit](#)

weight on the introduction of NTBs than the imposition of tariffs. The BoE finds that NTBs are a more important barrier to trade with the EU than tariffs⁷⁶, although it does not consider their relative importance in trade with the UK.

The UK Trade Policy Observatory has considered the impact on exports of a no-deal Brexit⁷⁷. They estimate that barriers to trade in goods will cut UK goods exports by about 18% - in effect this more than offsets the benefits of an exchange rate depreciation. There will be consequential impacts for the service sector, in which London specialises, in that nearly one-fifth of that loss of sales will show up as a loss of income in UK service sectors. The researchers did not quantify the presence of NTBs in services.

In summary, Brexit is likely to have a continuing adverse impact on business investment, and productivity growth. The introduction of trade barriers will be harmful to trade flows. Economic growth does not need to stop, rather it will be slower than it would otherwise have been. However, the BoE has concluded that a no-deal Brexit is most likely to lead to a recession in 2020, (Figure 2.11). Under the scenarios described in Chapter 1, and using modelling published in November 2018⁷⁸, GDP would from 2019Q1 fall by 3% in 2020 if it were disruptive, and 8% if it were disorderly – by September 2019 the BoE had concluded that a disorderly exit would reduce output by 5.5% because of improvements in preparations⁷⁹. This compares to a 6% fall in GDP compared with the 2008 recession.

Figure 2.11: GDP growth in EU withdrawal scenarios, index numbers, 2016Q2=100



Source: BoE, *EU withdrawal scenarios and monetary and financial stability*⁸⁰

Note: the modelling assumes the UK would leave the EU on 29 March 2019

⁷⁶ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

⁷⁷ See [Brexit and global value chains: 'No-deal' is still costly](#) « UK Trade Policy Observatory

⁷⁸ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

⁷⁹ See [No-deal recession less severe now, says central bank boss - BBC News](#)

⁸⁰ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

3 Impacts on businesses

It is clear that the EU Referendum vote has impacted on businesses in terms of preparations for Brexit, and the effects of uncertainty. While most analysis suggests that the impact of Brexit on output will be less in London than other regions there are a number of ways in which there might be adverse impacts. London specialises in export-oriented sectors, and while it trades relatively less with the EU than the rest of the UK the EU remains an important market, and there are indirect links through trade with the rest of the UK. Further, London is particularly exposed in terms of NTBs, as an attractor of FDI, and with the Wider South East a location of European HQs for global companies. There may also be wider impacts from the increased costs of business after Brexit causing bankruptcies, irrespective of how well prepared they were. This chapter explores these issues.

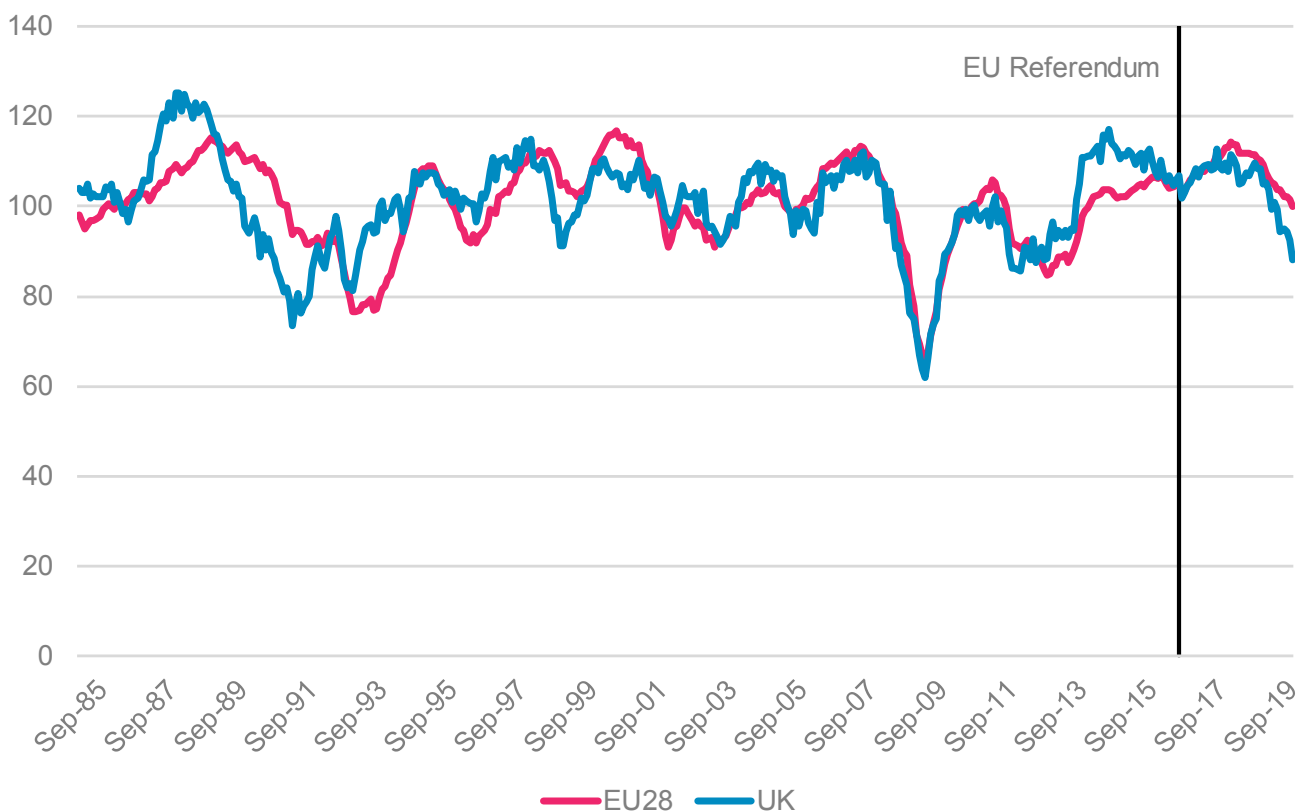
3.1 Changes in the London and UK business environments since June 2016

3.1.1 Living with uncertainty

Perhaps unsurprisingly, economic sentiment in the UK has been declining whether compared with the EU, or the past.

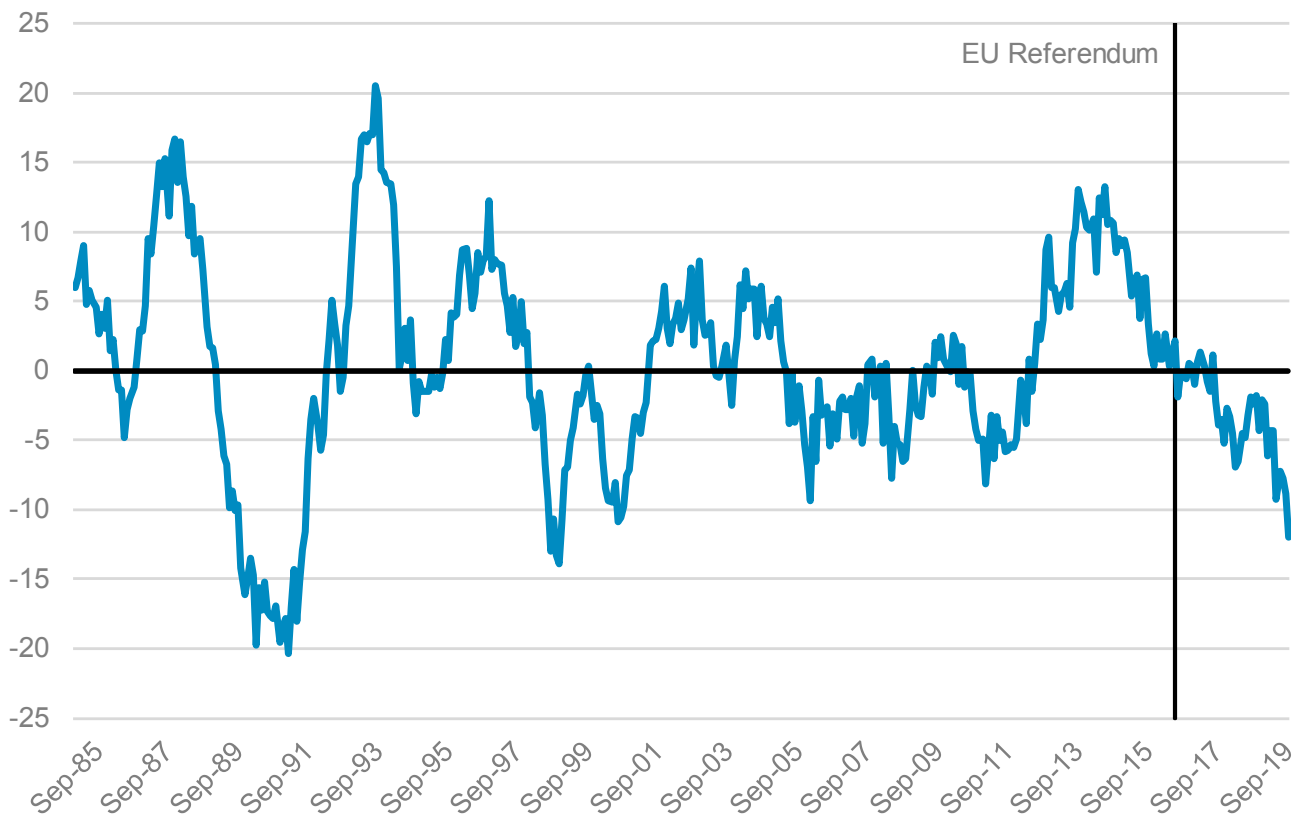
The European Commission’s monthly economic sentiment indicator of confidence among consumers, and the industrial, services, construction and retail sectors has been dropping for the UK to its lowest level since 2013. Historically, movements in sentiment for the UK have been on trend with those for the EU28. Both have been moving down in recent months perhaps reflecting concerns about a global economic slowdown. It is noticeable, though, that the sentiment in the UK had been ahead of the EU28 after the 2008 recession, but since August 2017 has been less positive, (Figures 3.1 and 3.2).

Figure 3.1: Economic sentiment in the UK and EU28, January 1985 – September 2019



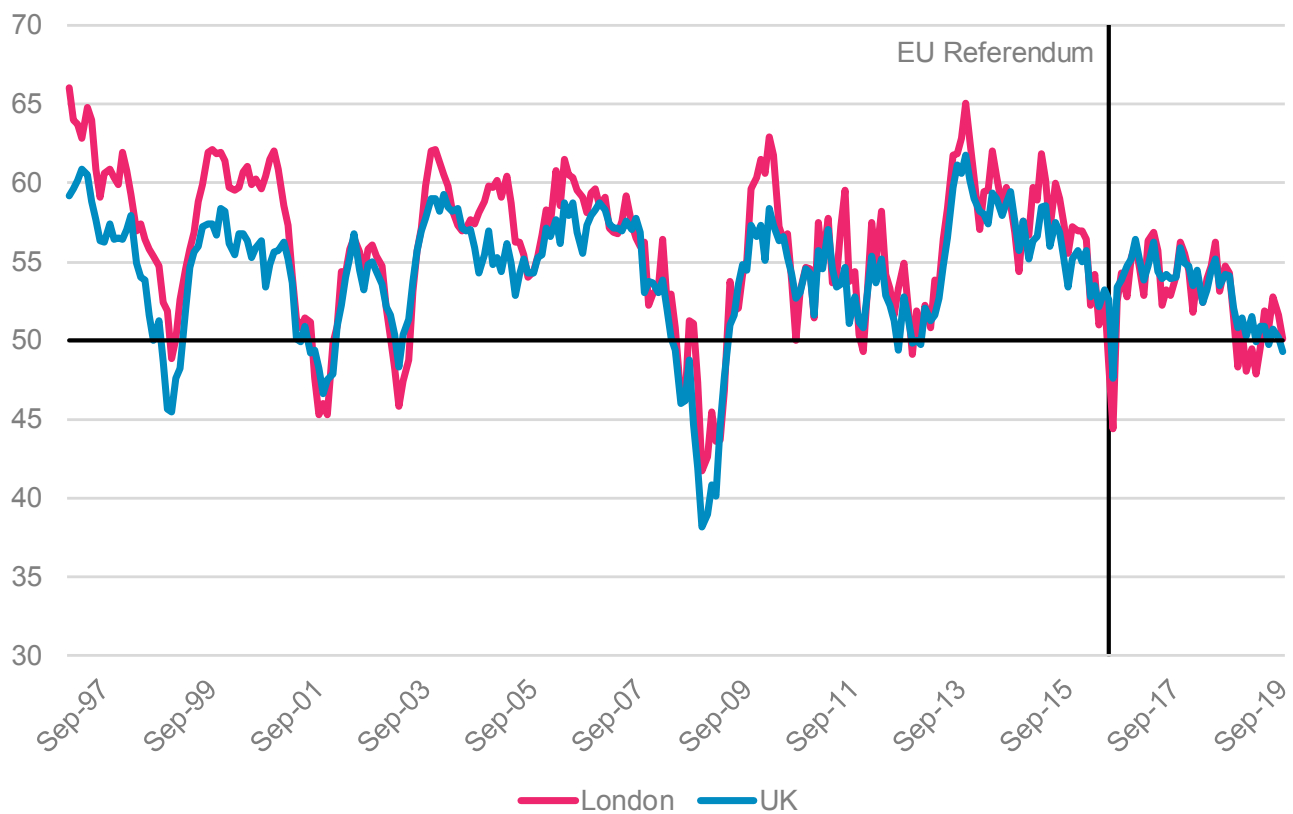
Source: European Commission, Economic Sentiment Index

Figure 3.2: Difference in economic sentiment, UK less EU28, January 1985 – September 2019



Source: European Commission, Economic Sentiment Index

The IHS Markit Purchasing Managers' Index provides a perspective on trends in business activity in the UK. The score is the proportion of respondents who report an increase in business activity. Index readings above 50.0 suggest a month-on-month increase with the majority of firms reporting increased activity, while readings below indicate a decrease. There was a marked drop in businesses reporting an increase in activity at the time of the EU Referendum to below 50%, and a subsequent recovery to above 50%, (Figure 3.3). Since June 2018 the trend has been downwards for both London and UK. Throughout 2019 so far, the index has been below/close to 50 for both London and the UK.

Figure 3.3: Business activity index, London and the UK, January 1997 - September 2019

Source: IHS Markit Purchasing Managers' Index

Brexit developments have not affected all parts of the economy equally. IHS Markit reports⁸¹ that the UK Manufacturing Purchasing Managers' Index rose to a 13-month high of 55.1 in March. The impact of Brexit negotiations was a prominent feature, "efforts to build safety stocks led to survey-record increases in inventories of both purchases and finished products. Trends in output and employment also strengthened as stockpiling operations at clients led to improved inflows of new work."

This surge was temporary, as the same report explained that, "apart from ongoing uncertainty, companies indicated that future output growth may be constrained as the current strong pace of inventory building at both manufacturers and their clients is unwound over the coming year". In April, accordingly the index fell to 53.1. While, "rates of expansion in output and new orders slowed", the process of stockpiling "largely continued into April, with further substantial expansions to holdings signalled".⁸²

3.1.2 Sector exposure to Brexit and preparations

The CBI⁸³ and the BoE⁸⁴ have sought to identify the exposure of business sectors to Brexit. The BoE has identified four types of exposure, and provided an overall assessment:

- At the border, which is vulnerability to tariff and customs, taking into account a sector's share of exports to the EU, and share of intermediate imports from the EU
- Behind the border, which is sector vulnerability to NTBs

⁸¹ See [IHS Markit Manufacturing Purchasing Managers' Index March 2019](#)

⁸² See [IHS Markit Manufacturing Purchasing Managers' Index April 2019](#)

⁸³ See [What comes next? The business analysis of no deal | CBI](#)

⁸⁴ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

- Free movements of labour, which combines the share of EU labour in a sector’s workforce, the impact of skills shortages, and services provided in the EU and to EU residents in the UK
- EU funding, which measures reliance on direct EU funding schemes and networks. For example, the removal of EU subsidies under the Common Agricultural Policy could have an impact on the income of some farms
- Overall exposure, which gives 30% weighting to each of the first three factors, and 10% to the EU funding measure

Table 3.1 provides the BoE RAG-rating⁸⁵ assessment (although it did not include Finance). It is notable that there are potentially adverse impacts across all but one sector. There are some sectors which face a number of significant risks, such as Food and Agriculture⁸⁶, and Cars and Transport, and are receiving media attention. Where there are impacts at the border, they will be visible at the time. Behind the border impacts may be less visible in the UK, and London specialises in some sectors, which may face these barriers including Finance, Professional & technical services, and Information and Communications – see Section 5.3. The Finance sector will lose the ‘passport’ to provide services into any other EU Member State once it has been authorized in one EU Member state. The BoE has concluded that most risks to UK financial stability from disruption to cross-border financial services in a no-deal Brexit have been mitigated⁸⁷.

Table 3.1: RAG rating of UK Sectors’ direct exposure to a no transition, no-deal Brexit

Sector	At the border	Behind the border	Free movement	EU funding	Overall exposure
Food and Agriculture	R	A	R	R	R
Chemicals and Pharmaceuticals	R	R	A	A	R
Cars and Transport goods	R	R	A	A	R
Transport services	A	R	R	A	R
Construction & Real estate	G	G	A	A	R
Other Manufacturing	A	A	A	A	A
Wholesale and Retail	A	G	A	G	A
Other Services	G	A	A	A	A
Professional & technical services	G	R	A	A	A
Public services	G	G	A	A	A
Hotels and restaurants	A	A	R	A	A
Information and Communications	G	R	A	A	A
Power	G	A	A	A	A
Oil and gas	A	A	A	A	A
Other utilities	G	G	G	A	G

Source: BoE EU Withdrawal scenarios and monetary and financial stability

The BoE survey of agents and other research, reported earlier, provides some, if limited information on business preparedness. Other information has become public of developments across a number of sectors.

It has been reported⁸⁸ that Barclays is moving €190bn of assets and 5,000 clients to its Irish subsidiary. While, Goldman Sachs, JP Morgan and Morgan Stanley have switched around 10% of clients affected by

⁸⁵ RAG is Red, Amber, Green

⁸⁶ Lamb exports, for example, could face a tariff of 45%

⁸⁷ See [Financial Stability Report and Record - July 2019 | Bank of England](#)

⁸⁸ Financial Times, 14 February 2019, Lombard section

loss of compliance with EU regulations. What is less clear is the extent to which there is an associated transfer of staff and operations. Bank of America, for example, is transferring 100 bankers to its Dublin office, and another 400 to a new broker dealer unit in Paris.

For the UK economy, the Dutch investment agency reports 42 companies relocating to the Netherlands last year and citing Brexit as the reason. This has been accompanied by some 2,000 jobs and €300m in investment⁸⁹. Sony and Panasonic have announced the transfer of their European HQs from the UK to the Netherlands.

Research supports the conclusion that some UK firms have started to move production abroad in anticipation of Brexit⁹⁰. They estimate an increase in UK investment in the EU due to Brexit of £8.3 billion over the period between the referendum and the end of the third quarter of 2018, a 12% increase in the number of new investments. This comes entirely from the service sector, and there is no effect for manufacturing firms. There has not been an increase by UK firms in OECD countries outside the EU.

After the July 2019 devaluation of the pound there were stories of inward investment from foreign companies buying UK businesses⁹¹: the roughly £5 billion takeover of the food delivery company Just Eat by Netherlands-based Takeaway.com; the £4 billion buyout of the aerospace and defence supplier Cobham by a US private equity group; the £4.6 billion purchase of the UK's biggest listed pubs and brewery group Greene King; and a £3.3 billion agreed offer for Entertainment One, owner of the cartoon franchises Peppa Pig and PJ Masks by Hasbro, a US toymaker.

Another development which has become more prominent is that the EU is taking forward free trade agreements with Asian economies, which interestingly may give businesses in these countries better access to EU markets than the UK will have after a no-deal Brexit. This may then be a factor, but not the only factor, influencing the decisions of some companies to relocate from the UK to Asia. For example, in February the European Parliament approved the EU's free trade agreement with Singapore.

Further, an EU Japan free trade agreement came into force in February⁹². In a curious coincidence Honda announced the closure in 2022 of its Swindon car factory, which has 3,500 jobs, and Nissan reversed a decision to build the X-Trail vehicle in Sunderland. In both cases production will be in Japan. The companies have stated that Brexit was not a factor. Other considerations such as the restructuring of the car industry as it develops electric cars and declining sales of diesel vehicles, have had a bearing on the decisions.

3.2 London's trading relationships and Brexit exposure

London has become increasingly specialised in high-skilled services, led by Finance, Professional services, and Information and Communication Technology, (Figure 3.4).

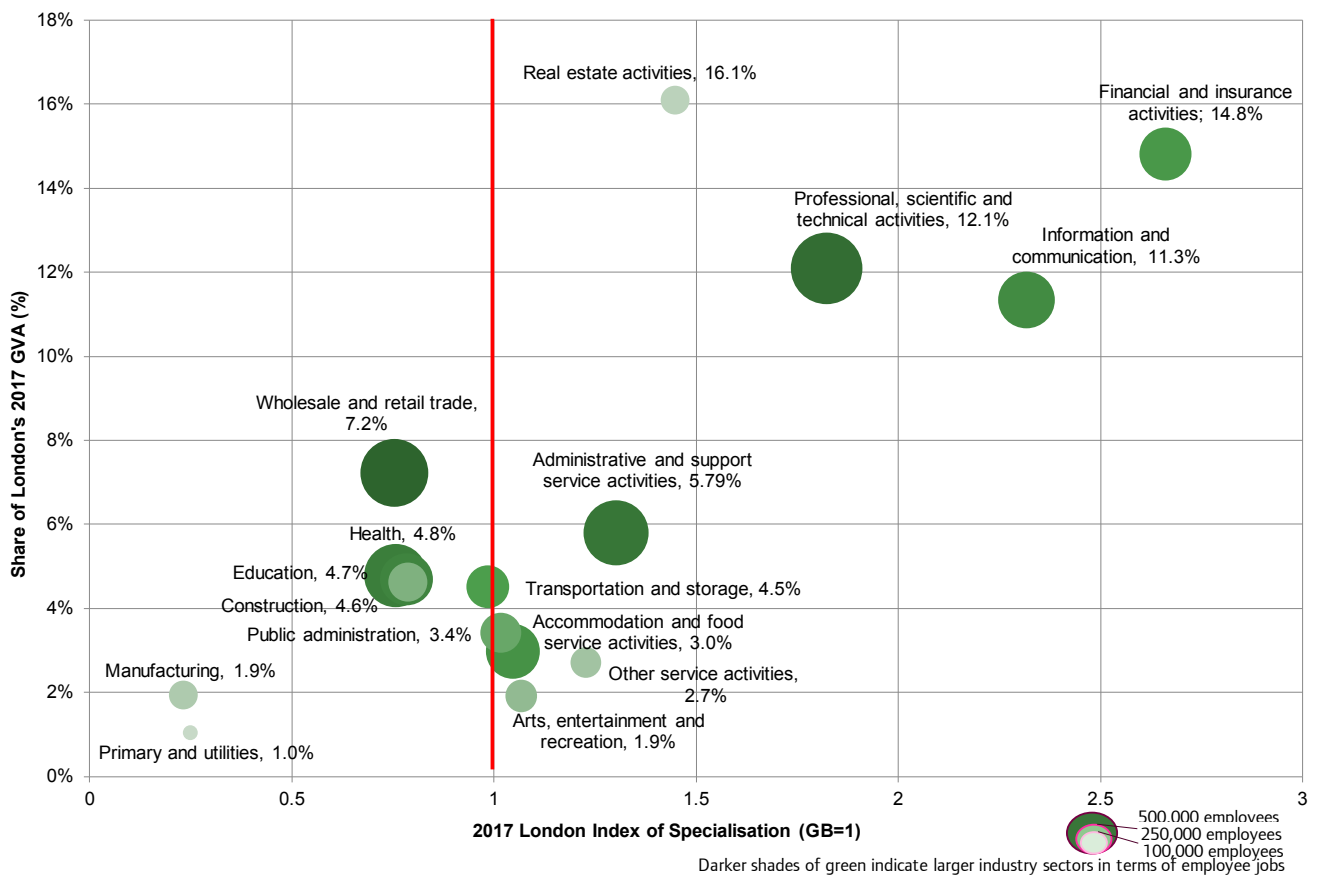
⁸⁹ Financial Times, 14 February 2019, front page, although Unilever has reversed a decision to move its HQ from London to Rotterdam

⁹⁰ See [Voting with their money: Brexit and outward investment by UK firms - UK in a changing Europe](#)

⁹¹ Financial Times, 23 August 2019, see [Investors bet on Peppa Pig bidding war after £3.3bn Hasbro offer | Financial Times](#)

⁹² Although the easing of tariff barriers won't be implemented fully until 2027

Figure 3.4: Index of GB specialisation and sector output share, London, 2017



Source: GLA Economics calculations; drawn from ONS Workforce Jobs, and Regional Accounts.

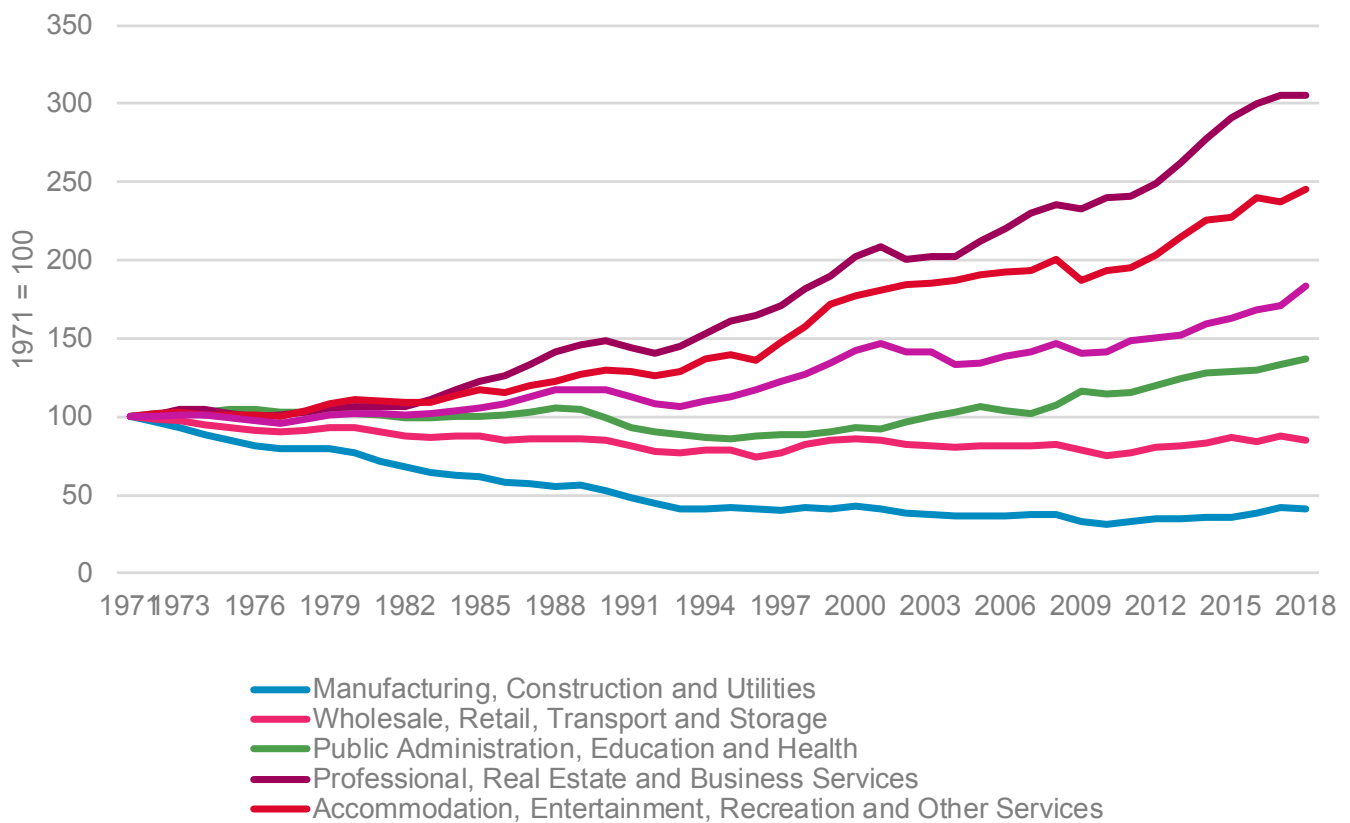
Over recent decades, the composition of London’s economy has seen a significant shift towards services:

- Looking at jobs by sector between 1971 and 2018 shows the rise of high-value added service activities and the decline of manufacturing, (Figure 3.5).
- There has been a significant rise in the number of jobs in ‘Professional, Real Estate, and Business services’ (which more than trebled over the past 40 years) and more generally a rise in service sector activity. In contrast, there has been a fall in employment in primary sectors, with ‘Manufacturing’ falling by 85% over the period⁹³.
- Looking at economic output by sector, ‘Professional, Scientific and technical activities’ accounted for 9.4% of London gross value added (GVA) in 1998, rising to 12.1% in 2017.⁹⁴ The corresponding figures for ‘Manufacturing’ are 5.8% and 1.9% (whereas ‘Manufacturing’ accounts for 10.1% of UK GVA)⁹⁵.

⁹³ Included with Construction and Utilities in Figure 3.5

⁹⁴ ONS (2018), [Nominal and real regional gross value added \(balanced\) by industry](#).

⁹⁵ ONS (2018), [Nominal and real regional gross value added \(balanced\) by industry](#).

Figure 3.5: Jobs by sector in London, 1971-2018

Source: Workforce Jobs, Office for National Statistics; GLA Economics calculations

The risks to the areas of the London economy in which it specialises may inevitably lead to some re-structuring towards less export-oriented sectors, which will involve re-deployment and re-skilling of labour.

Indeed, the sectors in which London specialises are also the capital's key exporting sectors.

- Three of the sectors in which London specialises account for 42% of the city's exports, rising to nearer 50% for exports outside the UK⁹⁶. Data from London input-output analysis, (Table 3.2) shows that in 2013:
 - Financial and insurance activities accounted for £51bn of exports;
 - Information, communications, arts, entertainment and recreation, accounted for £35bn;
 - High value business support accounted for £20bn.
- Other sectors associated with the movement of people and goods accounted for another third of the capital's exports. Specifically:
 - Wholesale accounted for £30bn of exports;
 - Accommodation, food, travel and tourism for £28bn;
 - Transport and storage for £22bn.

⁹⁶ Wingham, M, & Hope, M (2019) Working Paper 97: [The London Input-Output Tables](#). London: GLA Economics.

Table 3.2: London exports by sectors (excluding imports), by destination, 2013

SIC Code	Product classification	Total	EU	Rest of the world	Rest of the UK
A, B, D & E	Primary & Utilities	£2bn	£0bn	£1bn	£1bn
C	Manufacturing	£33bn	£7bn	£7bn	£20bn
F	Construction	£8bn	£0bn	£0bn	£7bn
45+46	Wholesale (inc. motor trades)	£30bn	£7bn	£6bn	£17bn
47	Retail (exc. motor trades)	£1bn	£0bn	£0bn	£0bn
H	Transport and storage	£22bn	£5bn	£4bn	£14bn
I + 79	Accommodation, food, travel and tourism	£28bn	£7bn	£6bn	£15bn
J+R	Information, communications, arts, entertainment and recreation	£35bn	£8bn	£10bn	£17bn
K	Financial and insurance activities	£51bn	£16bn	£13bn	£22bn
L+71+81	Real estate, architecture, engineering and building services	£8bn	£2bn	£1bn	£5bn
M-71-72-75	High value business support	£20bn	£5bn	£4bn	£11bn
N+S-79-81	Administrative and support services	£6bn	£2bn	£2bn	£2bn
Q+72+75	Health, social work, scientific R&D and veterinary services	£9bn	£0bn	£1bn	£7bn
O+P	Public administration & education	£1bn	£0bn	£0bn	£1bn
T	Households as employers	£0bn	£0bn	£0bn	£0bn
	Total	£253bn	£60bn	£53bn	£139bn

Source: GLA Economics, London Input-Output Tables

These sectors export to the rest of the UK, and the rest of the world as well as the EU. This will mitigate the risk to London of the introduction of tariff and non-tariff barriers with the EU. It remains, though, that some level of London's exports to the rest of the UK will contribute to the production of exports to the EU, and so through supply chain effects will also be affected by the introduction of trade barriers.

And, London's economy as a whole is more trade dependent than that for the rest of the UK, (Table 3.3). London's exports are four-fifths (81%) of its GVA compared with less than half (46%) for the rest of the UK. Trade within the UK is more important than trade outside the UK, while the EU is the UK's most important trade partner. 19% of London's exports go the EU, compared with 13% for the rest of the UK. While London is more import-dependent than the rest of the UK, its principal import partner is the rest of the UK, while the rest of the UK is more dependent on imports from the EU, and the rest of the world.

Table 3.3: London and the rest of the UK exports/GVA and imports/GVA, by destination, 2013

Exports/GVA		Imports/GVA	
London		London	
exports/GVA	81%	imports/GVA	64%
exports to the rest of the UK/GVA	45%	imports from the rest of the UK/GVA	45%
exports to the EU/GVA	19%	imports from the EU/GVA	9%
exports to the rest of the world/GVA	17%	imports from the rest of the world/GVA	10%
Rest of the UK		Rest of the UK	
exports/GVA	46%	imports/GVA	54%
exports to the rest of the UK/GVA	13%	imports from the rest of the UK/GVA	13%
exports to the EU/GVA	13%	imports from the EU/GVA	21%
exports to the rest of the world/GVA	19%	imports from the rest of the world/GVA	20%

Source: GLA Economics, London Input-Output Tables and GLA Economics calculations

The analysis of Brexit impacts reported in Chapter 2 concluded that the rest of the UK was more likely to be adversely affected than London. This reflects the differing structure of those exports. Manufacturing exports are relatively more important for the rest of the UK and will most likely be subject to tariffs. As London exports services these will be more affected by NTBs. It is harder to quantify the effect, but the expectation is that it will be less significant.

3.3 Impacts of Brexit on London's business environment⁹⁷

One way to assess the risks to London's business environment from the additional business costs from Brexit is to consider its size, structure, and its dynamism. By each measure London has exposure.

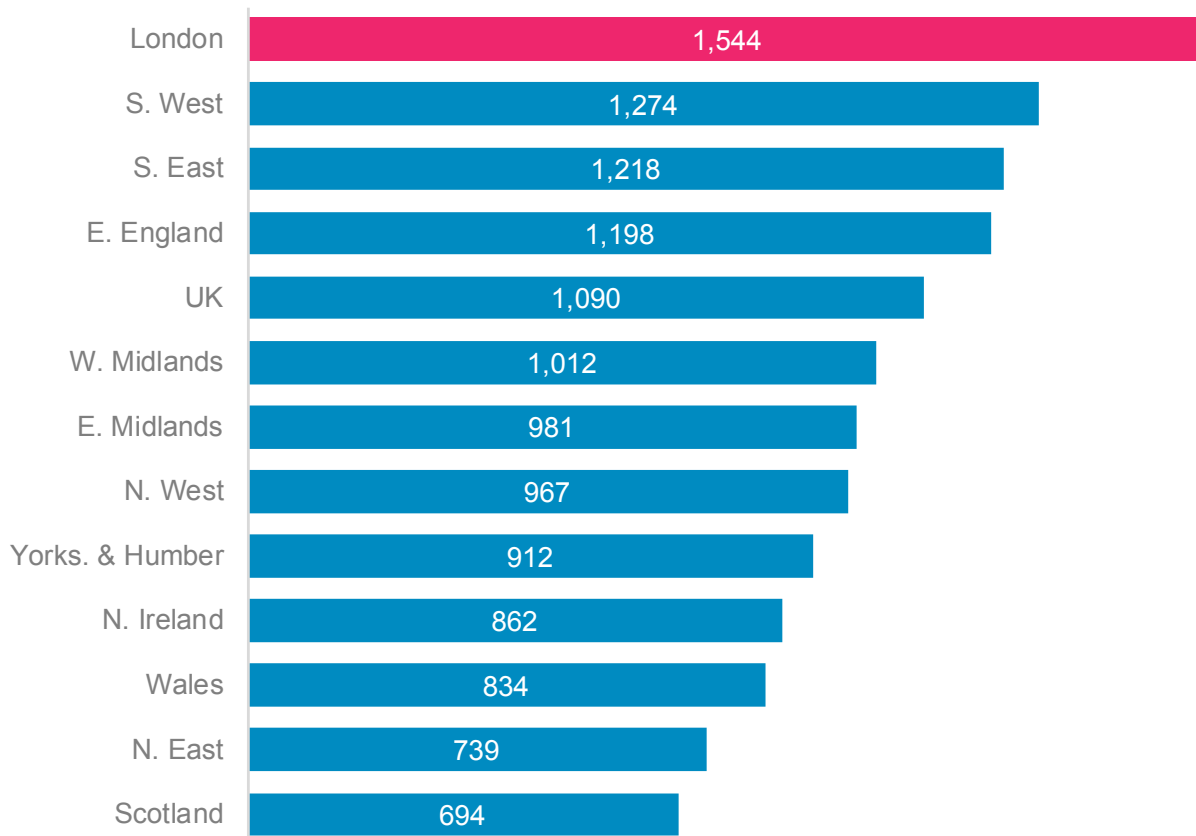
Overall London is a powerhouse for UK's business activity, with growth in its business stock primarily driven by start-ups:

- In 2019, nearly a fifth of all UK private sector businesses (19%) were located in London. This has gone up from 16% in 2010, suggesting that business activity is becoming more concentrated in the capital⁹⁸.
- This is not only a result of its size: London has the highest number of businesses per 10,000 residents (1,544) of any UK region or country and this is higher than it was in 2010, (Figure 3.6).
- Business start-ups have driven this growth: research by TBR for GLA Economics showed that between 2004 and 2013 only 0.2-1.2% of London's firm population came from business in-migration from elsewhere in the UK, compared to 10-12% from business start-ups⁹⁹.

⁹⁷ This section draws heavily from the [Developing the evidence base for London's Local Industrial Strategy | London City Hall](#). The definition of a business is an enterprise, which may have establishments across a range of locations. The address of the HQ provides the basis for the location of the enterprise.

⁹⁸ For background, see: ONS (2018) [Business Demography, UK: 2017](#). Note: the term 'business' is used here to represent an enterprise rather an individual local unit. An enterprise can be comprised of one or more legal units.

⁹⁹ Trends Business Research Ltd (2016) [The changing spatial nature of business and employment in London](#). Working Paper 73. London: GLA Economics.

Figure 3.6: Businesses per 10,000 adults by region, 2019

Source: BEIS Business Populations Estimates

London's businesses have a concentration in the export-oriented sectors in which it specialises, and these businesses overwhelmingly have fewer than five employees, (Table 3.4):

- Professional and technical activities, and Information and communication account for nearly two fifths (37%) of businesses in London
- These sectors in London each account for over a quarter of UK businesses (32% in the case of Information and communication)
- 90% of businesses in these sectors have fewer than 5 employees, compared with 80% for all London and UK businesses

Table 3.4: London and UK businesses with a VAT or PAYE record, by sector and employee numbers (including sole proprietors), 2019

Sector	0-4	5-9	10-19	20-49	50-99	100-249	250+	London Total	UK Total	London share of UK	Within London share	Within UK share
Primary & utilities	2405	495	300	100	25	20	25	3370	164165	2%	1%	6%
Manufacturing	10580	1620	1000	510	180	100	55	14045	137380	10%	3%	5%
Construction	50225	3385	1340	410	135	65	50	55610	343725	16%	11%	13%
Wholesale	19700	3400	1770	875	260	130	60	26195	180350	15%	5%	7%
Retail	30465	5185	1840	740	200	115	130	38675	208750	19%	7%	8%
Transportation and Storage	11330	980	515	260	105	85	80	13355	111375	12%	3%	4%
Accommodation and food service activities	12450	5200	3225	1815	535	250	205	23680	157040	15%	5%	6%
Information and Communication	64705	3300	2020	1200	520	235	185	72165	226205	32%	14%	8%
Financial and insurance activities	11865	1520	850	570	265	230	180	15480	60630	26%	3%	2%
Real estate	19685	3130	1475	305	80	65	55	24795	100345	25%	5%	4%
Professional, Scientific and technical activities	105940	7480	4005	2100	730	415	255	120925	471695	26%	23%	17%
Administrative and support service activities	42210	4230	2445	1255	580	335	275	51330	228750	22%	10%	8%
Public administration and defence	5	5	5	10	10	5	50	90	7510	1%	0%	0%
Education	5180	1025	745	620	465	365	215	8615	44490	19%	2%	2%
Health	10885	2815	2290	1315	480	215	205	18205	101995	18%	3%	4%
Arts, entertainment and recreation	14855	1255	745	330	135	65	75	17460	67525	26%	3%	2%
Other services	13765	2600	1100	490	160	85	45	18245	106495	17%	3%	4%
London Total	426250	47625	25670	12905	4865	2780	2145	522240	2718430	19%	100%	100%
UK Total	2125515	306475	152985	80975	26940	15060	10480	2718430				
London share of UK	20%	16%	17%	16%	18%	18%	20%	19%				

Source: GLA Economics calculations using ONS UK business: activity, size and location

It would be natural to assume that it would be the smallest businesses which would be most at financial risk from the additional costs of a no-deal Brexit, although all affected firms would face economic pressures. These are also the businesses which might be the least prepared for Brexit, as an analysis for the Scottish Government¹⁰⁰ concludes:

¹⁰⁰ See [Brexit and businesses: sectoral impact analysis - gov.scot](#)

“Scotland’s [and London’s] economy comprises predominantly small and medium sized enterprises (SMEs) which are likely to find it more difficult to prepare for Brexit due to resource constraints and uncertainty over what to prepare for.”

London’s business environment is dynamic and competitive, with a high number of business births and closures – but its dynamism and its openness makes it more vulnerable to external factors:

- Urban regions (capital regions in particular) tend to be at the forefront when it comes to indexes of business creation and destruction¹⁰¹. London is no exception.
- London has a competitive business environment: it is the region with the second highest rate of business births (15.2%), after the North-West¹⁰². It also has the highest business closure rate (14.2%) in the country.
- The competitive nature of the business environment also means that business survival rates in London are relatively low. Data shows that for businesses set up in 2012, the one, three and five-year business survival rates are lower in the capital than in the UK as a whole, with 39.3% of London businesses born in 2012 still in operation five years later compared to 43.2% of UK businesses born in the same year.

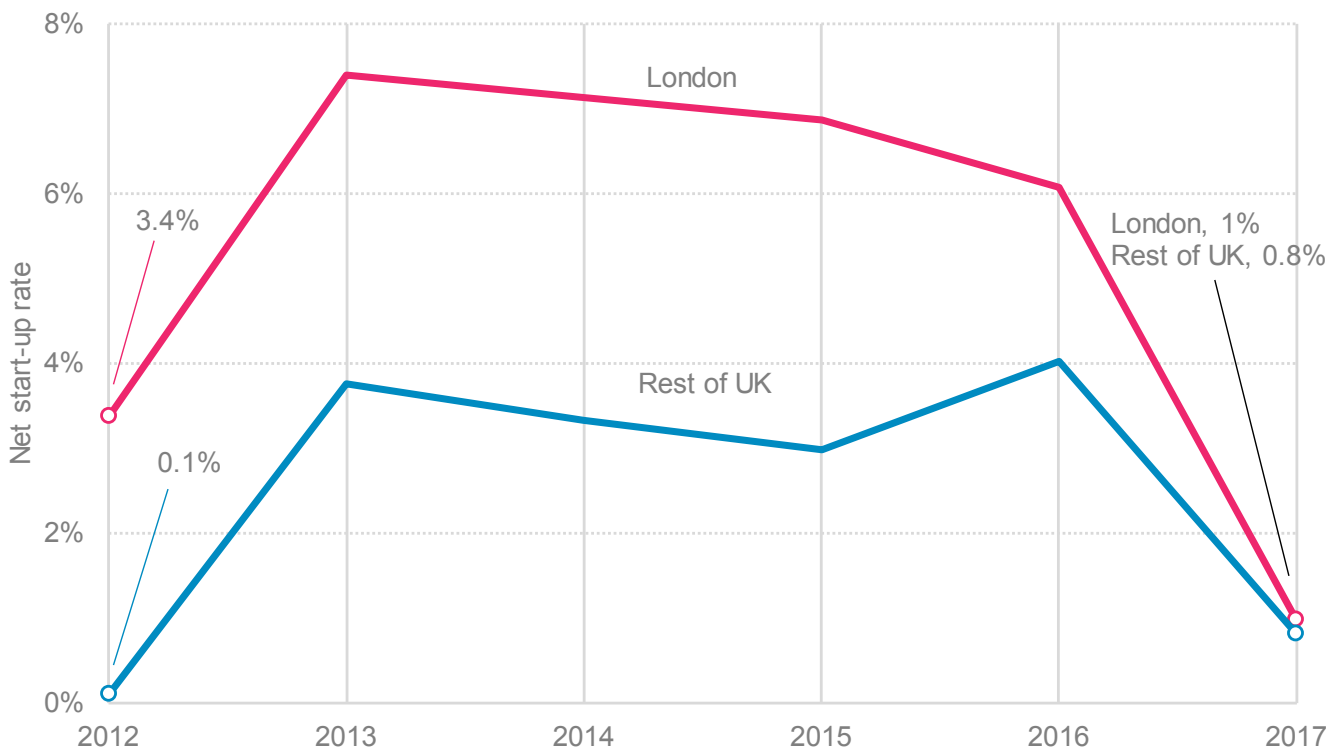
Since the EU Referendum there has been a pronounced fall in the net start-up rate in London, from 6.1% in 2016 to 1.0% in 2017, (Figure 3.7). This is the result of a continued increase in business closures and a fall in business births nationally and has been particularly marked in the capital. Uncertainty related to the UK’s future relationship with the EU, subdued economic growth and the depreciation of sterling have been cited as explanatory factors¹⁰³.

¹⁰¹ OECD (2017) [The Geography of Firm Dynamics: measuring business demography for Regional Development](#). Paris: OECD.

¹⁰² New business registrations are referred to as business births and the birth rate is calculated using the number of births as a proportion of the active businesses in that year.

¹⁰³ ONS (2018), [Business demography, UK: 2017](#).

Figure 3.7: Annual business net start-up rate, London and the UK, 2012-2017



Source: GLA Economic Calculations drawn from ONS Business Demography

3.4 Inward investment to London

One aspect of London’s openness as a city is its attractiveness as a location for European HQs, and for FDI. As the UK becomes less open as a country there is a risk that London will also become less attractive.

3.4.1 European HQs in London

London is far more important as a base for European and global operations than any other European city, hosting the HQs of 40% of Fortune 250 companies, (Table 3.5).

Table 3.5: HQ locations of Top 250 companies with global or regional HQ in Europe

City	Percentage
London	40
Paris	8
Madrid	3
Amsterdam	2.5
Brussels	2.5
Munich	2
Luxembourg	2
Moscow	2
Geneva	2
Other European cities	37

Source: Deloitte London Futures Report, 2014

Most of the factors which made London attractive as a location will continue post-Brexit¹⁰⁴:

- In today's global economy multinational businesses tend to locate their higher value-added activities in cities. This is because cities reduce the costs of distance by agglomerating advanced service providers and facilitating knowledge flows¹⁰⁵.
- Research also shows that investment location decisions by multinational businesses are driven by the number of pre-existing investments in the same sector or in the same business function¹⁰⁶.
- Given these general trends, there are many reasons why multinational businesses may specifically decide to locate in London. It offers a range of factors that are not found in combination in other places.
 - Some factors that are also found in other UK regions include the UK's well-established legal, and regulatory frameworks; the use of the English language as a means of international communication; international transport links; and, a low rate of corporation tax.
 - Other important factors however are specific to London. The capital offers a uniquely large pool of high-skilled workers to recruit from and the productivity benefits associated with economic mass (the so-called 'agglomeration economies').

One concern is around access to talent. There is already a slowdown in net work-related migration to London and the UK (see Chapter 4), and in future, this will in part be contingent on the immigration policy adopted. A recent Centre for London report¹⁰⁷ argued that access to talent is the most influential element in HQ location decisions.

3.4.2 Foreign Direct Investment in London

So far and notwithstanding the EU Referendum London remains an attractive place to do business. It continues to be the leading world city for inbound FDI projects, and the number of projects continues to grow, (Table 3.6)¹⁰⁸. It has shown the strongest growth of any of the top 10 cities, a number of which have not recovered to the number of projects seen in 2008. The only other European city in the top 10 of projects is Paris which has half the number of projects of London¹⁰⁹.

¹⁰⁴ See [Developing the evidence base for London's Local Industrial Strategy | London City Hall](#)

¹⁰⁵ Goerzem, A. et al. (2013) [Global cities and multinational enterprise location strategy](#). *Journal of International business studies*, 44 (5), 427-450.

¹⁰⁶ Crescenzi, R. et al (2014) [Innovation drivers, value chains and the geography of multinational corporations in Europe](#). *Journal of Economic Geography*, 14, pp. 1053-1086.

¹⁰⁷ See [Centre for London | Head Office: London's rise and future as a corporate centre](#)

¹⁰⁸ The figures include greenfield and expansion projects, but do not include mergers and acquisitions

¹⁰⁹ This is true for 2008-2018, 2013-2018, and 2018

Table 3.6: Number of inbound FDI projects by city, 2008 – 2018, ranked by projects 2013-18

Rank	Destination city	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	London	337	302	335	394	397	434	480	541	493	545	627
2	Singapore	326	330	364	393	419	441	469	386	392	391	422
3	Dubai	370	285	216	266	260	268	255	283	235	275	306
4	Paris	213	134	156	142	146	224	218	217	189	397	322
5	Shanghai	317	265	308	305	276	309	280	191	207	189	207
6	New York	94	109	151	153	171	222	230	217	220	197	209
7	Hong Kong	257	281	230	261	265	248	222	199	208	201	203
8	Sydney	84	108	132	159	195	146	158	159	130	122	130
9	Tokyo	102	100	105	70	81	119	127	104	117	138	135
10	Bangalore	108	84	97	115	89	89	104	121	107	132	107
	All projects	17,235	14,833	15,510	16,919	15,678	16,768	15,952	15,534	15,820	16,455	18,236
	Top 10 share	13%	13%	14%	13%	15%	15%	16%	16%	15%	16%	15%

Source: *fDi Markets*

By value of FDI projects London is ranked third in the world (Table 3.7), and Paris is 17th ¹¹⁰. Across cities the value of investments can fluctuate significantly year-on-year, and there is no evidence of a tendency for a decline in inward investment in London since 2016. For example, investment in 2015 was higher than the previous two years, and there was a drop in 2016 and 2017, but investment in 2018 was higher than in 2015.

Table 3.7: Value (£m) of inbound FDI projects by city, 2008 – 2018, ranked by projects 2013-18

Rank	Destination city	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	Singapore	£8,232	£9,120	£12,877	£14,572	£7,731	£7,103	£10,008	£6,922	£9,904	£13,442	£12,868
2	Shanghai	£10,356	£10,344	£9,217	£8,761	£9,603	£9,427	£7,832	£5,461	£6,134	£4,391	£10,791
3	London	£7,564	£5,476	£4,603	£8,777	£14,406	£5,542	£5,964	£8,522	£5,156	£4,799	£9,457
4	Hong Kong	£4,969	£6,065	£4,687	£5,283	£5,649	£5,437	£4,811	£3,398	£5,005	£5,373	£6,569
5	Dubai	£10,319	£4,583	£4,468	£3,125	£3,716	£2,834	£5,785	£5,818	£5,267	£3,968	£4,925
6	New York	£2,109	£3,181	£2,794	£2,079	£3,181	£8,109	£3,459	£8,741	£6,629	£6,059	£4,223
7	Beijing	£9,508	£6,909	£4,936	£4,026	£6,348	£4,751	£2,038	£1,968	£2,773	£2,061	£3,809
8	Al Jubail	£16,542	£5,749	£35	£1,873	£1,661	£1,189	£172	£81	£2,665	£259	£7,929
9	Sydney	£1,550	£2,675	£3,074	£3,464	£3,532	£3,069	£4,007	£3,591	£2,909	£2,585	£2,871
10	Bangalore	£3,433	£3,313	£3,187	£3,416	£2,282	£1,691	£2,026	£3,171	£2,781	£2,667	£4,849
	All projects	£1,017,291	£747,758	£650,227	£680,126	£494,511	£626,557	£560,865	£594,653	£633,230	£547,921	£775,669
	Top 10 share	7%	8%	8%	8%	12%	8%	8%	8%	8%	8%	9%

Source: *fDi Markets*

Perhaps unsurprisingly the sectors and clusters where there is inward investment in London are those where it specialises, (Tables 3.8 and 3.9). Further, these are the sectors where it receives a larger share of UK investment, Figure 3.8, although creative industries, retail, and tourism are also important. Note that the categorisation of sectors here is not identical to SIC definitions for industries used in the rest of this paper.

¹¹⁰ Not shown in Table 3.7

Table 3.8: Top 10 industry sectors of inward investment to London, 2008 – 2018

Industry Sector	Projects	Investment	Companies
Software & IT services	1590	£7,443m	1485
Business services	757	£3,180m	732
Financial services	613	£8,809m	557
Textiles	571	£6,236m	398
Consumer products	281	£4,127m	214
Communications	276	£5,991m	245
Real estate	184	£32,784m	106
Hotels & tourism	103	£3,592m	89
Transportation	63	£1,518m	53
Food & tobacco	54	£591m	44

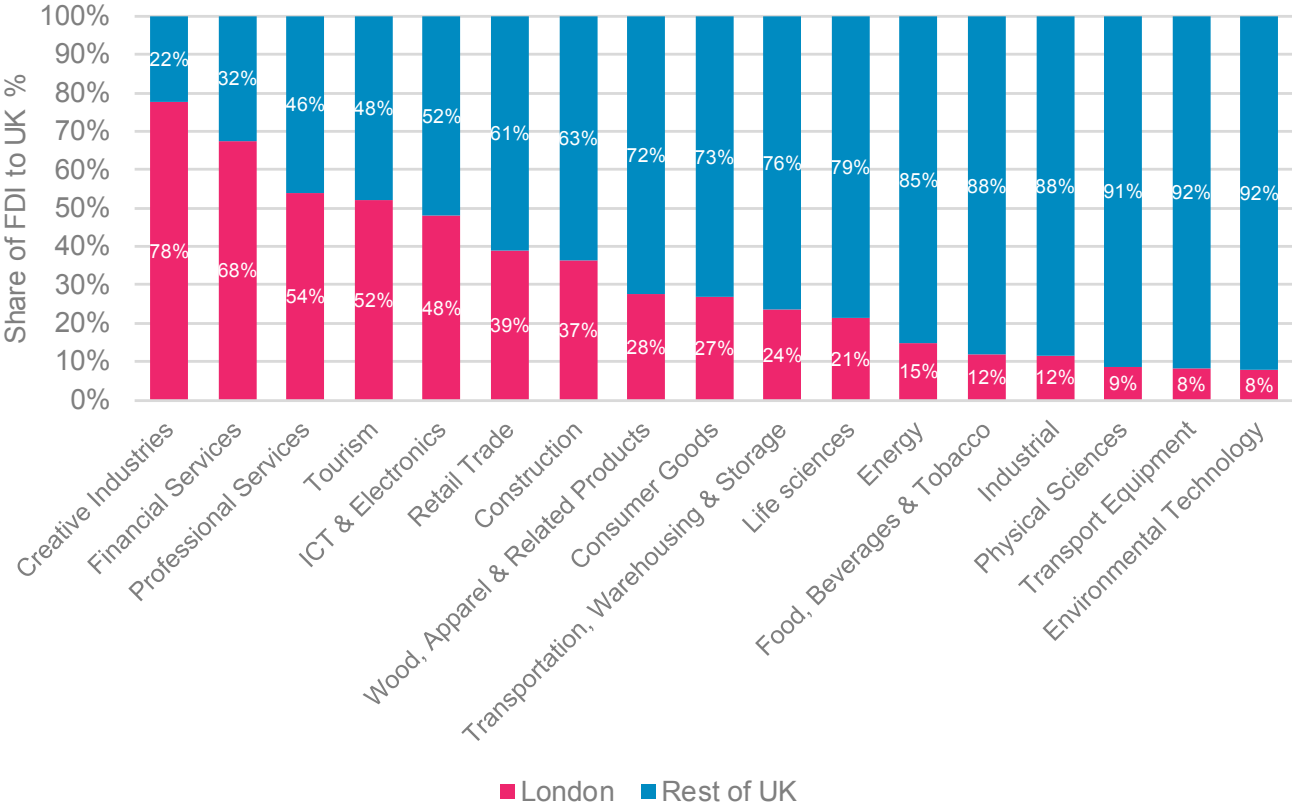
Source: fDi Markets

Table 3.9: Top 10 industry clusters of inward investment to the UK, 2008 – 2018

Industry Cluster	Projects	Investment
ICT & Electronics	969	£9,506m
Financial Services	854	£9,590m
Retail Trade	836	£10,673m
Creative Industries	806	£5,091m
Professional Services	554	£1,958m
Tourism	149	£3,935m
Life sciences	115	£1,251m
Transportation, Warehousing & Storage	104	£3,624m
Consumer Goods	78	£504m
Construction	73	£30,593m

Source: fDi Markets

Figure 3.8: London’s share of inward FDI to the UK by industrial cluster, 2013 – 2018



Source: fDi Markets; sourced from London & Partners analysis

Over the period 2011-18, the largest proportion (44%) of investments into London were from North America. The Western Europe and Asia-Pacific regions account for 32% and 15% respectively. That said London is less reliant than the UK as a whole on investments from Western Europe (accounting for 40% of the UK total)¹¹¹.

¹¹¹ See [Developing the evidence base for London’s Local Industrial Strategy | London City Hall](#)

4 Impacts on migration and visitors

London is a major destination for travellers. Brexit will have a number of impacts on people who enter the UK either as a migrant or visitor. Most obviously the decline in the exchange rate will make it cheaper to come to this country. However, Brexit may also mean that qualifications obtained by EU citizens in the UK may no longer be recognised elsewhere in the EU. Another outcome of the UK leaving the EU is that it will gain full control of immigration policy for EEA nationals. This Chapter looks at what has happened since June 2016 and considers the effects of the government's immigration proposals.

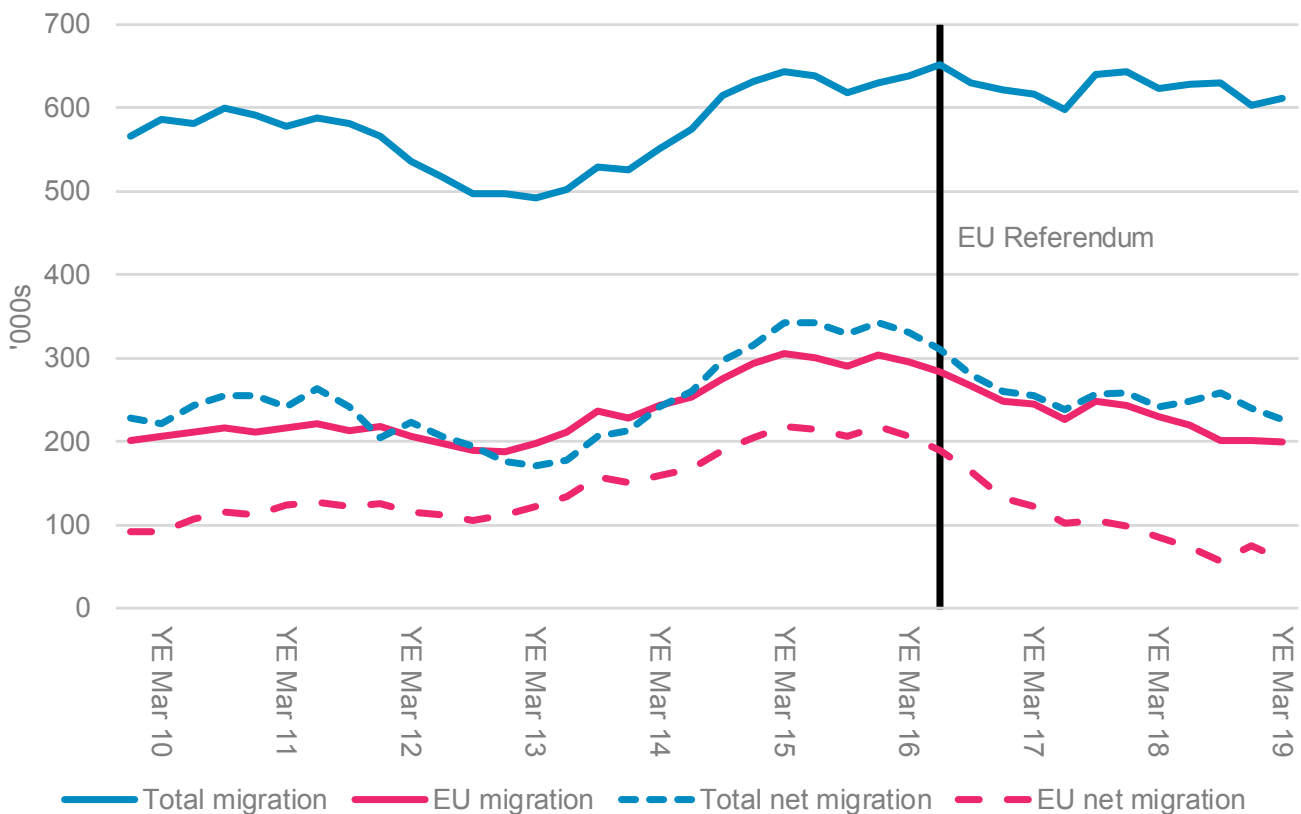
4.1 Migration¹¹²

The OBR, see earlier quote, expected that lower net work-related migration would happen in the period after the EU Referendum in June 2016. This section explores what has happened.

International migration to the UK has changed little in the period around the EU Referendum although net migration has fallen, (Figure 4.1). Migration has remained at around 600,000 a year, and net migration has fallen by nearly 100,000 to 200,000 a year by March 2019. Migration from the EU, though, has fallen by 55,000 since the year to June 2016 to 226,000 in the year to March 2019, and there has been a fall in net migration from the EU larger than that for all migrants.

¹¹² This section uses extensively ONS statistics. On 21 August 2019 the ONS downgraded these statistics from National Statistics to experimental statistics because of concerns about data quality. For more information see [Understanding different migration data sources - Office for National Statistics](#) and [UK migration statistics lose their 'National Statistics' status as ONS confirms problems measuring EU and non-EU net migration - Migration Observatory - The Migration Observatory](#). The statistical publication on 22 August revised some of the back series by incorporating data from administrative data sources.

Figure 4.1: Long-term international migration and net migration to the UK, total and from the EU, 2009-2019, '000s

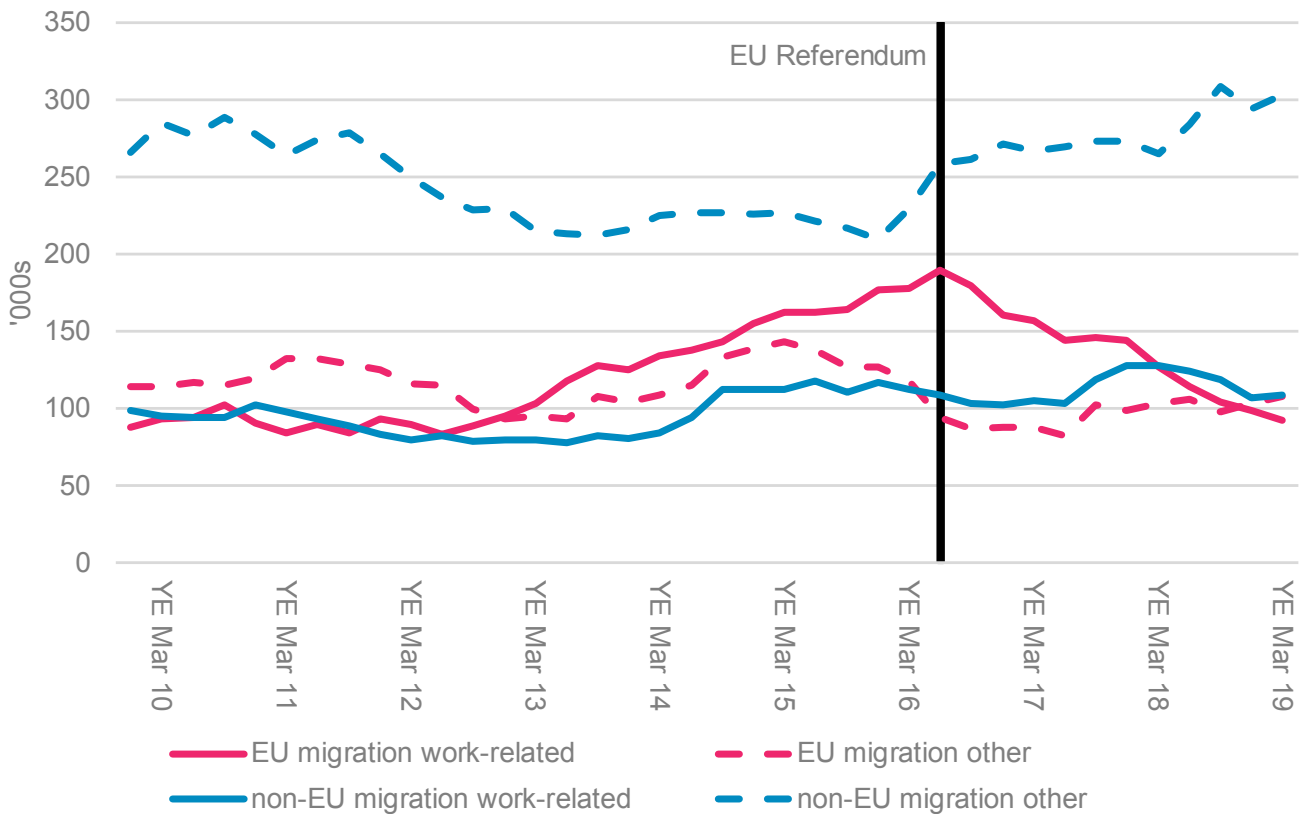


Source: ONS International Passenger Survey

A slightly different conclusion emerges when considering the reasons for migration. In the year to June 2016 there were 300,000 migrants who came to the UK for work-related reasons, which had fallen to 200,000 by the year to March 2019, (Figure 4.2). This is accounted for by the fall in EU migrants coming for work, which fell from 190,000 to 92,000 in this time – migration from the EU for other reasons has remained largely unchanged. There are now, fewer migrants coming to the UK for work from the EU than the rest of the world. The main reason more people are coming to the UK is to study, and this is by non-EU migrants¹¹³.

¹¹³ In the year to 2019Q1 201,000 people came to the UK for work-related reasons, 209,000 for formal study, 51,000 to accompany or join family members, and 75,000 for other reasons. These are estimates directly from the International Passenger Survey, while the totals in Figures 4.1 and 4.2 are higher, and have been calibrated to Census estimates

Figure 4.2: Long-term international migration to the UK, work-related and other reasons, EU and non-EU nationals, 2009-2019, '000s



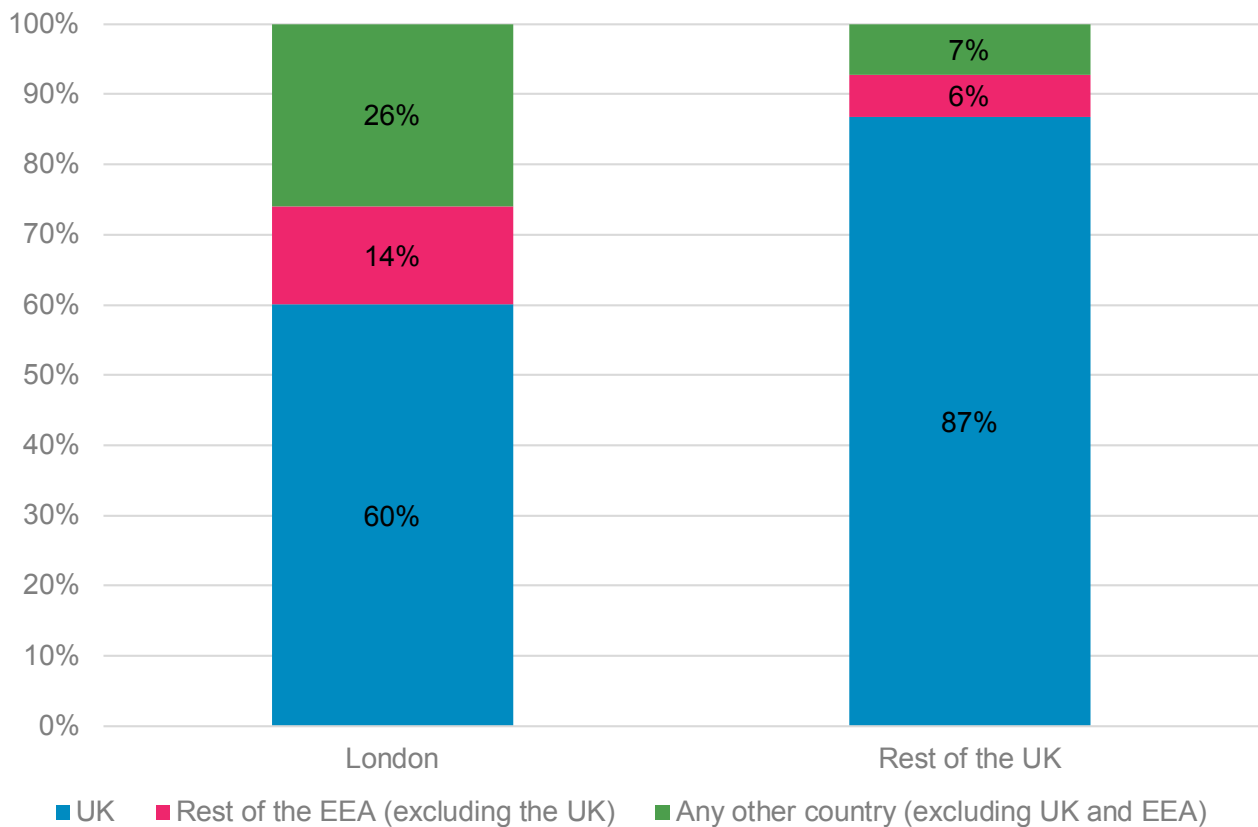
Source: ONS International Passenger Survey

The natural inference to draw is that the UK university sector remains attractive, and London is an important destination for students within the UK. There are over 100,000 international students in the capital, comprising almost a quarter of all international students in the UK¹¹⁴. London has become more attractive for non-EU nationals because of the exchange rate depreciation. As yet, there has been little change for EU nationals, who have the risk that any qualification obtained will not be recognised within the EU.

The ONS has also published migration numbers for London for the year to December 2017 (although without the EU non-EU breakdown provided at the national level). These found that net international migration to London stood at +70,000 in the year to December 2017, which was up 19,000 from the year to December 2016. In more detail over this period there were 168,000 international migrants into the capital (up 12,000 on the previous year) and 98,000 out-migrants (down 8,000). This is contrary to the national trend of falling net migration and might reflect the importance of student numbers to the capital.

London is also an important destination for migrants who come to work. 14% of jobs in London are held by workers from the EEA, compared with 6% for the rest of the UK, (Figure 4.3). Only 60% of jobs in London are held by people born in the UK compared with 87% for the rest of the UK.

¹¹⁴ See Chapter 5 of the [Economic Evidence Base for London 2016 | London City Hall](#)

Figure 4.3: Percentage of jobs in London and the rest of the UK by country/area of birth, 2018

Source: ONS Annual Population Survey

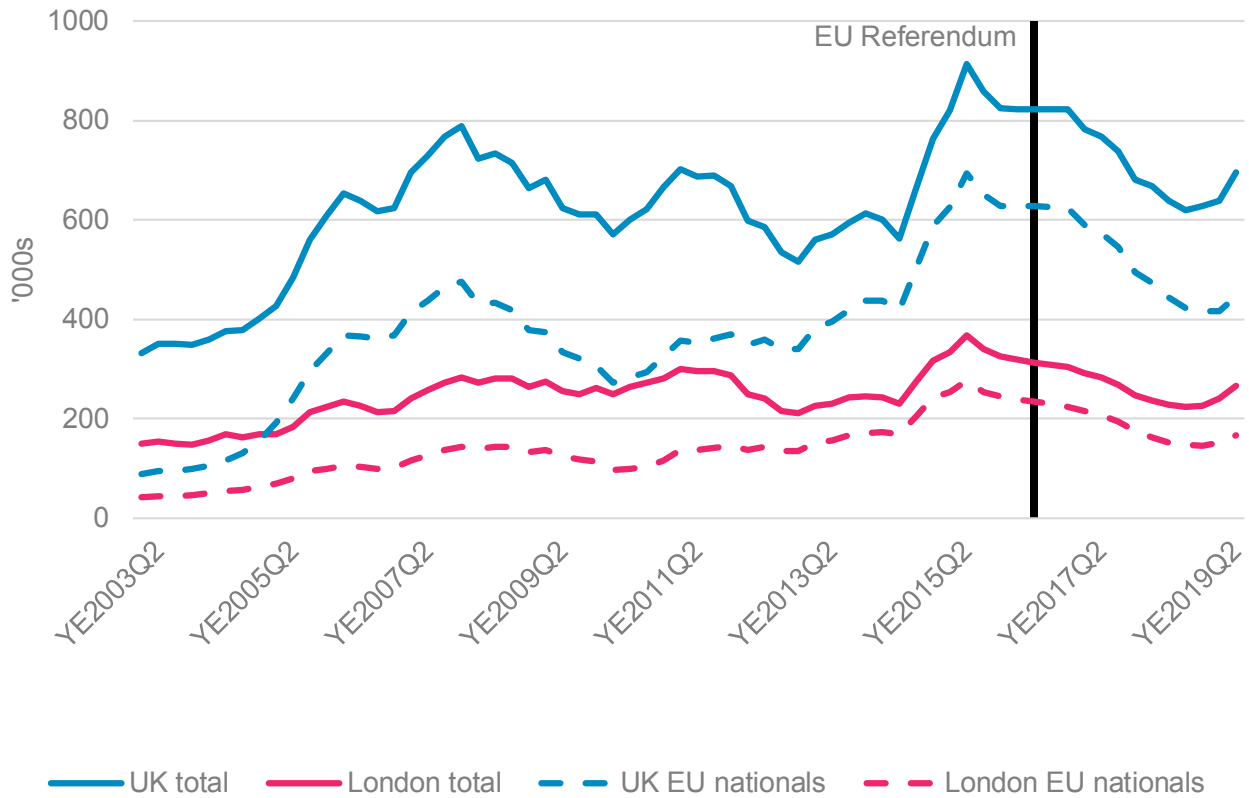
National Insurance number (NINO) registrations data is also available at a sub-national level¹¹⁵, and provides another way to consider the contribution of migrants to the labour market, as it measures migrants who find work for the first time.

The number of migrants by this measure peaked in the last quarter of 2014, had been in decline¹¹⁶ for nearly four years, and appears to have levelled off from the third quarter of 2018 onwards. This is the case both for migrants to London and the UK, whether in total or from the EU, (Figure 4.4). The decline for both London and the UK can be attributed entirely to registrations by EU nationals. For London it has been by around 45,000 from 77,000 to 33,000, over the period from 2014 Q4 to 2019 Q2, and for the UK it has been by around 105,000 from 197,000 to 92,000.

¹¹⁵ This will provide a more accurate measure of migrants entering work, while the International Passenger Survey (IPS) also includes people looking for work. The IPS reports migrants who expect to stay for more than a year, while NINO registrations are not dependent on period of residency and may include people who find work after coming to the UK for another reason.

¹¹⁶ On a year-by-year for each successive quarter

Figure 4.4: NINO registrations, total and EU nationals, London and the UK, year ending 2003Q1-2019Q2, '000s



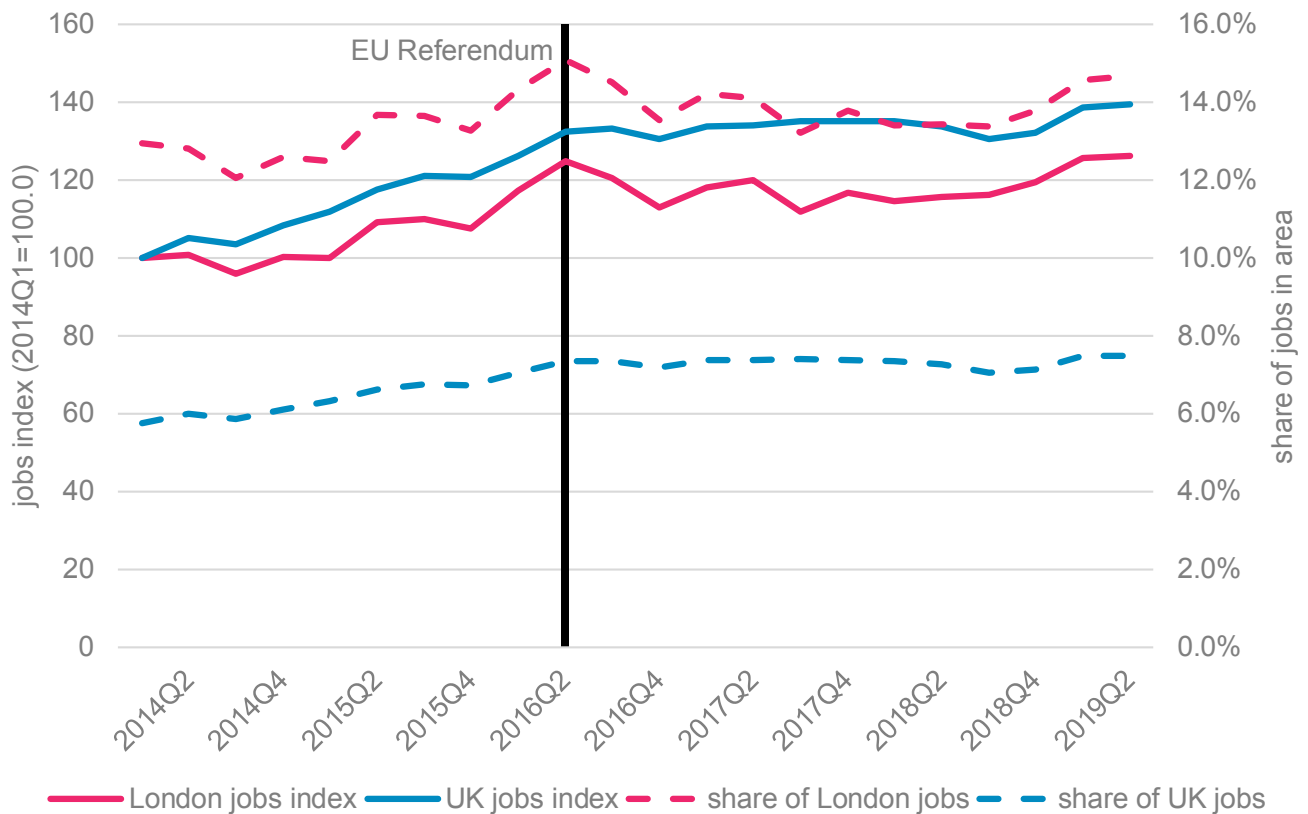
Source: DWP

Note: There was a decline in registrations in 2014Q2 largely due to delays in processing, and those registrations have mostly been recorded in 2014Q3.

Unsurprisingly, the contribution of EEA¹¹⁷ nationals to the London and UK labour markets has stagnated, (Figure 4.5). Prior to the EU referendum there was growth in the number of jobs held by EEA nationals, indeed the growth was more rapid for the UK. This corresponded to a growing share of all jobs. After the EU Referendum the number of jobs held by EEA workers in London fell, as did their share of all jobs, but since 2018 the trend in both series has been rising. These upward trends have also been happening across the UK from the second half of 2018.

¹¹⁷ These are EU nationals, and nationals of Iceland, Liechtenstein and Norway.

Figure 4.5: Contribution of EEA nationals to London and UK labour markets, jobs index, and share of all jobs, 2014Q1-2019Q2

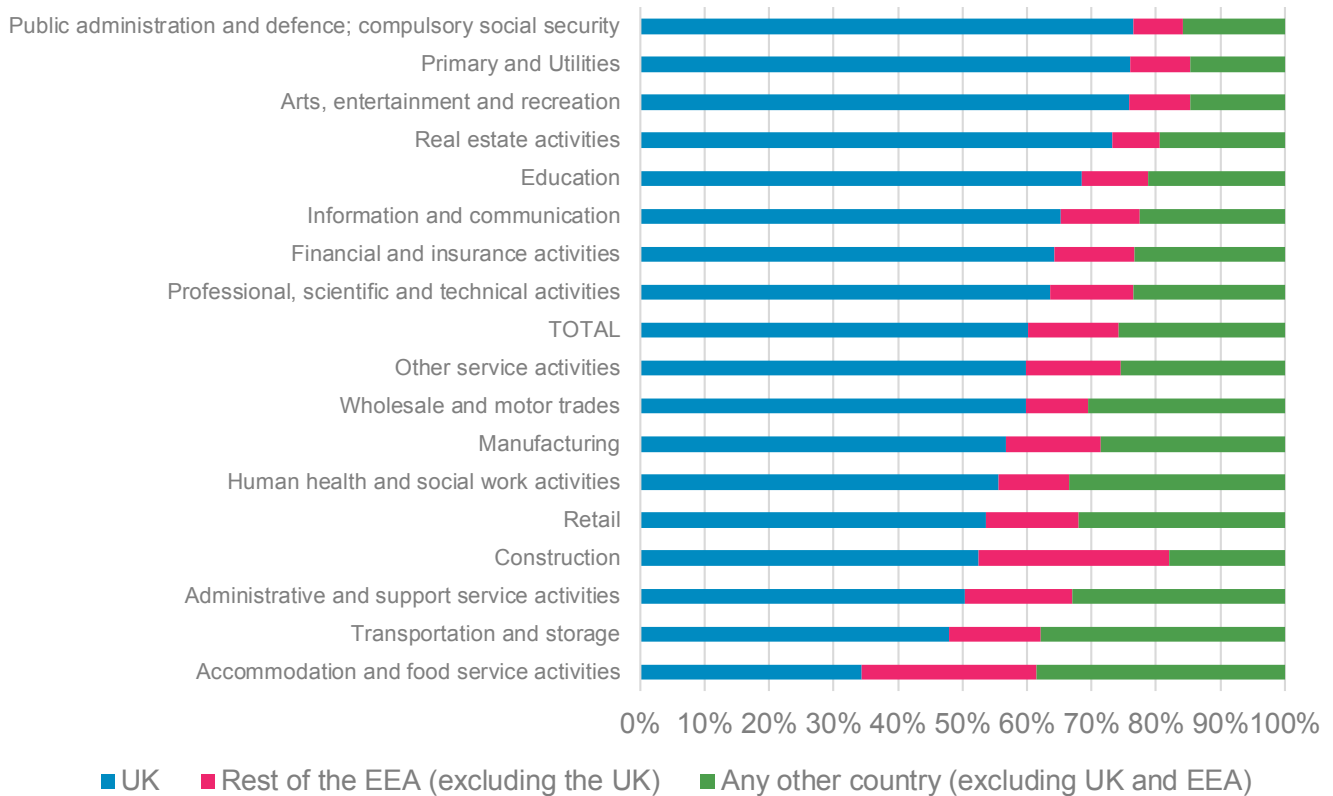


Source: ONS Labour Force Survey

The analysis of this section supports the expected outcome that following the EU Referendum result there would be lower total and net work-related migration to the UK in the absence of any policy changes. The available evidence for London, while more limited, suggests that so far London has not been disproportionately affected relative to the rest of the UK in terms of EU migrants entering the labour market. The contribution of EEA nationals to the London and UK labour markets has at best stagnated, and possibly declined since June 2016.

The distribution of jobs held by EEA migrants is not even across sectors, (Figure 4.6). There are concentrations in a few sectors, notably Construction (30% of jobs held by EEA nationals), Accommodation and food service activities (27%), and Administrative and support service activities (17%). Changes to the UK immigration policy for EEA nationals could present challenges for parts of the London economy.

Figure 4.6: Percentage of jobs by industry and by country/area of birth, London, 2018



Source: ONS Annual Population Survey

While the residency rights of EU citizens already in the UK are likely to remain mostly unchanged¹¹⁸, the Government has set out plans for a ‘skills-based’ immigration system post-Brexit¹¹⁹. The expectation is that controls will limit migration, which in turn will reduce labour supply growth, and output growth. Home Office modelling in the White Paper estimates that the impact of the Government’s proposals may bring down long-term net inward work-related migration from the EU to around 10,000 people a year. To inform debate, GLA Economics have produced two Current Issues Notes aimed at understanding which areas of London’s labour market are likely to be most affected by the proposals¹²⁰. The two main features are the Regulated Qualification Framework (RQF) 3+ skill¹²¹ and £30,000 minimum salary thresholds. There are a number of occupations which might face labour market adjustment issues, both medium and higher-skilled, (Figure 4.7), and lower-skilled, (Figure 4.8).

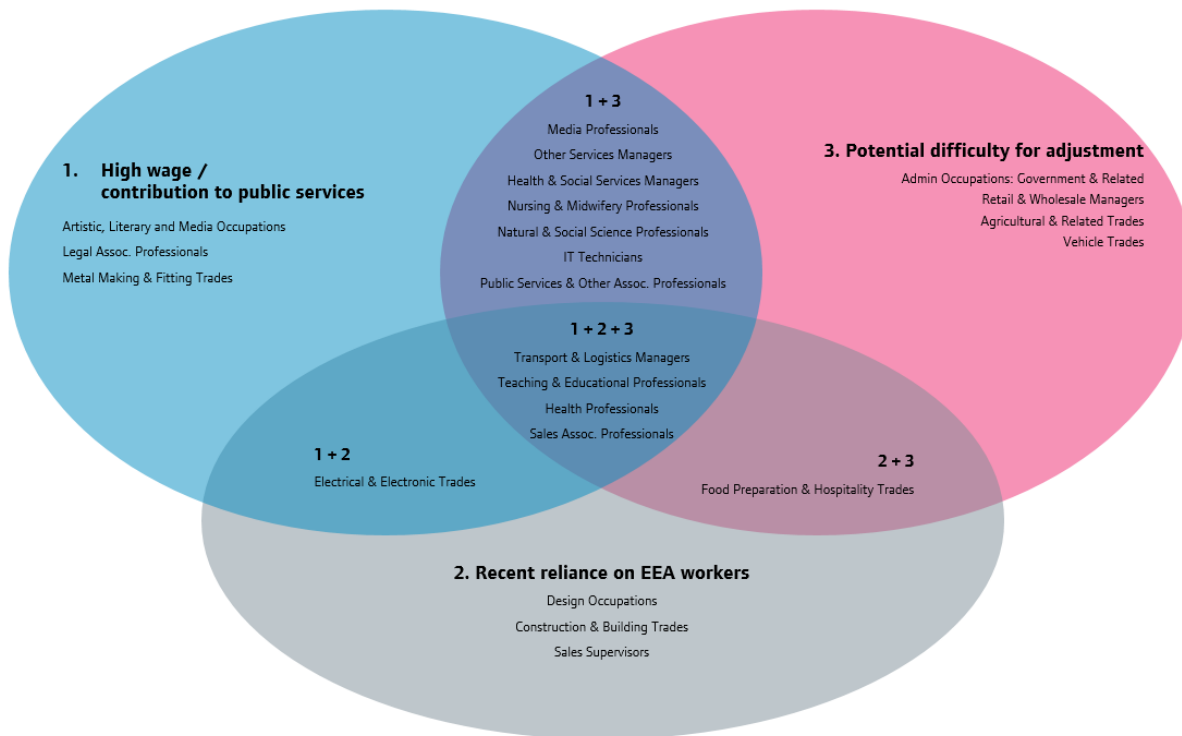
¹¹⁸ See [No-deal Brexit: issues, impact, implications - UK in a changing Europe](#)

¹¹⁹ HM Government (2018) [The UK’s future skills-based immigration system](#)

¹²⁰ See [Potential impacts of skills-based immigration policies in London | London City Hall](#)

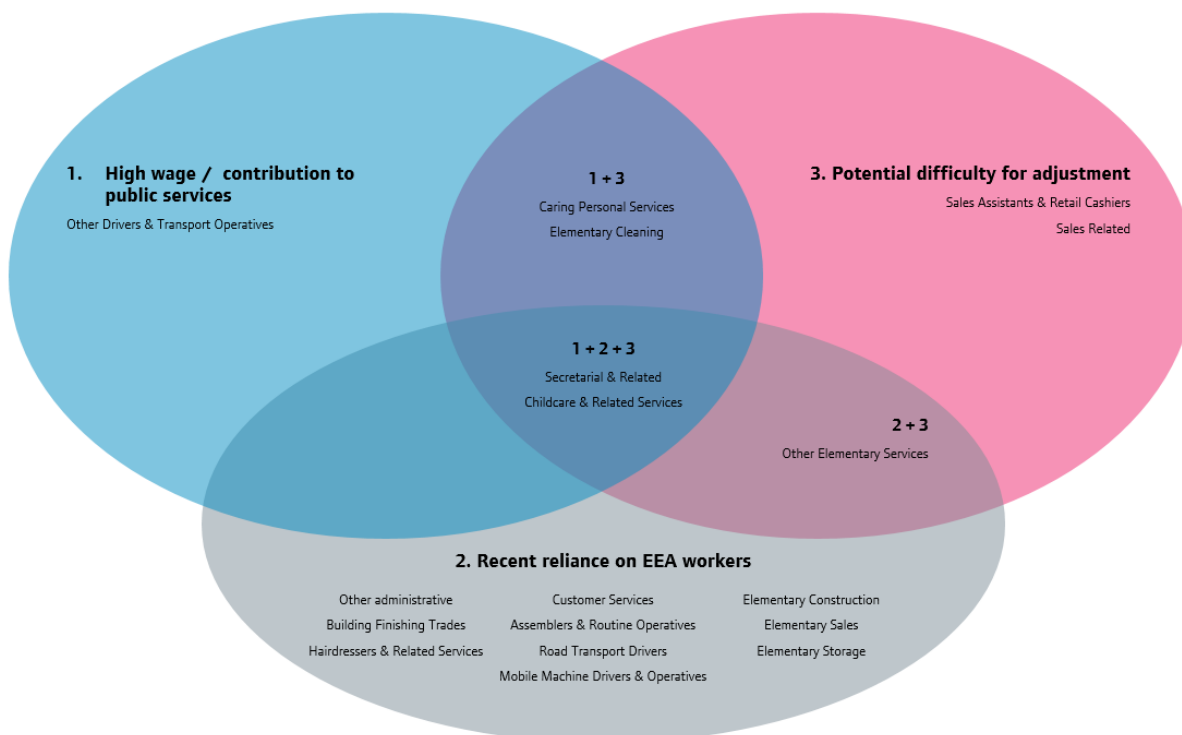
¹²¹ The RQF skill categories are designed to reflect how much training and experience is required for someone to do the job

Figure 4.7: Medium and higher-skilled occupations facing labour market adjustment issues under HM Government 2018 immigration system proposals



Source: GLA Economics calculations

Figure 4.8: Lower-skilled occupations facing labour market adjustment issues under HM Government 2018 immigration system proposals



Source: GLA Economics calculations

The conclusions of the analysis are that¹²²:

- A third of jobs in London are in occupations that fail to meet the proposed qualification threshold (RQF level 3 and above)
- London has a higher proportion of lower-skilled (below RQF level 3) jobs filled by EEA workers than the UK as a whole. Around 301,500 jobs in the capital's low skilled occupations were filled by workers born in the rest of the EEA
- Thirty three occupations that meet the skills requirements have at least a quarter of jobs paying below the £30,000 salary threshold, although London has fewer occupations in which at least half of the jobs pay under the salary threshold (12) compared with the UK overall (24)
- Within those occupations that meet the skills threshold an estimated 148,000 jobs in the capital pay below £30,000 and are held by EEA workers. 'Construction and building trades' has the largest number of EEA-held jobs paying below £30,000 per year followed by 'Food preparation and hospitality trades' (13,700)
- Overall, 60% of jobs held by EEA workers in London would not meet the proposed skills and salary criteria

4.2 Visitors

London is an important destination for visitors. In 2018, it had the third largest number of international arrivals of any world city, 20.7 million¹²³. Domestic visitors to London accounted for 12% of trips, and 9% of nights in the UK¹²⁴.

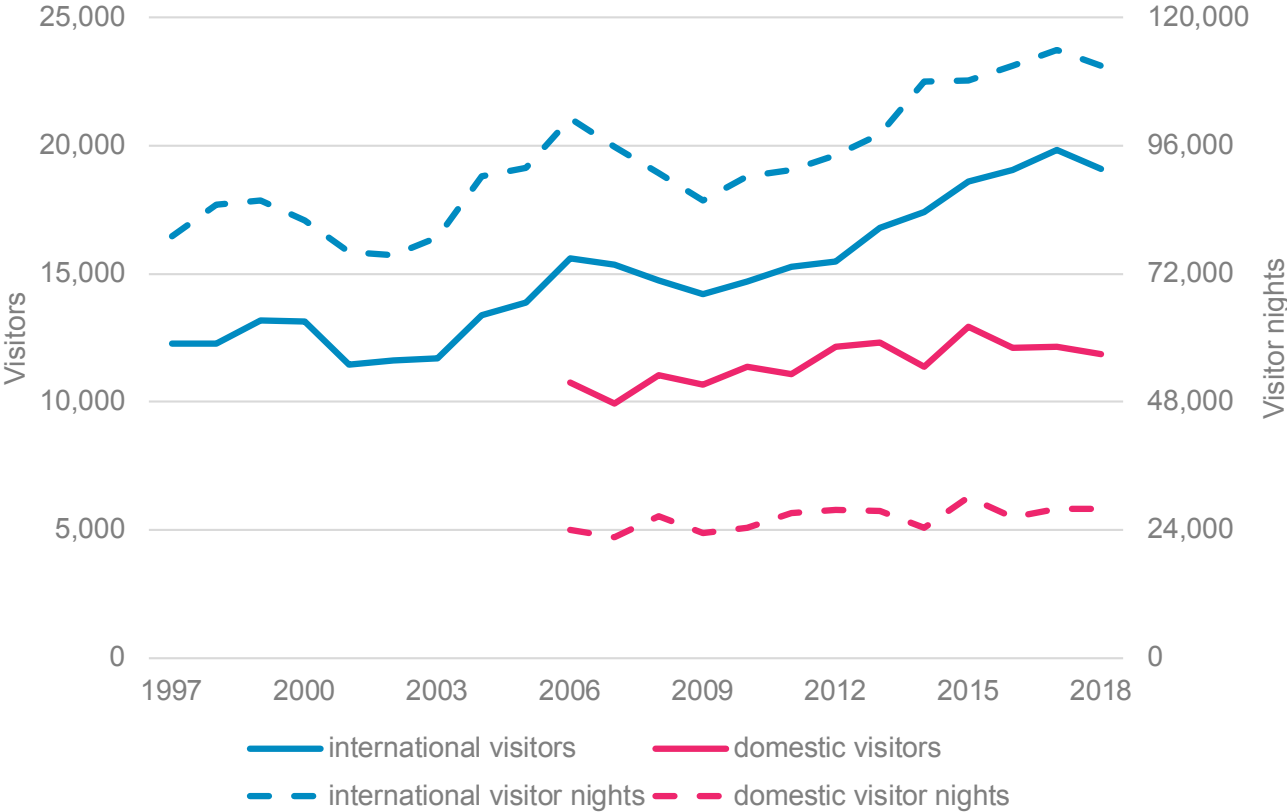
In 2018, there were 30.9m overnight visitors, of which there were 19.1m international visitors, and 11.9m domestic visitors. Since 2006 international visitors have been around 60% of all visitors. There were 138.8m visitor nights in 2018, 110.9m by international visitors, and 27.9m by domestic visitors. Since 2006 international visitor nights have been around 80% of all visitor nights, (Figure 4.9). International visitors stay on average around six nights in London, while domestic visitors stay a little over two nights. Since 2016, there has been a continuation of previous trends although there was a slight dip in international visitor numbers and nights in 2018.

¹²² This summary is taken from the supplement to [London's Economy Today - Issue 204 - August 2019 | London City Hall](#)

¹²³ See [Top 100 City Destinations 2018](#) – not all people arriving in London will stay in London

¹²⁴ See [GB Tourism Survey: 2018 overview | VisitBritain](#)

Figure 4.9: Overnight visitors and visitor nights to London, domestic and international, 1997-2018



Source: International Passenger Survey (for international visitors) and Great Britain Tourism Survey (for domestic visitors)
 Note: series for domestic visitors began in 2006

There may be a number of factors influencing visits, beyond the exchange rate, including wider international macroeconomic developments impacting on household income and affordability, and competition from other destinations.

5 Impacts on households

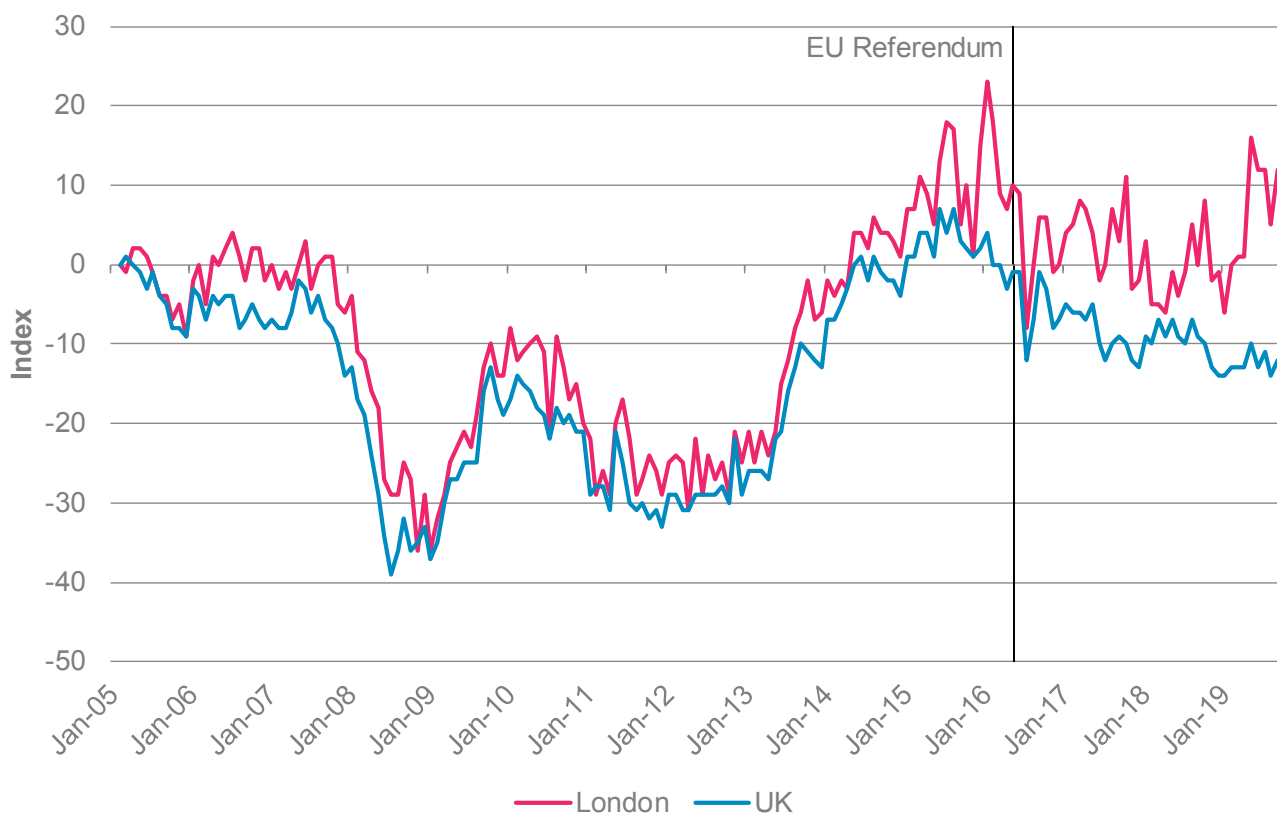
5.1 Overview

This Chapter considers the range of impacts on households so far because of the Brexit process, and what may happen when the UK leaves the EU. It has sections on:

- Jobs and employment
- Prices, wages, and income
- House prices

These factors all have a bearing on consumer confidence. By historic standards this has remained comparatively positive since June 2016 both for London and the UK, while in London more consumers in most months feel optimistic about the outlook than feel negative, (Figure 5.1). Sentiment across the UK since 2016 has gradually become more pessimistic. This is borne out by a range of data in the remainder of this Chapter, even though the outlook after Brexit appears less benign.

Figure 5.1: Net consumer confidence, London and the UK, January 2005- September 2019

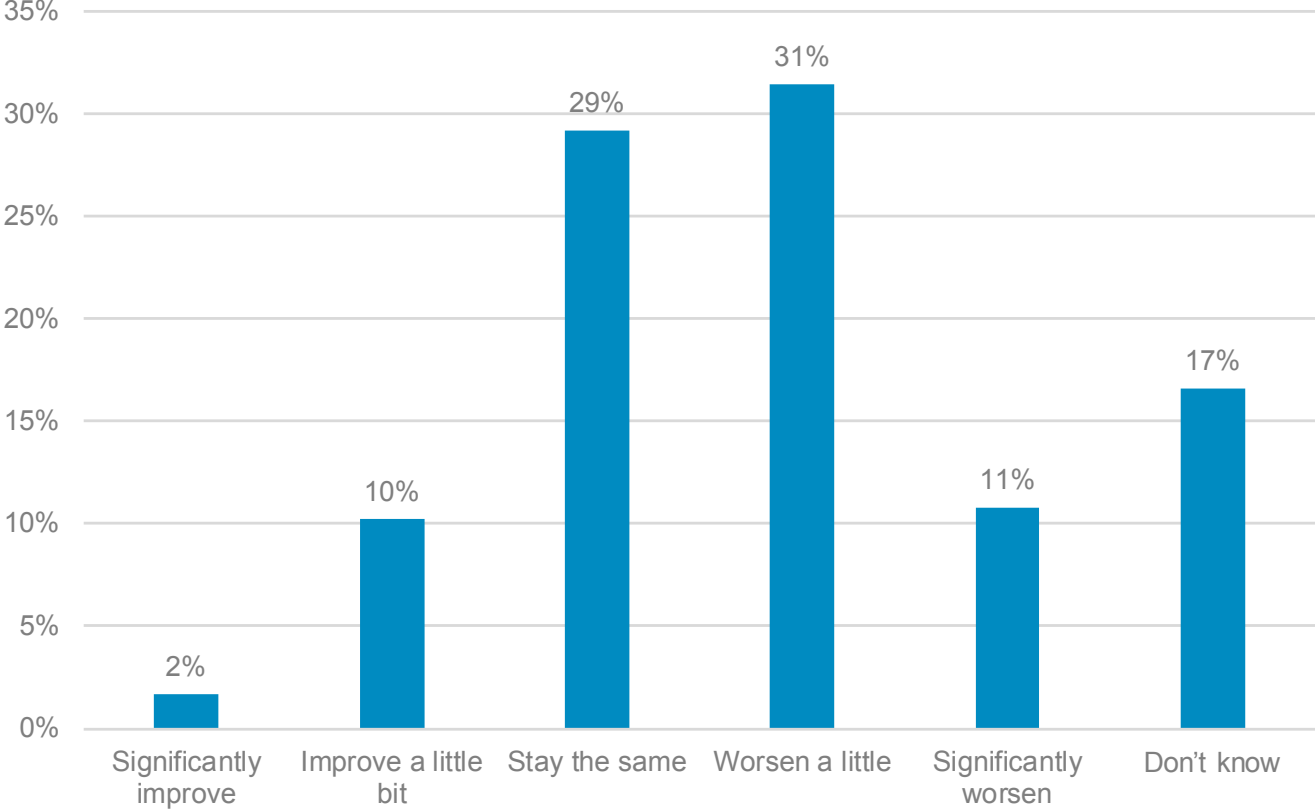


Source: GfK Consumer Confidence Barometer

Some Londoners may prepare better for a no-deal Brexit than others. 60% of Londoners believe that London's economy will stay the same, or worsen a little, over the next 12 months, (Figure 5.2). There are few demographic differences in opinion, but remain voters are much more pessimistic than leave voters. 50% of remain voters think the economy will deteriorate compared to 30% of leave voters. Similarly, half of Londoners consider economic warnings about the impact of a no-deal Brexit to be realistic, while 30% regard them as exaggerated, and 20% don't know, (Figure 5.3). Londoners are more likely to accept the validity of the warnings than the rest of the British population. 57% of Londoners are worried about a no-

deal Brexit compared with 52% of British people¹²⁵. 21% of British people are not worried at all, compared with 15% of Londoners.

Figure 5.2: Perceptions of Londoners of how London’s economy will fare over the next 12 months, May 2019

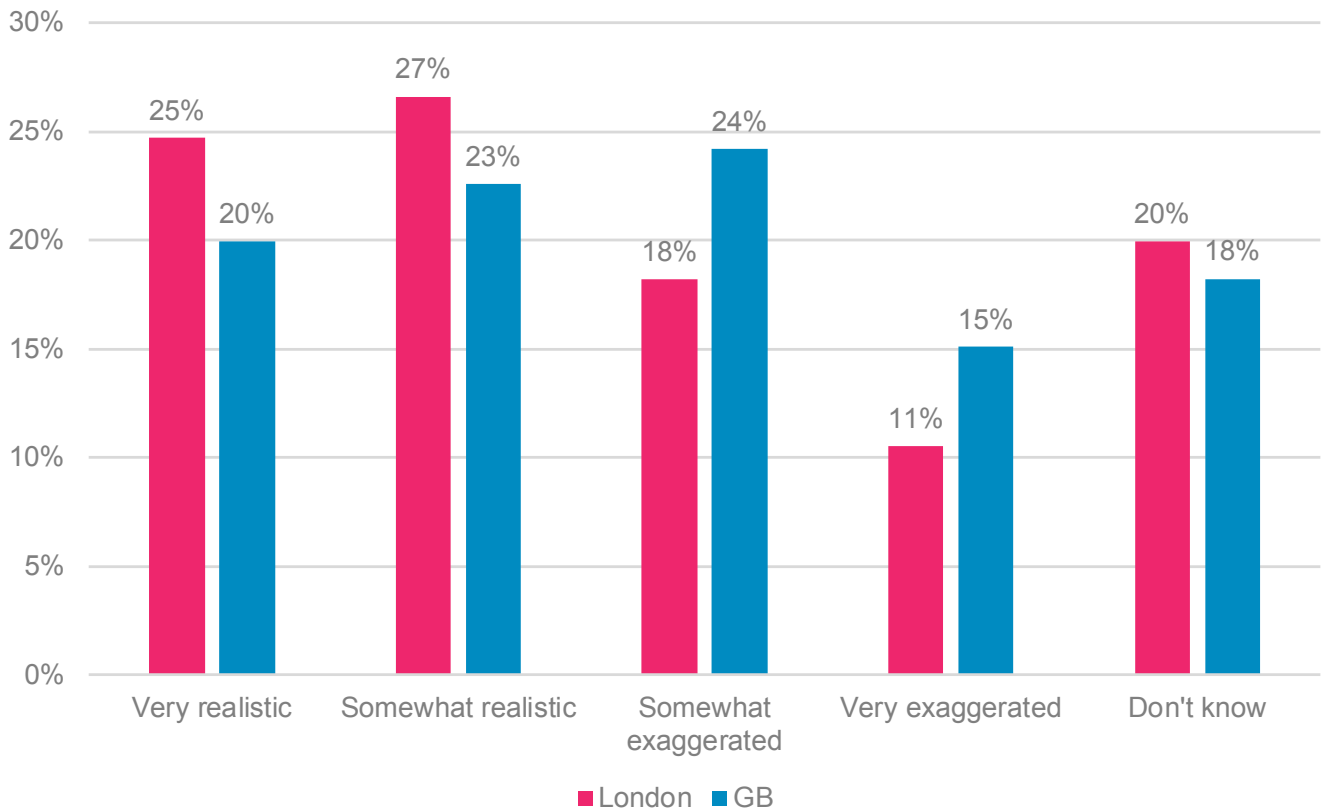


Source: GLA/YouGov polling¹²⁶

¹²⁵ Source: YouGov Profiles, July 2019. Online survey with responses from 1,783 adults in London, and 36,292 adults in Great Britain. Weighting factors are for all 18+ GB residents

¹²⁶ Online survey with responses from 1,272 adults. Results have been weighted and are representative of all 18+ Londoners.

Figure 5.3: Perceptions of economic warnings for a no-deal Brexit, London and Great Britain, November 2018



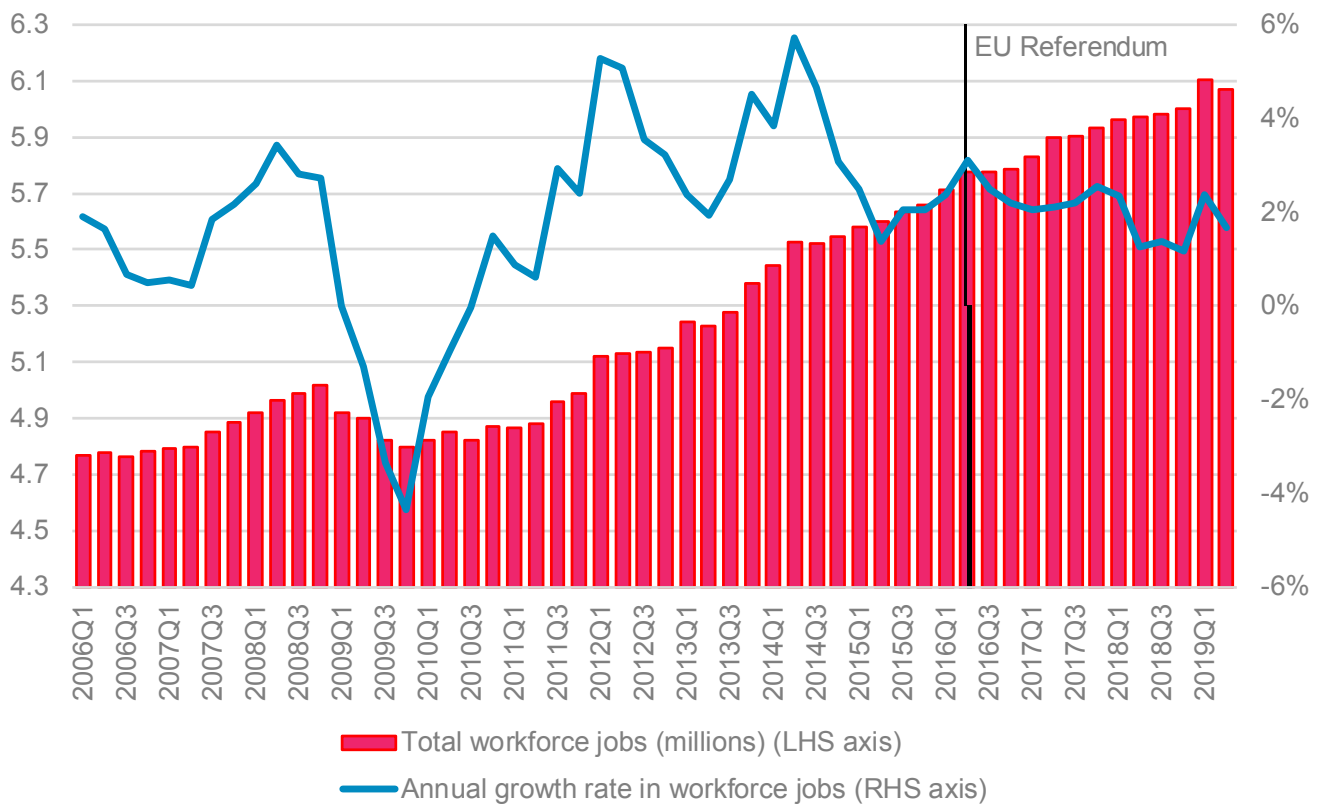
Source: YouGov Profiles¹²⁷

5.2 Jobs and employment

Since the EU Referendum the labour market has continued to perform well, with a steady increase in jobs numbers in London, and a declining unemployment rate for both London and the UK, (Figures 5.4 and 5.5). Jobs numbers are at a near historic high, and unemployment rates are at a near historic low. The slowing down in jobs growth, in part, reflects, lower net migrant inflows, see Chapter 4.

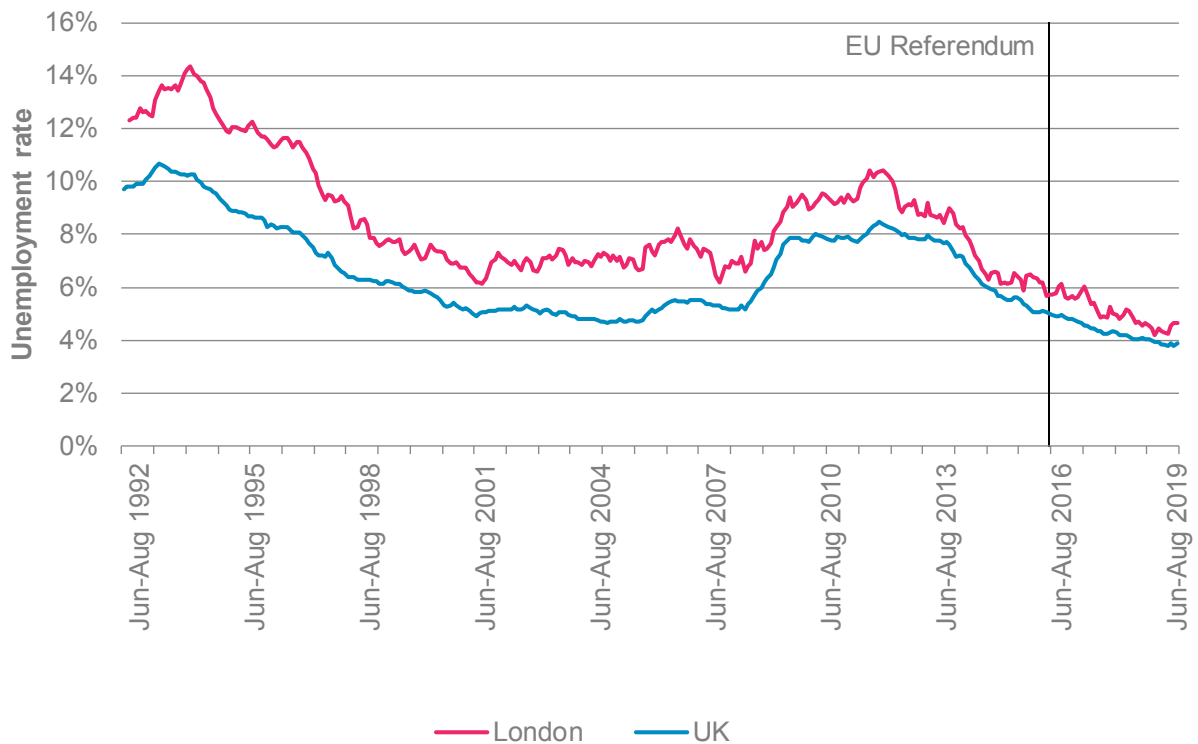
¹²⁷ Online survey with responses from 2,103 adults in London, and 20,241 adults in Great Britain. Weighting factors are for all 18+ GB residents.

Figure 5.4: Workforce jobs in London, level and annual growth rate, 2006Q1-2019Q2



Source: ONS Labour Force Survey

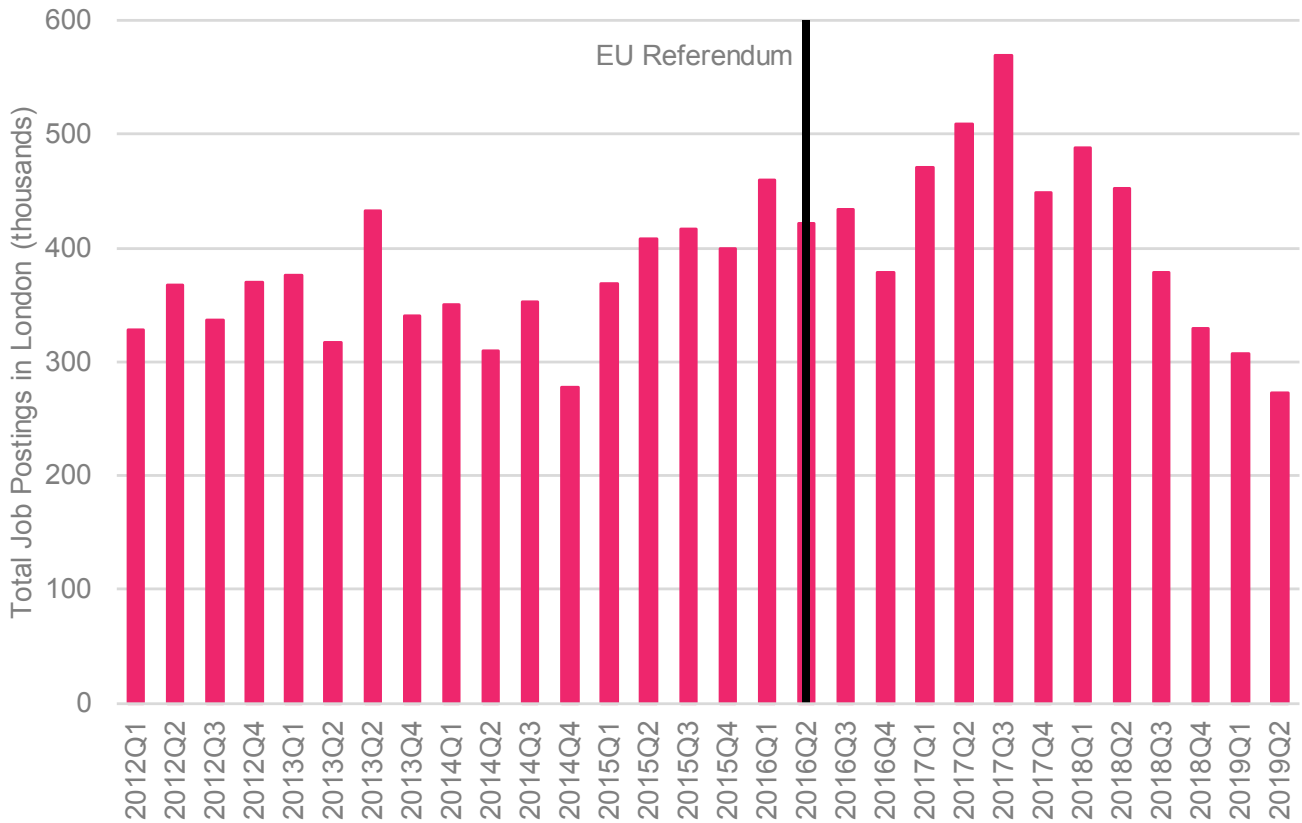
Figure 5.5: Unemployment rate, London and the UK, 1992-2019



Source: ONS Labour Force Survey

The tightness of the labour market is reflected in the number of vacancies, or job postings, (Figure 5.6). These have been falling since the second quarter of 2017. This, in part, is a reflection of slower economic growth, and slowing growth in the demand for labour.

Figure 5.6: London Job Postings, 2012-2019



Source: Burning Glass Technologies

Whether these benign conditions continue will depend on the form Brexit takes. In the last three years while there has been economic growth the labour market has remained buoyant. This might continue if there is an orderly Brexit. If there is a no-deal Brexit, and a shock to the economy, then both the OBR¹²⁸ and the BoE¹²⁹ expect a recession and rising unemployment. The BoE estimates that the UK unemployment rate will rise to 5¾% under its scenario for a disruptive Brexit, and 7½% for a disorderly Brexit – the BoE was estimating an unemployment rate of 7% for a disorderly exit in September 2019 to take account of improvements in preparations¹³⁰. In comparison, the unemployment rate rose to 8% during the last recession in 2007/08.

Any economic shock is likely to have a distributional effect. With the exception of the financial crisis in 2008 falls in employment during recessions since the 1970s have been highest for low income households, (Figure 5.7) – the financial crisis was different, in part, because the exchange rate depreciation adversely affected all households, as noted above, and benefits continued to be uprated by inflation. As a result, across recessions low income households suffered the largest falls in income¹³¹. The automatic stabilisers during a downturn of lower taxation receipts, and increased benefit payments, have not been sufficient on their own to address this distributional effect.

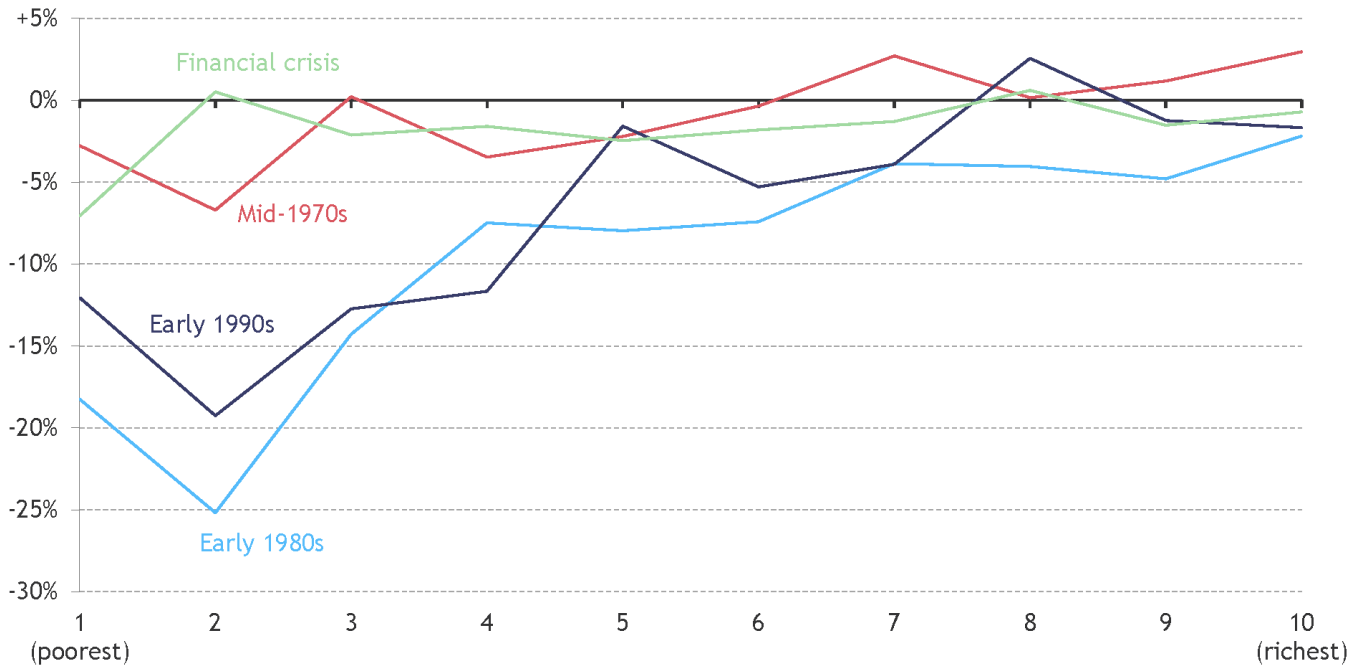
¹²⁸ See [Fiscal risks report 2019 - Office for Budget Responsibility](#)

¹²⁹ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹³⁰ See [No-deal recession less severe now, says central bank boss - BBC News](#)

¹³¹ See [Recession ready? - Resolution Foundation](#)

Figure 5.7: Change in employment rate in recent recessions, by working age equivalized household income decile (after housing costs)



Source: Resolution Foundation analysis of DWP Households Below Average Income and ONS Family Expenditure Survey

Notes: Employment rates are for non-pensioner family units (ages 16-64). Change in employment rate in recession calculated as difference between average employment by decile from the first year of negative GDP growth to the first year of positive growth. Early 1990s recession is 1990-91, rather than 1990-92, due to missing data in 1992.

5.3 Prices, wages, and income

As expectations about the openness of the UK economy diminish so the exchange rate depreciates. As noted in Chapter 2 this is associated with higher import prices, and higher inflation. Increases are likely to feed through particularly to food, petrol, and health services. For health services this is because of concerns about shortages of medicines. Table 5.1 shows this for a 5% depreciation, and, for comparison, there was a 10% depreciation in mid-2016 following the EU Referendum. The BoE estimates that fuel prices and energy prices might rise by 2%. Further, the BoE estimates that NTBs might increase consumer prices by 0.3%.

Table 5.1: Long-run effect on the level of CPI component prices from the introduction of tariffs, or an exchange rate depreciation, % change

Component	Effect of a 5% depreciation	Tariffs under WTO MFN relationship
Food and non-alcoholic beverages	1.3	5.0
Alcohol & tobacco	0.3	0.8
Clothing & footwear	1.4	1.3
Housing, utilities	0.7	0.1
Furniture, household equipment	0.9	0.4
Health	1.0	0.1
Transport (including fuel)	1.0	1.0
Communication	0.9	0.0
Recreation & culture	1.0	0.5
Education	0.1	0.0
Restaurants & hotels	0.5	0.6
Miscellaneous goods & services	0.7	0.1
Package holidays	2.2	0.0
CPI	0.9	1.0

Source: BoE EU withdrawal scenarios and monetary and financial stability

At the time of Brexit there could be other supply and demand effects, and so while there is likely to be a further depreciation there will be other factors influencing consumer prices. The BoE still expects that in aggregate inflation will rise¹³², because the costs of doing business will be higher whether from tariffs¹³³, NTBs, or disruption.

There may also be increases in food prices in the case of a no-deal Brexit because, “Certain types of fresh food supply will decrease.”¹³⁴ While HM Government does not expect an overall shortage of food in the UK, it is likely there will be reduced availability and choice of products.

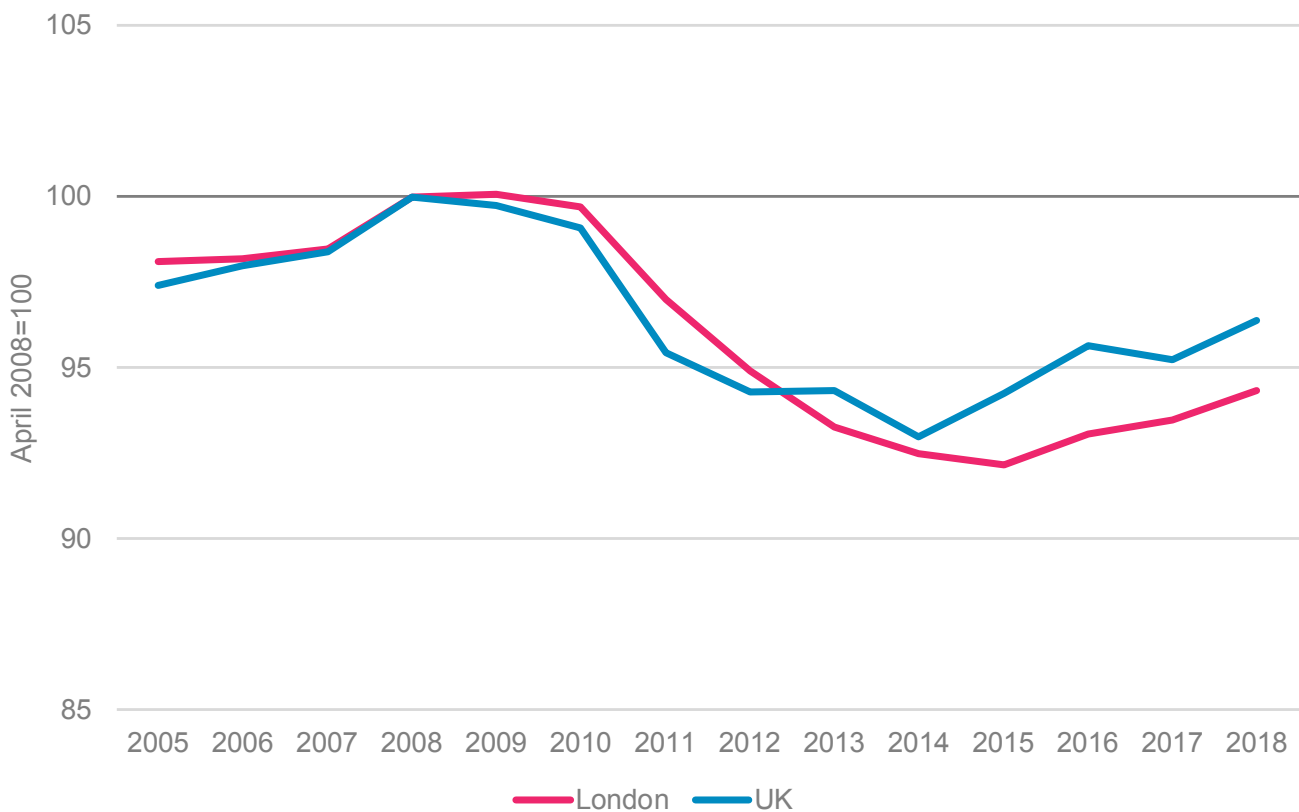
BoE estimates that the impact of the 2016 exchange rate depreciation was felt equally across income groups, although London was relatively less impacted than other regions – possibly because house prices are an important element of expenditure in London.

Wages have been increasing faster than inflation in the last few years because of the tight labour market, and significant increases in the minimum wage. Yet, both for London and the UK median wages remain below the level in 2008, and wage growth has been slower in London, (Figure 5.8).

¹³² See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹³³ 88% of goods entering the UK under the temporary tariff if there is a no-deal Brexit would not be liable for taxes – see FT 9 October 2019. The EU will still impose tariffs on exports.

¹³⁴ See [Government response to Humble Address Motion - GOV.UK](#)

Figure 5.8: Real median full-time gross weekly earnings, London and the UK, April 2005-2018

Source: ONS Annual Survey of Hours and Earnings

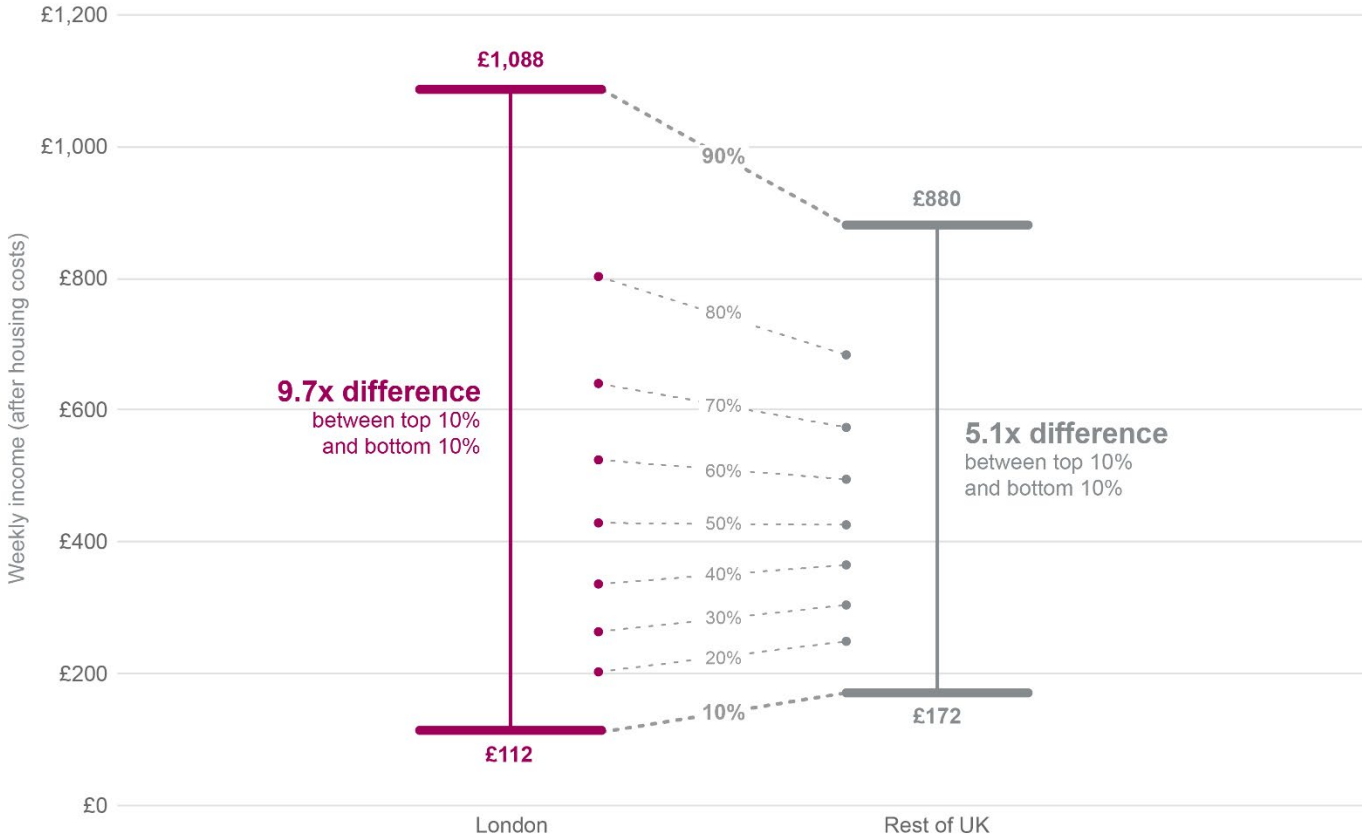
Note: inflation measure used is CPIH

Brexit is likely to bring about downward pressure on wages. The supply side shock of rising costs to business will reduce capacity (from what it would otherwise have been), and so reduce the demand for labour. Secondly, over the longer term, trends in wages reflect productivity growth. This is expected to be lower as discussed in Chapter 2. It might be alleviated by supply side factors if there are discouraged workers who cease being economically active in a weaker economy, and lower net migration for the same reason.

The impact on London will depend on the income distribution of households in the city. As with other cities, London has relatively more low income households than nationally. Household median income (after housing costs) in London is similar to the rest of the UK, while the incomes of households on the lowest incomes are lower than the national average, (Figure 5.9). Indeed, poverty rates in London (after housing costs) are higher than any other region of the UK, (Figure 5.10).

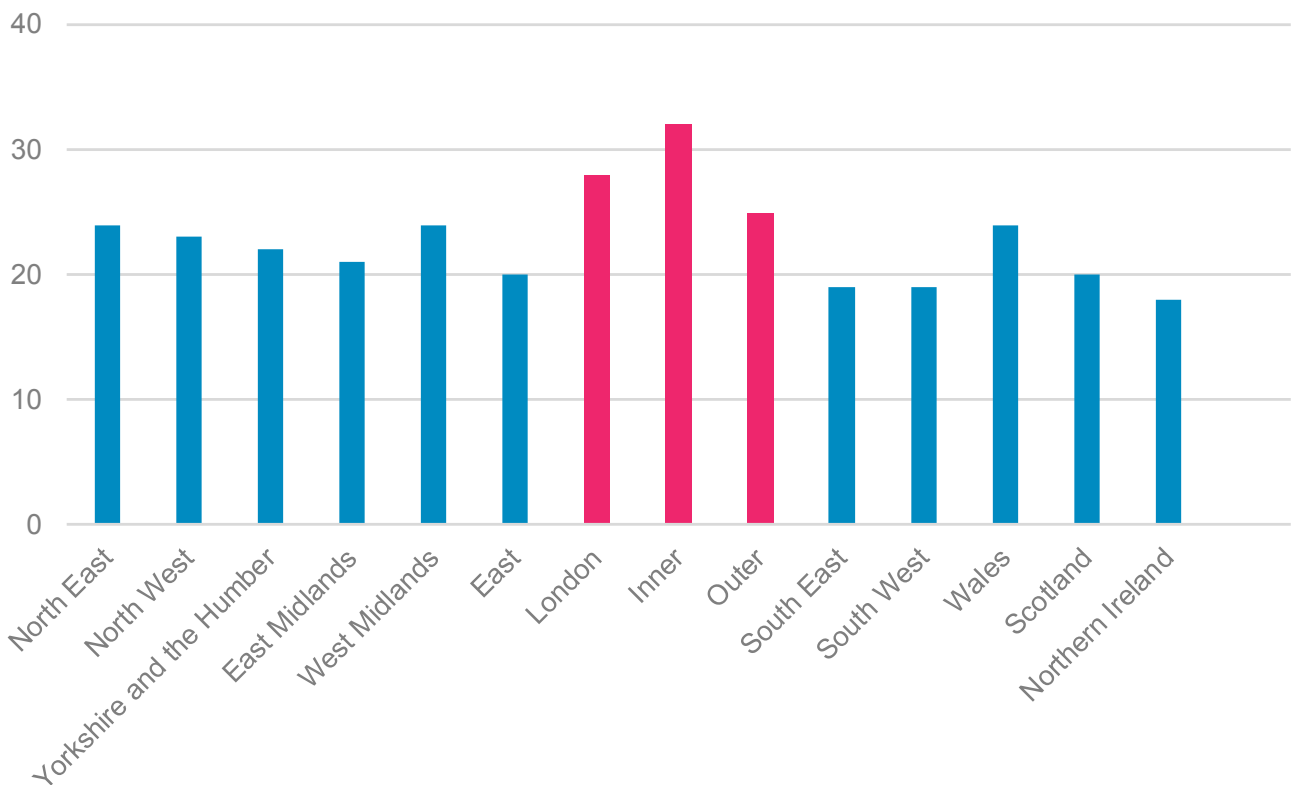
Figure 5.9: Distribution of household income (after housing costs), London and the rest of the UK, 2015/16 to 2017/18

Difference in income (after housing costs) between top 10% and bottom 10%



Source: DWP Family Resources Survey

Figure 5.10: Proportion of population in poverty (after housing costs) by region, 2015/16 to 2017/18



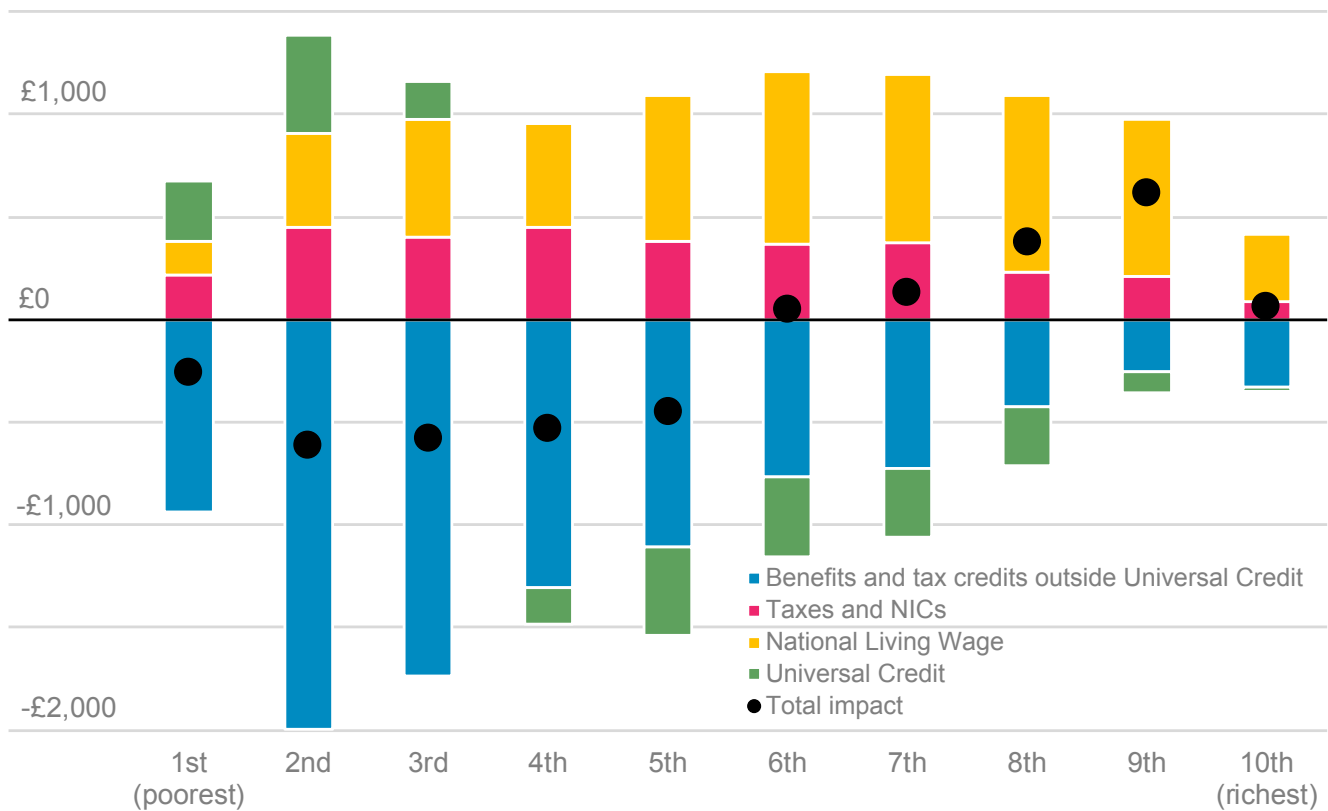
Source: DWP Households Below Average Income

Income equality across households has been exacerbated by welfare reform which has been regressive. Poorer London households will experience a reduction in household income while richer households will experience an increase, based on current government expenditure plans, (Figure 5.11)¹³⁵:

- The hardest hit group are those Londoners in the second poorest 10% of households, who, by 2021-22, will be receiving £610 a year less than they otherwise would have been as a result of benefit changes – a 2.7% loss – mainly from the four year freeze to working age benefits.
- Households with children will lose the most of all household types – particularly those households headed by lone parents, from real terms cuts to child tax credits and child benefit. On average, lone parent households will receive £2,400 a year less by 2021-22 – an 8% loss.
- Disabled households will lose out substantially. Households where someone is disabled will receive £1,910 a year less on average.

¹³⁵ See [Cumulative Impact Assessment of Welfare Reform in London – London Datastore](#)

Figure 5.11: Cash impact on London households of tax and welfare changes and the introduction of the National Living Wage by household net income decile and type of reform, 2021-22 compared with a baseline 2021-22 scenario in which none of the modelled changes took place



Source: GLA Cumulative impact assessment of welfare reform in London¹³⁶

Note: Modelling is for the period 2010 to 2021-22 the year by which welfare changes are anticipated to have fully taken effect

In summary, Brexit is likely to make households across the UK worse off because of both of higher price inflation, and lower wage growth. Price increases from shortages of food and fuel will disproportionately affect lower income households as it is a larger component of their spending. (This is additional to the effects of any exchange rate depreciation.) This is likely to be more significant in London than nationally because of the city’s relatively high proportion of low income households, who have already been disproportionately affected by welfare reform. And, as noted earlier, it is low income households whose likelihood of staying in work are most likely to be diminished by a recession.

5.4 House prices

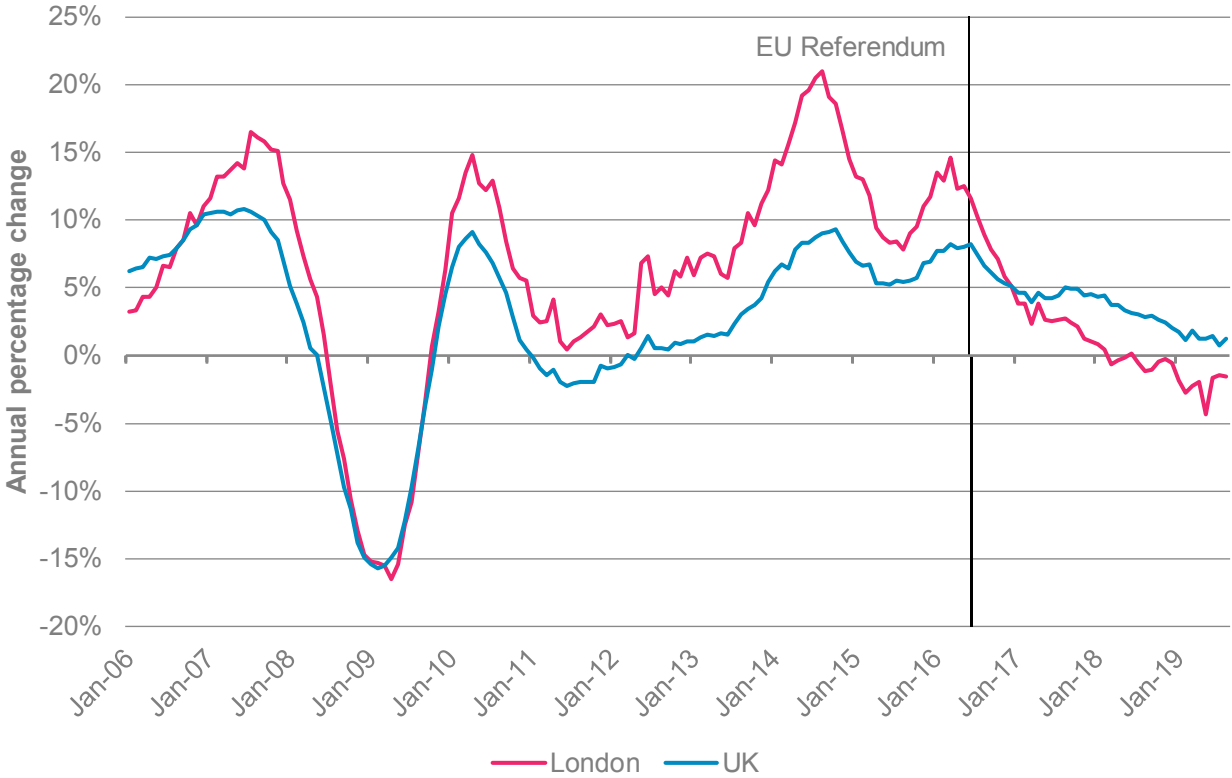
Although London’s population has been increasing house prices have been falling, contrary to national trends, and the growth in property rental values has slowed since June 2016, (Figures 5.12 and 5.13). The slowdown in house price growth in 2014¹³⁷ and 2016¹³⁸ was not observed in rental prices and might reflect changes in stamp duty introduced at the time. While there continues to be growth in consumer spending, the view of the BoE is that consumers are wary of making larger commitments because of uncertainty around the Brexit process. This, for example, has also been reflected in falling car sales.

¹³⁶ See [Cumulative Impact Assessment of Welfare Reform in London – London Datastore](#)

¹³⁷ The cliff edge of paying the full value of stamp duty on property over a certain rate was replaced by a more progressive structure. See [Fiscal facts: tax and benefits – Institute For Fiscal Studies – IFS](#) for more information

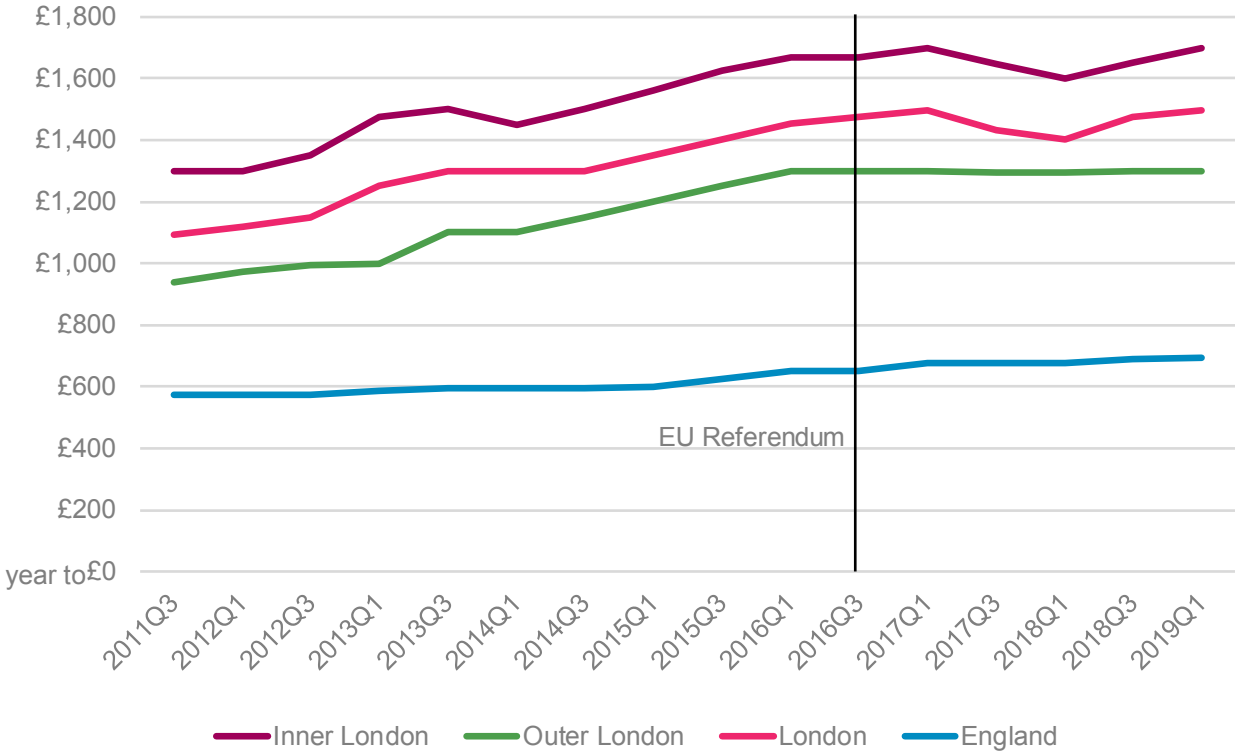
¹³⁸ A higher rate of stamp duty was introduced on second homes, which may have affected the ‘Buy to Let’ market. See [Stamp Duty Land Tax: Residential property rates – GOV.UK](#) for more information.

Figure 5.12: Annual percentage change in average house prices, London and the UK, 2005-2019, seasonally adjusted



Source: Land Registry and GLA Economics calculations

Figure 5.13: Median average rents in the private sector, London and England, 2011Q3 to 2019Q1

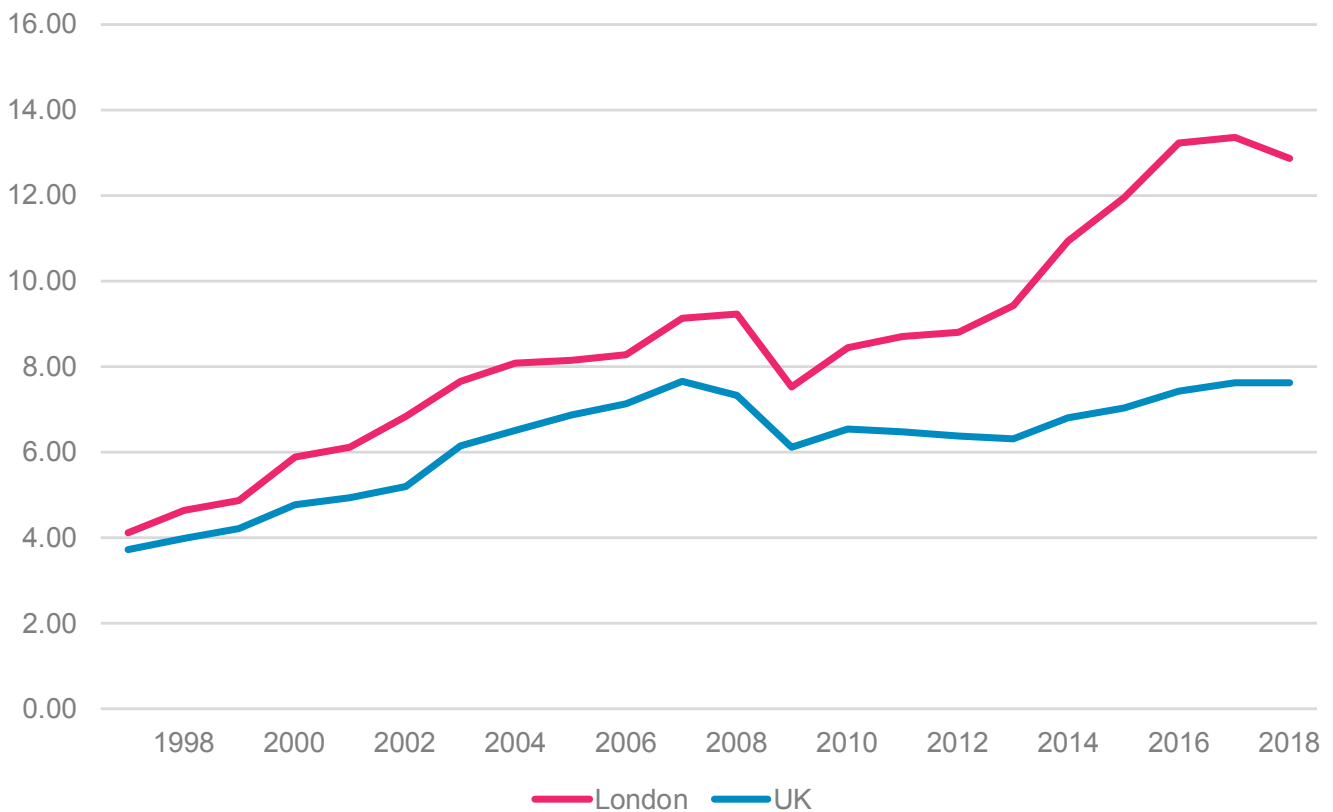


Source: GLA CIU calculations of Valuation Office Agency data

If there is a no-deal Brexit, and a shock to the economy, then both the OBR¹³⁹ and the BoE¹⁴⁰ expect falling house prices. The OBR estimates that house prices will fall 10% under a disruptive scenario¹⁴¹. In November 2018, the BoE estimated that house prices might fall 14% under a disruptive no-deal Brexit, and 30% under a disorderly no-deal Brexit¹⁴². This compares to a fall of 17% during the 2008 recession. Regional effects may depend on the impact of Brexit on jobs markets, and so household income. If London suffers comparatively less, as is expected by most forecasters, then house price falls might be smaller.

Buying a house in London is much less affordable than in the rest of the country, although affordability has improved slightly in the last couple of years, (Figure 5.14). A combination of the loss of a job and rising interest rates might place some homeowners in financial difficulty. Moving to a less expensive home might not prove straightforward where a household has negative equity, and the housing market freezes up. On the other hand, there will be many families in London whose mortgage debt is somewhat less than the value of their home.

Figure 5.14: Ratio of house prices to earnings, London and the UK, 1997-2018



Source: Land Registry, and ONS ASHE (gross weekly median full-time employee earnings)

The BoE has reached a relatively benign conclusion on the extent of problem household indebtedness at a national level¹⁴³:

“UK households have a high level of debt relative to their incomes, and competition in the mortgage market continues to encourage accommodative lending conditions. But the proportion of very highly

¹³⁹ See [Fiscal risks report 2019 - Office for Budget Responsibility](#)

¹⁴⁰ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹⁴¹ While similar in what it covers this is not the same as the BoE scenarios, and is explained in Chapter 6.

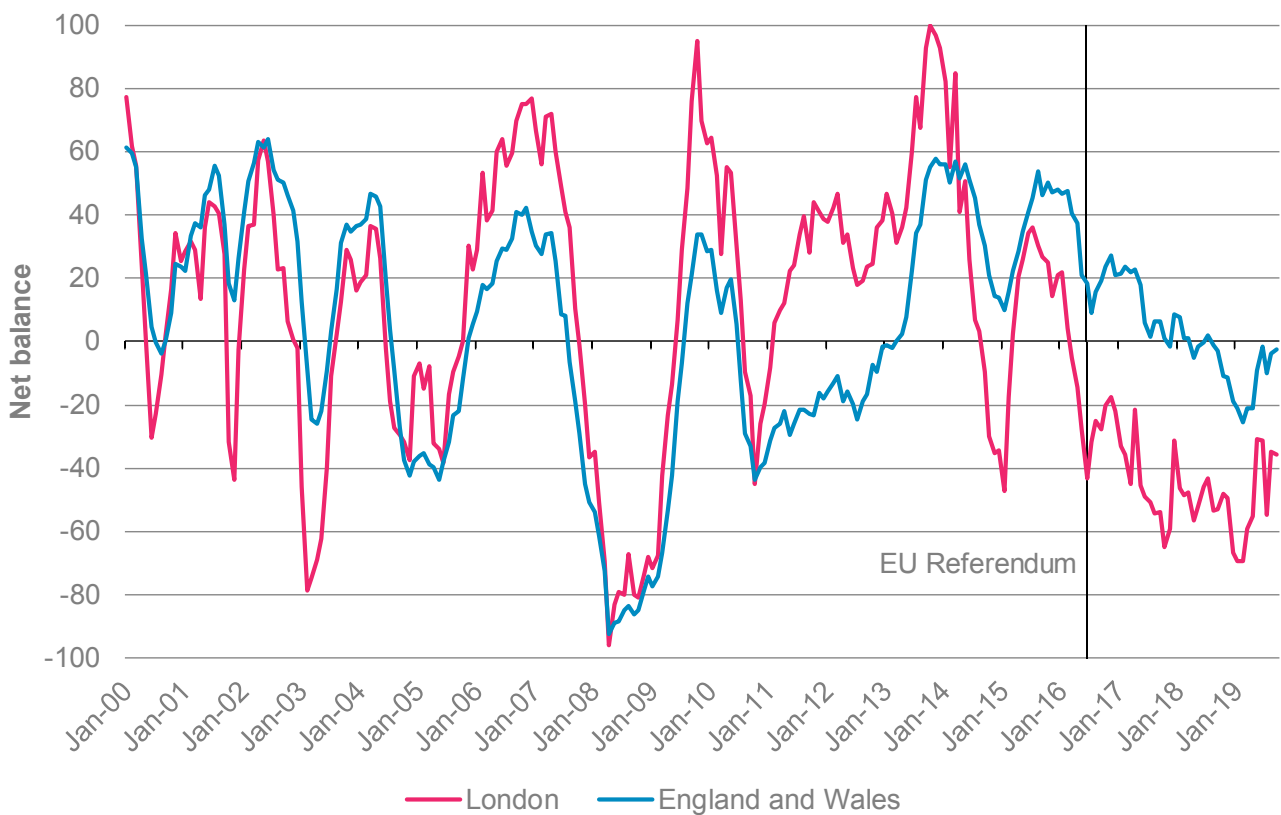
¹⁴² See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹⁴³ See [Financial Stability Report and Record - July 2019 | Bank of England](#)

indebted households remains low; muted demand has constrained mortgage credit growth ... Consumer credit lending growth has continued to slow, as lenders have tightened borrowing conditions for credit cards.”

There is very limited regional data on household indebtedness¹⁴⁴, so it is not clear to what extent there may be problem indebtedness in London. In summary, though, ongoing uncertainty around the Brexit process is likely to place a dampener on housing activity. This is consistent with the views of house surveyors, who have been reporting declining expectations for house prices since June 2016, (Figure 5.15). While expectations in London have been consistently below national expectations over this period in recent months they have been negative for both geographies.

Figure 5.15: Net balance of expected change in house prices over next three months, London and the UK, January 2000- September 2019, seasonally adjusted



Source: RICS Residential Market Survey

¹⁴⁴ See [Household debt: statistics and impact on economy](#), while ONS analysis at [Total household debt and household net equivalised income by region, age, income decile in Great Britain, July 2010 to June 2016 - Office for National Statistics](#) finds that the ratio of median household total debt to median household net equivalised income in London is in the line with the ratio for other regions

6 Economic policy response

6.1 Overview

The EU referendum result caused an economic shock with the effect of lowering economic growth to close to zero, see Chapter 2. Leaving the EU would be a further negative shock, and the OBR¹⁴⁵ and BoE¹⁴⁶ have concluded a no-deal Brexit may lead to a recession in 2020. Whether or not this comes to pass, economic conditions could be such to likely warrant a fiscal and monetary response.

The National Institute of Economic and Social Research (NIESR) has commented¹⁴⁷ that, “While we are more confident about the impact of Brexit in the long term, there is much more uncertainty about the short-run effects which depend on the exact timing of any Brexit outcome and the response of policy.” As noted in Chapters 1 and 2, leaving the EU will have immediate effects which are detrimental to the UK economy. The main policy levers rest with the BoE, and HM Government, and so this chapter concentrates on them, and the choices available, and the constraints. NIESR has considered macroeconomic developments under various Brexit scenarios, and concluded¹⁴⁸:

“policymakers have room to inject monetary and fiscal stimulus in order to stabilise output if inflation expectations and wage growth are anchored (and also thought to be anchored by policymakers) at a level that is consistent with the medium-term 2 per cent inflation target, and if fiscal rules are adjusted to allow for higher government spending.”

This is part of a wider context of weak macroeconomic conditions. Recessions tend to occur around every ten years and it has now been ten years since the 2008 recession¹⁴⁹, and the global economy is slowing down¹⁵⁰. Consequently, “some investors [have been] moving into safer assets such as government bonds ... The yields [which are inversely related to the price] on US and UK 10-year government bonds also dropped below the yields on shorter-term government bonds (an inversion of the normal relationship) for a brief period in August, and the first time this has happened since the financial crisis. Such a situation has historically been linked by market commentators to the possibility of a recession.”¹⁵¹

6.2 Bank of England response

The BoE has made plain the reasons for the choices open to it, and the basis on which it might respond¹⁵²:

“The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes will not be automatic and could be in either direction. In all circumstances, the [Monetary Policy] Committee [MPC] will set monetary policy appropriately to achieve the 2% inflation target.”

A no-deal Brexit would consist of both a supply shock and a demand shock. The BoE has observed¹⁵³, “There is little that monetary policy can do to offset supply shocks.” It cannot reduce costs to business or support the re-allocation of capital to other sectors of the economy.

¹⁴⁵ See [Fiscal risks report – July 2019 – Office for Budget Responsibility](#)

¹⁴⁶ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹⁴⁷ See [Update: Modelling the short- and long-run impact of Brexit | National Institute of Economic and Social Research](#)

¹⁴⁸ See [Update: Modelling the short- and long-run impact of Brexit | National Institute of Economic and Social Research](#)

¹⁴⁹ See [Recession ready? · Resolution Foundation](#)

¹⁵⁰ See [London's economy today archive editions | London City Hall](#) for monthly updates on the global economy

¹⁵¹ See [London's Economy Today – Issue 204 – August 2019 | London City Hall](#)

¹⁵² See [Inflation Report – August 2019 | Bank of England](#)

¹⁵³ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

The BoE has commented on its response to the demand shock of the outcome of the EU Referendum¹⁵⁴:

“In exceptional circumstances, shocks to the economy may be particularly large or the effects of shocks may persist over an extended period. In such circumstances the MPC is likely to be faced with more significant trade-offs between the speed with which it aims to bring inflation back to the target and the consideration that should be placed on the variability of economic growth and employment. This most recently occurred in the period following the EU Referendum when the MPC extended the horizon over which it returned inflation to target in order to provide support for the economy during a period of adjustment.”

In summary, there is limited scope to reduce interest rates from 0.75%, and a question about the extent to which the BoE would wish to accommodate a further exchange rate depreciation by leaving interest rates unchanged when inflation is above target. After the exchange rate depreciations in 2008 and 2016 the BoE adopted an accommodative response, and allowed inflation to rise, see Chapter 2. The one-off impact on inflation is more likely to pass, and be expected to pass through, if wage pressures subside.

The other policy tool employed by the BoE after the 2008 recession was quantitative easing. This creates digital money, so the BoE can use it to buy assets like government debt in the form of bonds. Large scale purchases of government bonds lower the interest rates on those bonds, which tends to affect interest rates elsewhere in the economy. This makes it cheaper for households and businesses to borrow money, which encourages them to spend and invest. Total asset purchases of government bonds rose from £200 billion in November 2009 to £435 billion in August 2016 and have remained at this amount¹⁵⁵. The constraints on the use of quantitative easing are that it is inflationary because it increases the money supply, and there is a lower bound to interest rates of zero. Its use after the 2008 recession offset a contraction of the credit available by banks, and so this part of the money supply, which may have dampened inflationary consequences. This would not be the case now, and together with the volume of asset purchases still in circulation limits its value as a policy tool after Brexit.

6.3 HM Government response

Beyond monetary policy responses by the BoE it would fall to HM Government to provide a substantive response to a Brexit shock through fiscal policy. This section considers developments in public spending over the last ten years. The following section considers how this might evolve, and what the constraints are.

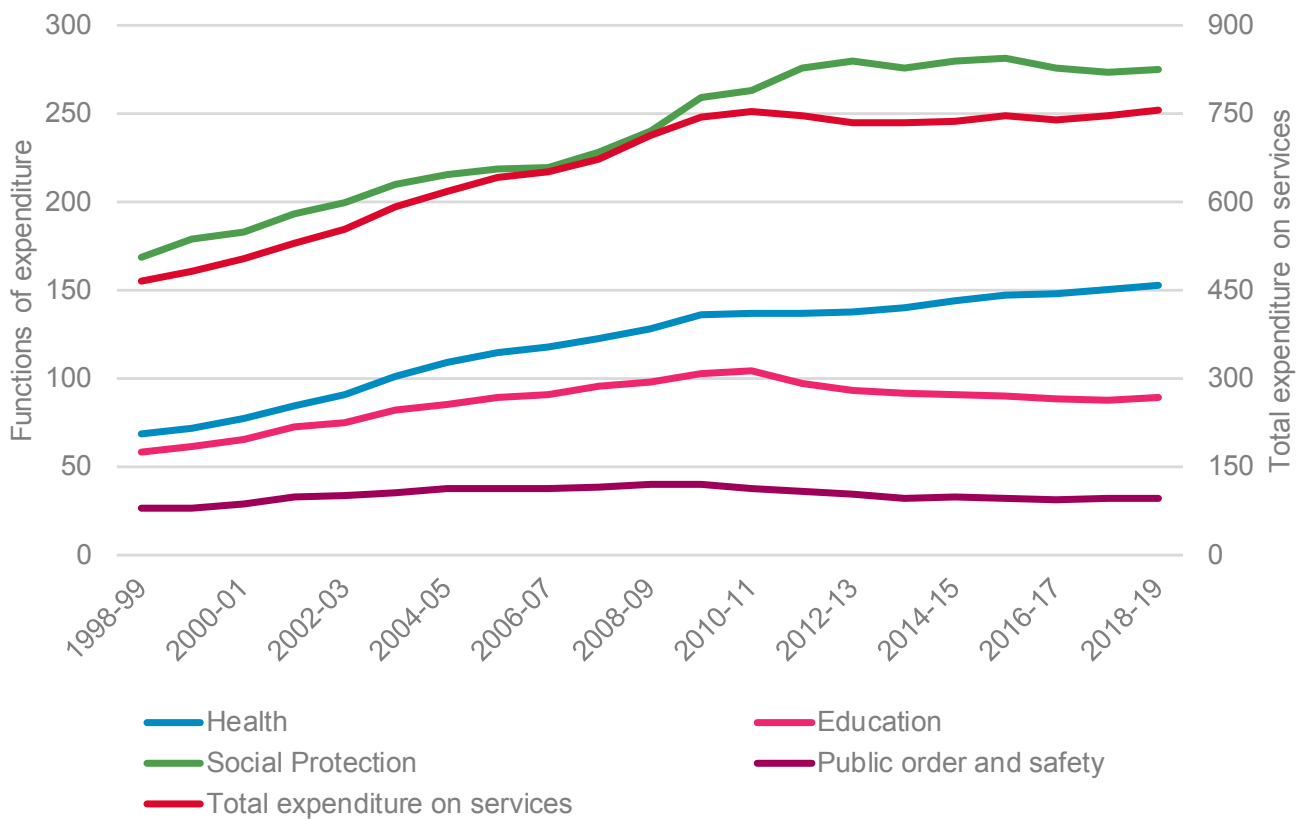
6.3.1 Developments in public spending since 2008

HM Government had been pursuing a policy of austerity to bring government finances under control after the 2008 recession. In the period from 1998/99 expenditure on public services grew at around 4% a year (after inflation), and from 2010/11 this has been around 1%. Prior to 2010/11 there were increases in expenditure across a range of areas, but subsequently while there have been increases in health expenditure, there have been reductions in other areas of public services including social protection, education, and public order and safety, (Figure 6.1). (Social protection includes welfare and personal social services.) The prioritisation in the use of public funds has placed considerable pressure on the delivery of some public services.

¹⁵⁴ See [EU withdrawal scenarios and monetary and financial stability | Bank of England](#)

¹⁵⁵ The material up to this point in this paragraph comes from [Quantitative easing | Bank of England](#)

Figure 6.1: Real terms expenditure on public services, and some functions, 1998/99 to 2018/19



Source: HMT PESA, Chapter 4

The overall effect of austerity measures has been to reduce government expenditure, public net debt, and the public sector structural deficit markedly as a share of GDP. At the time of the Spring 2019 Budget expenditure was set to fall comfortably within the fiscal rules¹⁵⁶. GLA Economics estimated that on the basis of Spring 2019 spending plans there could be room for up to £107.4 billion of potential extra spending over the three year period 2020/21 to 2022/23, while meeting the structural deficit rule, and without tax increases.

6.3.2 The evolution of public spending

While the reversal of austerity would seem prudent in the current macroeconomic climate there are distributional and economic consequences in the way it is implemented. This section briefly reviews what some of the options are, the outcome of the September 2019 Spending Review, and some of the pressures the Government may face.

HM Government announced the outcome of a one-year spending review for 2020/21 in September 2019¹⁵⁷. There will be a 4.1% real increase, or around £13.8 billion, in day-to-day public service spending next year, with no department facing a real cut to its budget. Much of the increase is driven by additional funding for

¹⁵⁶ Source: OBR Economic and Fiscal Outlook. At the Spring 2019 Budget the Government had not announced public expenditure plans from 2020/21, but indicative figures have been used by the OBR in its forecasts. There were commitments to increase day-to-day spending on the English NHS worth more than £20 billion in real terms by 2023/24, as well as commitments to spend (at least) 2% of national income on defence and 0.7% on overseas aid. See [The September 2019 Spending Review: austerity ended, or perhaps just paused? - Institute For Fiscal Studies - IFS](#)

¹⁵⁷ The material in this paragraph comes from [Chancellor ends austerity for public services – but risks breaching current fiscal rules - Institute For Fiscal Studies - IFS](#)

the NHS. As it did not address the pressure on a number of public services an inference is that there is a strong case for further spending increases¹⁵⁸.

Even without the Spending Review announcement of additional spending there was reason to believe that the current fiscal targets might need to be reviewed to stabilise output, and so this might act as a constraint on government action:

- Since the OBR completed its Spring 2019 forecasts the ONS has announced a different financial treatment of student loans, which will increase public sector net borrowing by around £12 billion a year¹⁵⁹. This reduces the fiscal headroom to around £70 billion over the next three years¹⁶⁰.
- The OBR estimates¹⁶¹ that in a relatively benign disruptive scenario¹⁶² public finances would be £30 billion a year worse off from 2020/21 onwards. This would eliminate the fiscal headroom and makes clear the challenges to maintaining sound public finances.

The Institute for Government (IfG) also argues¹⁶³ that in the months following a no-deal exit there will be significant pressures on the Government:

“The government will have to support struggling and failing businesses: rather than ‘turbo-charging’ the economy, ... the government is more likely to be occupied with providing money and support to businesses and industries that have not prepared or are worst affected by a no-deal Brexit – as well as dealing with UK citizens in the EU, and EU citizens here, who have been similarly caught out.”

There is a choice around supporting businesses directly, which may hinder the re-allocation of capital needed across sectors of the economy as it becomes less open and addressing the higher costs businesses will face from tariff barriers both directly and passed on through supply chains. The raising of NTBs, as noted in Chapter 1, may affect London disproportionately. Changes to business taxes might, for example, support the viability of businesses in the face of the associated increase in costs. Lower business rates might do this while lower corporation tax would not as it is only paid by profitable businesses.

It has also been noted that business investment has been depressed and is likely to remain depressed. One way to tackle this would be increased public funding for housing and infrastructure, although this would only have effect over a longer time frame. The Government has set up the National Infrastructure Commission (NIC) to come up with proposals to boost infrastructure spending and meet a fiscal remit of gross public investment in economic infrastructure of between 1.0% and 1.2% of GDP in each year between 2020 and 2050¹⁶⁴. The Commission published the first National Infrastructure Assessment in July 2018¹⁶⁵.

Policies to reduce taxes for individuals, or businesses, would have a rapid effect in promoting demand. As with businesses some households might be struggling more than others. Chapter 5 noted that low income

¹⁵⁸ See, for example, [Making popular spending decisions in a rush raises risk of costly errors - Institute For Fiscal Studies - IFS](#)

¹⁵⁹ See [New treatment of student loans in the public sector finances and national accounts - Office for National Statistics](#). This assumes that not all of a student loan will be repaid, and some will in effect become a transfer.

¹⁶⁰ In August 2019, the ONS estimated that improvements in the statistical treatment of student loans have added £12.4 billion to net borrowing in 2018/19. It also reduced corporation tax receipts by £2.6 billion. See [Public sector finances, UK Statistical bulletins - Office for National Statistics](#)

¹⁶¹ See [Fiscal risks report - July 2019 - Office for Budget Responsibility](#)

¹⁶² This is not the same as the BoE scenario of that name, and is not a worst case scenario such as a disorderly scenario. Key features are a temporary tariff regime that sees 87% of imports exempt from tariffs for a year; implementation of a temporary recognition regime with the EU for some financial services; limited physical border disruptions; and net migration into the UK is lower by 25,000 a year out to 2030. There is no discretionary fiscal policy response, but automatic stabilisers operate. Monetary policy is eased according to a Taylor rule-type response.

¹⁶³ See [Preparing Brexit: No Deal | The Institute for Government](#)

¹⁶⁴ See [Remit letter to the National Infrastructure Commission - GOV.UK](#)

¹⁶⁵ See [National Infrastructure Assessment 2018 - National Infrastructure Commission](#)

households might be disproportionately affected by rising prices from food and fuel shortages having already been disproportionately adversely affected by welfare reform, and particularly the freezing of benefit rates. Automatic stabilisers of higher benefit payments and lower taxes are unlikely to offset the distributional effects that lower income households are more at risk of losing employment in a recession.

Appendix A: The London Economy and Europe - An update on London's economic sectors and their relationship with the EU

For convenience, this appendix reproduces with minimal changes work previously produced by GLA Economics¹⁶⁶, and updates the economic statistics¹⁶⁷. It offers an understanding of London's sectors' relationships with the EU, through providing not only a description of the current state of affairs, but also by offering analysis of the potential regulatory impact of the UK's withdrawal. The assessment of regulatory impact may not be fully up-to-date as it has not been changed, except to include the General Data Protection Regulation (GDPR) coming into effect. The main paper notes that there will be transitional arrangements in aviation, road transport, and financial services should the UK leave the EU without a deal. HM Government has also set out what steps it has taken, and businesses can take, in mitigation across the range of regulatory impacts¹⁶⁸.

This appendix, in addition, includes data on output, jobs, EEA workers, and service exports. The statistics do not include goods exports, as there is no published regional data by sector, and in any case goods exports are less important to London's economy, see Chapter 2.

There is little clarity as to either what type of trade deals the UK may be able to negotiate, not only with the EU, but with the rest of the world, or the regulatory framework that might be introduced in the UK on leaving the EU. So, this section does not attempt to quantify the precise costs and benefits of EU membership (or indeed non-membership) to each sector, but merely offers an assessment of what the current situation is.

The appendix provides a sector by sector analysis of the potential effects associated with withdrawing from the EU. It should be noted that it does not purport to be exhaustive in its analysis, and it is intended more as an overview for London's sectors. In particular, this analysis does not cover the possibilities associated with changes to relationships external to the EU (such as improved trading relationships with other partners), nor does it cover relationships between London's sectors or feedback linkages with the wider UK. This is because of the uncertainty around the UK's future relationship with the EU. Much of London's success comes as a result of a high degree of clustering and the benefits associated with such agglomeration; by discussing each sector in isolation, this paper fails to recognise costs or benefits that may occur in one sector as the result of changes to an interdependent sector.

¹⁶⁶ See [London and Europe - Facts and figures | London City Hall](#)

¹⁶⁷ The statistics come from ONS. GVA statistics are available at [Regional economic activity by gross value added \(balanced\), UK - Office for National Statistics](#), Workforce jobs numbers are at [Nomis - Official Labour Market Statistics](#), EEA worker statistics are at [Jobs in London and regions in the UK, by country of birth \(UK, EEA and rest of world\), broken down in various ways, 2004 to 2018 - Office for National Statistics](#), and regional service exports are at [International exports of services from subnational areas of the UK - Office for National Statistics](#).

¹⁶⁸ See [No-Deal Readiness Report - GOV.UK](#)

A1: Finance and insurance, and Real estate activities (SIC K, L)

Table A.1: Overview on the Finance and insurance, and Real estate activities sectors

Sector stats	Legal instruments	Current impact	Implications of leaving the EU
Finance and insurance: 15% of London's GVA, 2017 7% of London's workforce jobs, Q2 2019	Capital Requirements Directive IV (CRD IV) Capital Requirements Regulation (CRR) Markets in Financial Instruments Directive (MiFID)	Single Market principles enable business across the EU, while passporting enables UK financial institutions to undertake significant trades within the EU	Passporting rights may need to be renegotiated, which could culminate in an unfavourable outcome for the UK, reducing the attractiveness of the UK as location for financial services
Real estate activities: 16% of London's GVA, 2017 2% of London's workforce jobs, Q2 2019	Undertakings for Collective Investment in Transferable Securities (UCITS) Alternative Investment Fund Managers Directive (AIFMD)		

Background

London is the financial centre of Europe and one of the largest financial hubs in the world. London consistently ranks top or second in the Global Financial Centres Index, competing with New York, and ahead of Hong Kong, and Singapore, and is home to over 250 foreign banks – the highest concentration of any financial centre – 40 per cent of which are also headquartered here¹⁶⁹. The extent to which it will be able to retain this reputation outside of the EU has been debated since the referendum, with other EU cities looking to attract talent and FDI away from the capital. Goldman Sachs, Citigroup, and JPMorgan Chase have all said that they will be reviewing their positions as the UK leaves the EU, while some commentators expect that the City of London will be stripped of the ability to clear euro denominated swaps, of which London currently accounts for 39 per cent of the global market, or \$570 billion of euro derivatives¹⁷⁰. On the plus side, by leaving the EU, UK based banks could be freed from burdensome regulation such as the Financial Transactions Tax.

Financial services are an area of specialisation¹⁷¹ for the UK economy relative to other developed economies, measuring twice the EU average, and three times the OECD average in terms of assets held¹⁷². The decision to leave the EU caused banking stocks to drop sharply, while shares in Barclays and Lloyds Banking Group

¹⁶⁹ Long Finance, September 2016, '[Global Financial Centres Index 20'](#).

¹⁷⁰ Bloomberg, September 2016, '[Banks Said to Plan for Loss of Euro Clearing After Brexit'](#).

¹⁷¹ Financial services has an index of specialisation score of 2.53. A score above 1 implies specialisation. A full breakdown on London's indices of specialisation is provided in the appendix.

¹⁷² Bank of England, 2014, '[Why is the banking system so big and is that a problem?](#)'

fell more 30 per cent the day after the vote. Although markets and banking stocks have since recovered, sterling remains more than 11 per cent below its pre-referendum level¹⁷³.

The CityUK stated in an August 2016 report, that the vote to leave the EU has amplified many of the other challenges facing the sector, as well as creating some new ones, listing these as: a threat to jobs from automation and off-shoring; a tougher operating environment post-crisis (regulation, restructuring, fines, and litigation); the growing strength of alternative financial service hubs; the strong comparative position of the US; and the new capabilities required to fuel future growth, such as in technology¹⁷⁴.

Existing legislation

In 1999 the Financial Services Action Plan set out a range of legislative proposals to make it easier to market financial services across the EU. In 2005, this legislation was agreed, further recognising professional qualifications in the industry, and in 2006, the Services Directive went on to consolidate jurisprudence and make it easier for unjustified barriers to all services to be abolished¹⁷⁵.

Today, the UK financial and insurance services industry relies heavily on the 'single passport'. This system permits financial service operators legally established in one member state to provide services to another member state with no further authorisation requirements. Data from the Financial Conduct Authority (FCA) show that nearly 5,500 UK registered companies currently use passports to access the EU market¹⁷⁶. The former EU Commissioner, Lord Hill, estimates that passporting has allowed British banks to make over €1,000 billion of loans, and a similar amount in euro deposits¹⁷⁷.

There are many areas of regulatory overlap for the financial services sector and the EU, including the Capital Requirements Directive IV (CRD IV), the Capital Requirements Regulation (CRR), the Markets in Financial Instruments Directive (MiFID), which provides harmonised regulation for investment services.

For the insurance sector, the Solvency II Directive, provides codification for insurance regulation, while key regulations for asset managers include UCITS (Undertakings for Collective Investment in Transferable Securities) and AIFMD (the Alternative Investment Fund Managers Directive). Many of these regulations were introduced as a response to the 2008 banking crisis and seek to try and avoid a similar chain of events occurring in the future.

Completion of the internal market

While much of the financial and insurance sector single market is complete, wholesale banking is much more complete than for the retail banking sector. The Single Supervisory Mechanism was introduced in 2014, giving the European Central Bank (ECB) the responsibility for supervising the largest Eurozone-based banks, which has gone some way towards making this market more complete.

However, asset managers in particular continue to face technical barriers to trade in the form of supervisory and legal fees, as well as suffering from the different national definitions of 'marketing'. Many larger funds therefore choose to operate outside the passport system, using European subsidiaries instead. Equally, there is no real single market for insurance in the EU, with a large majority of firms also operating through subsidiaries rather than the passport system (up to 87 per cent of insurers)¹⁷⁸. For those firms who are more domestically focused, this will be less of an issue, and a lack of EU regulation could in fact be beneficial.

¹⁷³ Based on the change of the daily sterling Effective exchange rate between 23 June 2016 and 25 January 2016 (GLA Economics calculation using Bank of England data).

¹⁷⁴ TheCityUK, August 2016, '[UK Financial and Related Professional Services: Meeting the challenges and delivering opportunities](#)'.

¹⁷⁵ IFS, August 2016, '[The EU Single Market: The Value of Membership versus Access to the UK](#)'.

¹⁷⁶ Telegraph, September 2016, '[Almost 5,500 finance firms use passports to access single market](#)'.

¹⁷⁷ European Commission, June 2016, '[Commissioner Hill's speech at Chatham House, the Royal Institute of International Affairs](#)'.

¹⁷⁸ Open Europe, October 2016, '[How the UK's financial services sector can continue thriving after Brexit](#)'.

Effect of losing access

Regulatory changes

The loss of passporting rights could create significant upheaval for UK firms and non-EU firms with subsidiaries in the UK. Such rights, or similar, will need to be re-established as Britain exits the union in order for UK based firms (with no subsidiaries in the EU) to continue day-to-day trade with the EU. The UK is also likely to need to demonstrate 'equivalence' in financial regulations in order to negotiate any kind of passport; as such, regulatory gains from leaving the EU are likely to be limited in areas where a passport is required.

As EU regulation develops, the UK may find itself constantly having to update legislation to match. If the UK no longer has influence over these decisions, financial regulations, which affect London more than any other European city, may no longer suit the UK.

While most regulatory rules are international, and thus will still be required post-'Brexit', there are some EU-specific rules which the UK will become exempt from, such as EU limits on bankers bonuses.

While many firms in the insurance industry get round passporting requirements through the use of subsidiaries, Lloyd's of London is an exception, with regulations allowing the pool of underwriters to service clients across the EU. However, this only accounts for 11% of the market's gross written premium, and it is expected that the UK should be able to achieve equivalence in this area, as well as some other specific areas within the Financial sector¹⁷⁹.

London's labour force

In London, 12% of Financial and insurance activities sector workers in 2018 were born in the EEA. Within the Real estate activities sector, 7% of workers (6,000) were born in the EEA.

Trade

In 2017, London exported £39.1 billion of Financial and insurance activities, of which £15.0 billion was to the EU. The UK exported £75.9 billion, of which £29.2 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Finance and insurance activities was £63.8 billion, 49% of UK activity, and in Q2 2019, 37% of all UK workforce jobs in the sector were in London (406,000).

In 2017, London GVA in Real estate activities was £69.4 billion, 28% of UK activity, and in Q2 2019, 22% of all UK workforce jobs in the sector were in London (124,000).

¹⁷⁹ Ibid.

A2: Professional, scientific, and technical activities, and Administrative and support service activities (SIC M, N)

Table A.2: Overview on the Professional, scientific, and technical activities, and Administrative and support service activities sectors

Sector	Legal instruments	Current impact	Implications of leaving the EU
Professional, scientific and technical: 12% of London's GVA, 2017 14% of London's workforce jobs, Q2 2019 Administrative and support service activities: 6% of London's GVA, 2017 10% of London's workforce jobs, Q2 2019	Services Directive Professional Qualifications Directive Other profession-specific directives	System of automatic recognition of professional qualifications and service liberalisation across the EU	Reduction in influence over EU law and increased difficulty in providing professional services to the EU, as well as using professional services of others – this could be particularly problematic for the NHS

Background

Professional services includes a range of different occupations which provide support to businesses across all sectors and as such is critical to the UK economy. London has grown to be the hub of services within the EU and is the second largest services exporter in the world.

London First has stated that the UK's success in this sector has been underpinned by a distinctive combination of attributes: stable, business friendly regulation; global openness to trade; investment and migration; a vibrant and liberal culture that attracts people from all around the world; and membership of the European Union¹⁸⁰.

Existing legislation

Liberalisation of services trade has long been a central pillar of the European market as one of the key objectives of the EU at its creation.

The Services Directive was established in 2006 to enable business service providers to establish themselves in another Member State, making it easier for services to be provided on a cross-border basis. It covers a large number of business services, with a few exceptions such as private security services, services of temporary work agencies, and notaries.

¹⁸⁰ London First, June 2016, '[Leaving the EU: an assessment of its impact on services and trade](#)'.

The Professional Qualifications Directive enables the recognition of professional qualifications for EU professionals wishing to work in another country. Accountants, lawyers, consultants, and engineers are regulated in the majority of member states.

Beyond the Professional Qualifications Directive, there are also many profession-specific directives; for example, UK-based lawyers currently access the EU legal services market through the Treaty for the Functioning of the EU (TFEU), and through specific directives such as the Lawyers' Services Directive and the Lawyers' Establishment Directive.

Completion of the internal market

The Commission has found that despite what directives are in place, the level of intra-EU trade in services is significantly lower than the trade in goods¹⁸¹. While a full implementation of the Services Directive has been slow and patchy across member states, it has been a particular emphasis for the UK, which has a comparative advantage in services. Membership of a fully functioning internal market for services would be hugely advantageous to the UK.

Effect of losing access

Regulatory changes

As part of the negotiations to leave the EU, the UK will need to renegotiate provisions for UK-based professionals such that they can continue to trade in the EU, and each profession could be impacted differently by this.

Scientific and technical services will be specifically affected by a loss of access to research groups and funding, discussed in greater detail in the Education sector section of this report.

EU influence

Leaving the EU will lead to a loss of influence over EU law. As the largest common law jurisdiction, the UK has had substantial influence over the development of EU legal and judicial systems. Leaving the EU may result in a loss of influence and may reduce opportunities to engage in other areas. For example, the UK is the foremost centre for international dispute resolution, which is underpinned to a substantial degree by the common rules of enforcement and jurisdiction of the EU.

London's labour force

In London, 10% of Professional, scientific and technical sector workers in 2018 were born in the EEA. Within the Administrative and support service activities sector, 20% of workers were born in the EEA.

Trade

In 2017, London exported £20.4 billion of Professional services to the EU, of which £6.8 billion was to the EU. The UK exported £43.7 billion, of which £15.4 billion was to the EU.

In 2017, London exported £9.7 billion of Administration and support services, of which £4.7 billion was to the EU. The UK exported £26.7 billion, of which £12.5 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Professional services was £52.2 billion, 38% of UK activity, and in Q2 2019, 27% of all UK workforce jobs in the sector were in London (851,000). In 2017, London GVA in Administrative and support services was £25.0 billion, 28% of UK activity, and in Q2 2019, 20% of all UK workforce jobs in the sector were in London (603,000).

¹⁸¹ House of Commons Library, September 2013, ['The economic impact of EU membership on the UK'](#).

A3: Information and communication (SIC J)

Table A.3: Overview on the Information and communication sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Information and communication: 11% of London's GVA, 2017 9% of London's workforce jobs, Q2 2019	Data protection Consumer Rights Directive (CRD)	Little current regulatory impact but the Digital Single Market could offer huge potential to members, while the sector more generally attracts significant FDI	Loss of access to the Digital Single Market and loss of FDI, as well as problems accessing international data flows and impact on data protection

Background

The Information and communication sector has evolved rapidly since the UK first entered the EU, today covering: software development; the mobile device market; cloud computing; data centres; cyber security; and research networks; and is now considered a leading hub in Europe's digital economy. The UK has one of the world's largest information and communication technology (ICT) markets, with over 100,000 software companies in operation, including Microsoft, IBM, and HP, as well as a strong financial services technology (fintech) cluster in the City of London.

The UK's mobile device market is the largest in Europe, with a value of £14 billion annually, and over 80 million mobile subscribers, while the UK's cloud computing market was valued at over £6 billion in 2014. Cloud computing is used by over 30 per cent of UK SMEs, including almost every software company, and is an area which the HM Government's own ICT strategy has shown a particularly strong focus on. In 2015, half of all new ICT spending by HM Government was on public cloud services¹⁸².

The UK is also home to two of Europe's largest telecoms operators - Vodafone and BT – many prominent venture capital companies, as well as hosting significant research and development around machine vision and AI from companies such as Google¹⁸³.

Existing legislation

In 2015, the European Commission proposed plans for a Digital Single Market for Europe. The Digital Single Market aims to improve access to digital goods and services across the EU, while creating an environment where digital networks and services can prosper and where digital can be a driver for growth¹⁸⁴. The Commission has come under some criticism over the length of time it has taken to develop specific proposals but there is a broad consensus that this strategy is more promising than any to have come out of the EU before¹⁸⁵, Baroness Neville-Rolfe, the then Parliamentary Under-Secretary for Intellectual Property, describing it as 'one of the most important achievements of the EU single market'¹⁸⁶. The strategy promises €50 billion to speed up the development of 5G communications networks and cybersecurity, as well as investing in pan-European networks of digital innovation hubs to support business technology needs. Other

¹⁸² Department for International Trade, February 2014, '[Information Communications Technology \(ICT\) in the UK: investment opportunities](#)'.

¹⁸³ Science|Business, June 2016, '[Brexit fallout will damage ICT sector across Europe](#)'.

¹⁸⁴ European Commission, '[Digital Single Market](#)'.

¹⁸⁵ EurActive.com, May 2016, '[Commission's digital single market turns one and has a big seven months ahead](#)'.

¹⁸⁶ BIS, February 2016, '[Consumers and the digital single market](#)'.

proposals include the creation of a 'European Open Science Cloud' to provide an online space for tech professionals to store data, as well as 'future-proof' legislation to support the free flow of data and clarify data ownership, which is linked to EU plans to improve copyright legislation more generally¹⁸⁷.

The Consumer Rights Directive (CRD) was introduced in 2014, and has strengthened consumer's rights when shopping online, and there are plans to introduce an EU mechanism for complaints regarding cross-border e-commerce transactions.

Completion of the internal market

The single market in information and communications is still in the early stages of development; however, it is predicted that the Digital Single Market could lead to a 4 per cent increase in EU GDP over the next ten years¹⁸⁸. At present, only 6 per cent of enterprises are engaged in e-commerce, or made e-sales cross-border; increasing this could bring significant welfare gains through lower online prices and increased online choice¹⁸⁹.

Effect of losing access

Regulatory changes

The GDPR came into force on 25 May 2018 across the EU¹⁹⁰. It provides data protection and privacy for all citizens of the EU and EEA. It also addresses the transfer of personal data outside the EEA. On leaving the EU the UK will become a third country for the purposes of the transfer of personal data outside the EU. This may require an 'adequacy decision' by the European Commission on the suitability of the UK's data protection framework, or other appropriate safeguards that may allow such transfers to take place. At August 2018, the UK Government's view was that a 'legally-binding data protection agreement' between the EU and the UK would be more appropriate than an 'adequacy finding'. By October 2019, the European Commission did not have plans to adopt adequacy decisions¹⁹¹.

EU influence

The UK is seen by many in the Information and communications sector, as the launch pad for North American and Asian companies looking to break into Europe. If Britain's exit from the EU results in trade barriers, there is a risk that some FDI could relocate to places like Ireland, that have more competitive corporation tax rates than the UK¹⁹².

London's labour force

In London, 12% of Information and communication sector workers in 2018 were born in the EEA. Research from DueDil – a due diligence solutions company that also provides information on business, accounting and directors - further found that one in five of the directors of the 27,395 new tech companies founded in the UK in 2014 were foreign nationals¹⁹³.

Trade

In 2017, London exported £25.7 billion of Information and communication services, of which £10.8 billion was to the EU. The UK exported £42.8 billion, of which £18.2 billion was to the EU.

¹⁸⁷ Billboard, April 2016, '[European Commission Unveils Details on Digital Single Market](#)'.

¹⁸⁸ European Policy Centre, March 2010, '[The Economic Impact of a European Digital Single Market](#)'.

¹⁸⁹ Ibid.

¹⁹⁰ See [General Data Protection Regulation - Wikipedia](#) for more information

¹⁹¹ See [No-Deal Readiness Report - GOV.UK](#)

¹⁹² Science|Business, June 2016, '[Brexit fallout will damage ICT sector across Europe](#)'.

¹⁹³ Ibid.

Value of London to the UK economy

In 2017, London GVA in Information and communication services was £48.9 billion, 42% of UK activity, and in Q2 2019, 33% of all UK workforce jobs in the sector were in London (531,000).

A4: Wholesale and retail trade (SIC G)

Table A.4: Overview on the Wholesale and retail trade sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Wholesale and retail trade: 7% of London's GVA, 2017 10% of London's workforce jobs, Q2 2019	EU tariffs Workers' and consumers' rights Product specifications	The UK wholesale and retail trades get preferential trade agreements within the EU, but are limited in the trade agreements they can make with countries outside the EU, as well as being affected by product standards and regulations	Costs of EU imports may rise, but the UK would have the power to renegotiate trade agreements outside of the EU

Background

The UK's retail sector is the largest private sector employer and has seen dramatic change in recent years with more and more business moving online, and shop vacancy rates remaining high¹⁹⁴. Centre for Retail Research analysis, found that London was the number one shopping capital in the world, ahead of Tokyo, Paris, and New York, and as such, many well-known brands have their European Headquarters centred in London including: Alexander McQueen; Burberry; and Hobbs¹⁹⁵.

London is not only the shopping capital of Europe, but also attracts the largest level of retail investment. In the second quarter of 2016, the UK attracted 27 per cent of all European retail investment, 21 per cent of which went to London¹⁹⁶.

During the referendum campaign, much debate focused on potential impacts on workers' rights, consumer rights, and product standards. The Centre for Retail Research has argued that the sector, post-Brexit, will have to become more agile, more digital, capital intensive, and more responsive to change than it has been since the 2008 recession¹⁹⁷.

Existing legislation

In January 2013, the European Commission introduced the European Retail Action Plan, which aimed to improve competition in the retail sector by reducing unfair trading practices in business-to-business supply chains, particularly in the food industry¹⁹⁸.

¹⁹⁴ LDC, October 2016, '[Improvement in vacancy rates on pause in third quarter](#)'.

¹⁹⁵ Centre for Retail Research, 2011, '[World Shopping Capitals Survey](#)'.

¹⁹⁶ CoStar, September 2016, '[UK retains top spot for European retail investment](#)'.

¹⁹⁷ Centre for Retail Research, July 2016, '[UK Retail after Brexit](#)'.

¹⁹⁸ European Commission, '[Implementation of the European Retail Action Plan](#)'.

Regulations which directly affect the Wholesale and retail sector, are, however, still those regulations that apply across sectors, such as on working conditions, and product standards.

Completion of the internal market

The European Commission has described the internal market for retail and wholesale trade as incomplete, characterised by unequal levels of economic maturity and saturation of many markets. Their findings have shown retail to be hindered by burdensome legislation which may represent protectionism by some members (though not the UK) which limits the cross-border supply of goods, reducing choice and increasing price for the EU's consumers¹⁹⁹.

Effects of losing access

Regulatory changes

Having left the EU, UK retailers and wholesalers that operate in EU countries will still need to ensure they comply with each country's legal codes and EU product regulations; domestically focused business will not.

Trade

British wholesalers and retailers rely on being able to import many goods from the EU to sell on to consumers. If sterling becomes weaker, or tariffs are applied to EU imports, business' costs will rise, and so, in all likelihood, will consumer prices. Equally, if the EU applies tariffs to UK exports to Europe, British goods and services will become less competitive, resulting in lower sales for retailers. This could be offset to some extent, if HM Government is able to negotiate new trade deals outside of the EU.

The British Retail Consortium (BRC) believes that a failure to strike a 'good Brexit deal' would have a disproportionately severe impact on retailers and their consumers, citing the reason for this being that if the UK fell back on to WTO rules, the new tariffs that the UK might apply to imports from the EU would be highest for consumer staples such as food and clothing. For example, the average duty on meat imports could be as high as 27 per cent, while clothing and footwear could attract tariffs of 11-16 per cent, compared to the zero-rate for all EU imports²⁰⁰. The BRC further finds that falling back onto WTO rules would increase costs from outside the EU; imports of women's clothing from Bangladesh would be 12 per cent higher, and Chilean wine would be 14 per cent higher.

The BRC also reports that some member states have barriers and discriminatory regulations, which prevents UK retailers opening stores.

London's labour force

In London, 13% of Wholesale and retail sector workers in 2018 were born in the EEA.

Trade

In 2017, London exported £4.6 billion of Wholesale and retail services, of which £2.5 billion was to the EU. The UK exported £9.9 billion, of which £5.6 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Wholesale and retail services was £31.2 billion, 16% of UK activity, and in Q2 2019, 12% of all UK workforce jobs in the sector were in London (620,000).

¹⁹⁹ European Commission, November 2012, '[COM\(2012\) 752 Final](#)'.

²⁰⁰ BRC, October 2016, '[BRC says UK Brexit strategy must focus on a fair deal for consumers](#)'.

A5: Public administration and defence, and Education (SIC O, P)

Table A.5: Overview on the Public administration and defence, and Education sectors

Sector	Legal instruments	Current impact	Implications of leaving the EU
Public administration and defence: 3% of London's GVA, 2017 4 of London's workforce jobs, Q2 2019	European Regional Development Fund European Social Fund Regulations on international students Regulations on state aid	EU provides significant research funding and freedoms for students but limits options for state aid and public procurement	Loss of access to EU funding streams, but no cap on international student fees
Education: 5% of London's GVA, 2017 7 of London's workforce jobs, Q2 2019	Regulations on public procurement		

Background

London not only attracts people to work, but also to study in its 45 universities, many of which feature prominently in international rankings. There are over 100,000 international students in the capital (28 per cent of London's students), comprising almost a quarter of all international students in the UK. London & Partners estimate that international students contributed £3 billion to the UK economy in 2013/14, directly supporting jobs in London's Education sector²⁰¹.

London's public administration employment is, perhaps unsurprisingly, largely clustered in Westminster, with further clusters in Croydon, where the Home Office immigration office is based, as well as around City Airport. London's public sector has been declining in recent years, largely as a result of budget cuts.

Existing legislation

Both Public administration and defence and Education are largely regulated at the national level. In the Public administration sector, EU legislation predominantly relates to state aid and public procurement, while in the Education sector, EU legislation is limited to ensuring non-discrimination against students such that EU students can attend UK universities at the same rate as UK students, and increasing the harmonisation of curricula and degree structures to enable student exchange programmes.

EU legislation stipulates that state aid must be 'compatible with the internal market', prohibiting any aid that could cause distortions. Exemptions are made where state aid can help to achieve an EU objective or correct a market failure. Public procurement directives regulate tender procedures for public sector contracts which meet the minimum threshold and are intended to ensure transparency and non-discrimination, while also representing value for money²⁰².

²⁰¹ GLA, February 2016, '[Draft Economic Evidence Base 2016](#)'.

²⁰² House of Commons Library, July 2015, '[Public Procurement](#)'.

In the areas of immigration (from outside the EU) and asylum, criminal justice, and police cooperation, the UK is either not bound by EU law, or can opt-in and select which aspects of EU legislation to transpose into UK law.

Completion of the internal market

The internal market for education is limited to providing EU nationals with the right to higher education throughout the EU at the same costs as resident nationals, while Public administration and defence are limited to rules for state aid and public procurement to ensure fair competition.

Effect of losing access

Funding streams

With legislation in these sectors largely being the preserve of member states, the main concerns of the UK's withdrawal are unlikely to relate to legislation. The EU currently has an impact on UK research and technological development through the Framework Programme (FP), which funds 3 per cent of all UK research and development, with 71 per cent of this going to universities²⁰³. During the FP7 funding phase, from 2007-2013, the UK received 15.2% of all EU funding (only Germany received more), and participated in more research projects than any other EU member state. By leaving the EU, the UK's educational institutions could lose access to these funding streams.

Regulatory changes

The legislation which does exist for these sectors tends to be in the interest of improving competition or ensuring good health and safety practices. EU rules aim to ensure good value in public investments and that state aid is targeted at areas of market failure. Outside the EU some of this legislation could be revised if it were felt to be to the detriment of the UK.

EU influence

At present, UK students can make exchanges with EU universities under the ERASMUS programme. Leaving the EU could jeopardise opportunities for UK students to undertake similar placements.

UK companies may be discriminated against in procurement bids. Between 2007 and 2009, UK companies won 17% of cross-border contracts in the EU, compared to 3.5% of UK contracts won by cross-border bidders. Only Germany secured more cross-border contracts (26%)²⁰⁴.

London's labour force

In London, 8% or 28,000 of 365,000 of Public administration and defence workers in 2018 were born in the EEA. 10% or 52,000 of 520,000 London Education workers in 2018 were born in the EEA.

Research streams

Universities UK and the UK Higher Education International Unit, have expressed joint concerns regarding the future of the European Research Area which seeks to achieve the free movement of researchers, scientific knowledge, and technologies. The Royal Society's report on UK research and the EU says that:

“Excellent research and innovation help us to live healthier, fuller and better lives. Europe is home to world-class research, and researchers come from all over the world to collaborate with researchers that are based here and to use European scientific infrastructure. Within this community, the UK has created a world-

²⁰³ The Royal Society, December 2015, '[UK research and the European Union: The role of the EU in funding UK research](#)'.

²⁰⁴ European Commission, March 2011, '[Final Report Cross-Border Procurement Above EU Thresholds](#)'.

leading research base that interacts with the best and most ambitious in the rest of the world, keeping UK research at the cutting edge”²⁰⁵.

Value of London to the UK economy

In 2017, London GVA in Public administration and defence was £14.8 billion, 18% of UK activity, and in Q2 2019, 16% of all UK workforce jobs in the sector were in London (247,000).

In 2017, London GVA in Education was £20.2 billion, 19% of UK activity, and in Q2 2019, 14% of all UK workforce jobs in the sector were in London (423,000).

A6: Human health and social work activities (SIC Q)

Table A.6: Overview on the Human health and social work activities sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Human health and social work activities: 5% of London’s GVA, 2017 10% of London’s workforce jobs, Q2 2019	European Working Times Directive (EWTD) European Health Insurance Card (EHIC) Framework programmes European Reference Networks (ERNs) Health and safety regulation	The UK engages in promoting best practice across the EU and UK residents can carry an EHIC card when travelling in Europe	If EEA-born employees are lost, vacant key-worker positions could prove difficult to fill, and lose access to collaborative research groups

Background

Health policy, including finance and management, is a national responsibility for EU members. However, the EU undertakes some health-related activities, in particular, by supporting cooperation between member states in order to protect and promote public health and to enable the free movement of people²⁰⁶.

A large portion of the debate on whether or not Britain remained in the EU centred on the impact on the health care sector, specifically the future of the NHS, its ability to recruit sufficiently qualified staff, and the additional funding that is required for its continued running. A report from the Institute for Public Policy Research (IPPR) claims that the NHS would struggle without its 57,000 EU workers and called for special citizenship offers to help retain them²⁰⁷.

²⁰⁵ The Royal Society, December 2015, ‘[UK research and the European Union: The role of the EU in funding UK research](#)’.

²⁰⁶ NHS European Office, July 2016, ‘[The EU and health policy](#)’.

²⁰⁷ The Guardian, August 2016, ‘[NHS needs EU employees to avoid collapse, says thinktank](#)’.

Existing legislation

The NHS describes the scope for EU legislation in the area of health policy as ‘specifically limited’ but lays out how incentive measures to promote and improve health can be adopted, which provides the basis for the EU Health Programme²⁰⁸.

The emphasis for EU health policy has always been on coordination and cooperation, particularly in order to prevent major health threats such as human illness and disease. Examples of this include EU-wide programmes to address cancer and HIV/AIDS, as well as major campaigns against drug abuse.

In submitting evidence to the Review of the Balance of Competences, the BMA highlighted a number of specific areas where EU policy affects the Human health sector, such as cross-EU licencing for medicines, and public health initiatives such as anti-smoking. The BMA further highlighted the importance of the European Working Times Directive (EWTD) as providing essential health and safety legislation that is necessary for both doctors and patients.

A valid European Health Insurance Card (EHIC) gives holders the right to access state-provided healthcare during a temporary stay in another EEA country or Switzerland. The EHIC covers treatment that is medically necessary and is provided on the same basis as if the card holder was a resident of that country. At present, this is provided by the NHS Business Services Authority.

Aside from this, the EU is responsible for setting policy on plant and animal health, as well as food safety, which all have important implications for human health.

Completion of the internal market

As a national issue, member states have control over their own health care systems and much of the legislation that affects them. As such, there is no real single market in this area but rather ad-hoc cross-EU policies such as controlling tobacco and harmonising training requirements.

Effects of losing access

EU influence

There is currently an opportunity for UK health professionals to feed into the development of ‘best practice’ at the EU level. The EU gathers a range of data from across its member states which it uses to inform decision making at all levels. The European Council recently adopted a recommendation on patient safety and has been instrumental in developing a new ‘Code Against Cancer’ to provide protocols for cancer screening, as well as best practice for prevention and treatment of cancers²⁰⁹.

Research access

The EU offers research funding, organised through ‘Framework Programmes’, which can be of significant benefit to the UK healthcare industry. These programmes create opportunities for collaborative, cross-border research, for example, on rare diseases. ‘European Reference Networks’ (ERNs) – groups of experts in a particular field – are supported to work together and share knowledge and best practice at a supranational level.

²⁰⁸ NHS European Office, July 2016, ‘[The EU and health policy](#)’.

²⁰⁹ Eurohealth Vol 16 No 4, ‘[The impacts of European Union law on the health care sector: Institutional overview](#)’.

London did play host to the European Medicines Agency (EMA) – responsible for testing medicines - which helps to make the city an attractive international destination for the pharmaceutical industry²¹⁰. The loss of this body to Amsterdam could damage the UK's prominence in this sector.

London's labour force

In London, 11% or 61,000 of 554,000 of Human health and social work activities workers in 2018 were born in the EEA. While a comparatively low percentage of the workforce it is a skilled industry which can require significant training to enter.

Value of London to the UK economy

In 2017, London GVA in Human health and social work was £20.6 billion, 16% of UK activity, and in Q2 2019, 14% of all UK workforce jobs in the sector were in London (617,000).

A7: Transportation and storage (SIC H)

Table A.7: Overview on the Transportation and storage sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Transportation and storage: 5% of London's GVA, 2017 5% of London's workforce jobs, Q2 2019	European Common Aviation Area (EECA) Cabotage Open Skies Single European Sky Unbundling The Fourth Railway Package Public Service Obligations Driver hours, licensing, and qualifications Environmental standards	UK airlines can operate flights freely within the EU, and lorries can pick up freight from any other EU member state	Airlines could choose to divert traffic to other hub airports rather than the UK if the UK cannot renegotiate airline service agreements, while haulage firms may need to use more lorries

Background

Market liberalisation reform has had a major impact on the UK Transport sector. For instance, estimates suggest that air traffic growth following any liberalisation, averages between 12 and 25 per cent, and brings significant competition benefits²¹¹.

²¹⁰ Reuters, January 2016, '[Brexit threat hangs over London-based EU medicines agency](#)'.

²¹¹ InterVISTAS, June 2006, '[The Economic Impact of Air Service Liberalization](#)'.

Existing legislation

The single aviation market, achieved through the European Common Aviation Area (ECAA), allows UK airlines the freedom to fly between or within (cabotage) EU countries, while the EU-US Open Skies agreement allows any EU or US airline to operate flights between any two points in the EU and US. While US airlines are also able to operate intra-EU flights, the same is not true for EU airlines in the US.

Cabotage is also applicable to the road transport sector, and means that a haulier transporting goods from the UK to Europe by road, need not return to the UK with an empty lorry, but can pick up goods for transport back to the UK.

EU rules underpin much of the regulatory regime for the operation of the commercial road haulage sector, including rules relating to: market access; operator licensing; transport manager qualifications; driver licensing and qualifications; driver hours (which aims to promote safety by limiting time spent at the wheel) and tachograph standards; and vehicle standards and roadworthiness.

The EU has also exercised competence relating to environmental protection with regard to road transport, particularly concerning air quality, carbon, and noise, by: setting limits for exhaust and carbon dioxide emissions for road vehicles; setting minimum requirements to promote the uptake of renewable transport fuels; and establishing noise requirements for road vehicles. For example, Directive 2009/30/EC deals with the specification of petrol, diesel and gas-oil and introduced a mechanism to monitor and reduce GHG emissions, and Directive 96/53/EC governs the weight and dimensions of HGVs²¹². There is similar environmental legislation relating to the rail industry for example limiting exhaust from diesel vehicles and noise management.

In the rail industry, ‘unbundling’ is an area in which the EU has focused particular legislative attention. Unbundling refers to the separation of network ownership and operation from use of the network and particularly affects the rail network. Core legislation on EU rail has been implemented in three ‘packages’. The forthcoming Fourth Railway Package proposes a number of measures, including rules on interoperability. Perhaps of more importance in this context are the proposed changes to the award of Public Service Obligations and to governance of the Infrastructure Manager, which specify rules for competitive tendering for rail service contracts, and independence of infrastructure managers²¹³.

Outside the EU, the UK will still remain subject to its obligations under international treaties such as the Chicago Convention and the International Convention for the Prevention of Pollution from ships (MARPOL).

Completion of the internal market

The extent of completion of the internal market differs between different modes of transport, air and sea being almost complete, leaving rail less complete. UKTiE – the trade association for the UK transport industry in Brussels – recently reported that member state compliance with EU law has been improved, but that more work is necessary to unleash the full potential of the single market²¹⁴. The European Commission further reports that the constructive compliance dialogue between themselves and member states has increasingly led to compliance issues being resolved without a need to resort to formal proceedings.

According to the Road Haulage Association’s October 2016 submission to the House of Lords EU international market sub-committee, the international market for road haulage is fully liberalised within the EU, for all EU operators with an International Operators Licence, with no permits required, or quota

²¹² HM Government, February 2014, ‘[Review of the Balance of Competences between the United Kingdom and the European Union: Transport](#)’.

²¹³ Oxera, June 2016, ‘[Brexit: implications for the transport sector](#)’.

²¹⁴ UKTiE, July 2016, ‘[Member State compliance with EU law improving, but more work ahead to unleash full potential of Single Market](#)’.

limitations. However, the domestic road haulage markets in each EU member state cannot be considered fully liberalised for operators from other EU member states; rather, there is partial liberalisation through cabotage rules²¹⁵.

Effects of losing access

Regulatory changes

Exiting the single aviation market would have an immediate impact on UK airlines using EU airspace, as access to the European air traffic management system (ATM) would need to be renegotiated. Under the Single European Sky, the design, management, and regulation of airspace will be coordinated through the EU²¹⁶. In addition, it will not be possible to fly between the UK and a member state, if the airline was based in a third country; this would significantly restrict competition and air traffic in the UK²¹⁷. Oxera – an economic consultancy service – estimates that if all flights operated by third party airlines were removed, airfares for UK passengers would rise by 15 – 30 per cent²¹⁸.

EU influence

The UK is likely to retain much of its influence over many aspects of the Transport sector for example, through its membership of the Channel Tunnel Intergovernmental Commission (IGC), and the Intergovernmental Organisation for International Carriage by Rail (OTIF). As a member of such organisations, the UK may continue to have a seat at the various EU working parties. The European Railway Agency (ERA) in particular has established multiple working parties of experts to assist it in establishing an integrated European railway sector and supporting the European institutions on technical matters regarding legislation and rail interoperability²¹⁹.

Trade

The maritime industry would be particularly affected by a change in relationship with the EU, given the importance of the sector in trade. Any change in trading patterns would impact UK ports, which are responsible for handling around 90 per cent of goods imports and exports. In the longer term, new tariffs and import duties could reduce business in the sector far into the future.

UK trade would also become subject to customs clearance, which, according to the World Bank, adds around 8 per cent of the financial cost of importing goods by sea²²⁰. For multi-stop journeys through Europe, separate customs checks would become necessary for each country a lorry travels through; this would increase the cost, and time, associating with transporting goods²²¹.

A loss of cabotage on exiting the EU could have a huge impact on the road haulage sector; if lorries are required to return to the UK on making their deliveries, rather than being able to pick up new loads, an increased number of lorries would be required to maintain current trade levels, at significant expense to the industry.

London's labour force

In London, 14% of Transportation and storage workers in 2018 were born in the EEA.

²¹⁵ Road Haulage Association, October 2016, '[House of Lords EU Internal Market Sub-Committee Request for Evidence from the Road Haulage Association on trade in non-financial services](#)'.

²¹⁶ Eurocontrol, October 2015, '[Centralised Services](#)'.

²¹⁷ Oxera, June 2016, '[Brexit: implications for the transport sector](#)'.

²¹⁸ Ibid.

²¹⁹ Norton Rose Fulbright, June 2016, '[Impact of Brexit on the transport sector](#)'.

²²⁰ Oxera, June 2016, '[Brexit: implications for the transport sector](#)'.

²²¹ Ibid.

Trade

In 2017, London exported £6.8 billion of Transportation and storage services, of which £2.6 billion were to the EU. The UK exported £25.0 billion, of which £10.0 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Transportation and storage services was £19.5 billion, 25% of UK activity, and in Q2 2019, 17% of all UK workforce jobs in the sector were in London (309,000).

A8: Construction (SIC F)

Table A.8: Overview on the Construction sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Construction: 5% of London's GVA, 2017 6% of London's workforce jobs, Q2 2019	Construction Products Regulation (CPR) VAT Procurement legislation European Investment Bank (EIB) European Investment Fund (EIF)	Industry standards set across the EU, with some VAT exemptions for certain types of construction, and significant funding from the EIB and EIF	A potential loss of investment and increased difficulties trading but potential to give greater support to UK-based firms

Background

In response to the referendum outcome, the Construction Products Association downgraded its growth forecast from 4.2 per cent to 3.6 per cent, with only 15 per cent of senior construction sector executives believing that leaving the EU will have a positive impact on their sector²²².

Arguably the biggest problem now facing construction is a lack of new work and projects to fill gaps as current ones end. Investment is predicted to remain subdued until there is more certainty over Britain's post-EU position²²³. European manufacturer Airbus has expressed reservations about investing in the UK in the short term, as has German firm Festo²²⁴. Government funded infrastructure projects, such as those identified in the National Infrastructure Assessment²²⁵, could help support the sector if they are forthcoming.

Existing legislation

A significant amount of EU regulation and procurement legislation affecting construction is already embedded in UK law and therefore Brexit will not necessarily result in any immediate legislative change²²⁶, though, in the longer term, there is scope for reform.

²²² CBI, April 2016, '[Construction and the EU](#)'.

²²³ agency central, November 2015, '[Is there a skills shortage in the Construction Industry?](#)'

²²⁴ The Huffington Post, June 2016, '[What Could an EU Exit Mean for the UK Construction Industry?](#)'

²²⁵ See [National Infrastructure Assessment 2018 - National Infrastructure Commission](#)

²²⁶ Eversheds, May 2016, '[Brexit and the implications for UK construction](#)'.

One area where the EU does have particular influence is procurement legislation. The framework of directives and regulations that exist in this area inhibit bribery and corruption, and increase competition through provision of best value for money, with all EU firms eligible to bid for EU member states public procurement contracts free from discrimination.

EU statute also imposes VAT on the consumption of goods and services but allows for reduced rates (5 per cent) relating to the built environment including residential energy, insulation and renovations, and 0 per cent VAT payable on new builds²²⁷.

In the area of environmental legislation, the Energy Performance of Buildings Directive included a requirement to provide energy performance certificates where property is constructed, sold, or rented to a new tenant, as well as inspection schemes for heating and air conditioning, and a minimum performance requirement for new builds.

Completion of the internal market

HM Government identified the Construction sector as one of the key areas where there are hundreds of discriminatory, unnecessary or disproportionate requirements, particularly in the areas of authorisation schemes and certifications of expertise²²⁸.

Effects of losing access

Regulatory changes

If the UK wishes to continue exporting construction goods and services to the EU, it will need to continue to comply with the relevant EU regulations, such as the Construction Products Regulation 2011 (CPR), which governs the marketing of construction products in the EU. Nevertheless, the prevalence of obstacles to intra-EU trade in this sector suggests that the single market is substantially incomplete. Moreover, construction tends to be a significantly domestic sector.

There are, however, concerns regarding the impact on Construction workers. EU law provides rules and regulations on working hours and health and safety and while many of these will stay in place after the UK leaves the EU, any future change in standards could lead to potential exploitation, with 'cowboy traders' taking advantage of any uncertainty²²⁹.

Trade and investment

Leaving the EU could have an impact on UK firms competing for projects in the EU as well as on the supply chain. The UK Construction sector is at least partially reliant on imports from the EU, most notably Germany, Italy, and Sweden; in 2014, 53 per cent of imports came from the EU. A loss of free movement of goods, coupled with the introduction of tariffs, could either see construction firms looking inwards to domestic firms for their materials, or increase costs of production by raising the price of imports.

In addition, international investment could drop if investors are put off making decisions on postponed projects, unless these delays are offset by an increase in business from the US and Asia, where a fall in the price of sterling could make commercial and residential investment more attractive.

As well as a loss of private investment, the UK could also lose access to the European Investment Bank (EIB) and European Investment Fund (EIF), which invested €7.8 billion in infrastructure projects (representing

²²⁷ RICS, April 2016, '[EU Referendum: what it could mean for construction](#)'.

²²⁸ BIS, October 2009, '[Guidance for Business on the Provision of Services Regulations](#)'.

²²⁹ Builder & Engineer, '[How could Brexit affect the UK's construction industry?](#)'

11.2% of its overall lending to EU countries²³⁰), and lent €665.8 million to SMEs across the UK in 2015. The loss of these funding streams could have a significant impact on project delivery and start-ups across the UK. RICS has called for the Government to ensure that these funds are replaced in some capacity to ensure long term infrastructure growth in the UK²³¹.

London's labour force

In London, 30% of Construction workers in 2018 were born in the EEA. Research by the CBI suggests 36 per cent of construction companies already report difficulties in recruiting sufficiently skilled workers²³².

Achieving the right skills to plug these gaps takes training and time and as such, the short term impacts on EU withdrawal may be significant and prolonged as if EU workers are lost, the industry may be unable to replace them for several years. A recent survey showed that wages for bricklayers in London have already hit £25 an hour due to the existing skills shortage; if Brexit causes this to rise higher, this could put significant wage cost-pressure on construction firms²³³. However, as Construction makes up only a small percentage of London's economy, the direct effect on London's economy as a whole may be relatively small.

Trade

In 2017, London exported £323 million of Construction services, of which £136 million were to the EU. The UK exported £1,082 million, of which £615 million was to the EU.

Value of London to the UK economy

In 2017, London GVA in Construction services was £20.0 billion, 18% of UK activity, and in Q2 2019, 15% of all UK workforce jobs in the sector were in London (346,000).

A9: Accommodation and food service activities (SIC I)

Table A.9: Overview on the Accommodation and food service activities sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Accommodation and food service activities: 3% of London's GVA, 2017 7% of London's workforce jobs, Q2 2019	Tour Operators Margin Scheme (TOMS) Health and safety regulations Food standards (safety, traceability, labelling) Employment regulations Hotel classification	Legislation has failed to adapt quick enough to new technologies and the changing ways in which the sector operates, and much is not applied evenly across member states	Consumer protections may be at risk and if leaving the EU results in a drop in tourism, this industry will be particularly affected

²³⁰ Prime Minister's Office, 10 Downing Street, May 2016, '[PM: UK will lose billions of pounds in infrastructure funding if it leaves EU](#)'.

²³¹ Ibid.

²³² CBI, April 2016, '[Construction and the EU](#)'.

²³³ Building.co.uk, June 2016, '[What a Brexit means for construction](#)'.

Background

A poll of CBRE investor clients²³⁴ found that 73% felt that the UK would be worse off by leaving the EU. Their report, 'Heading for the Exit?' said that Brexit would dent the international perception as a safe haven for investors and cause a decline in the appetite to acquire hotel stock, at least in the short term. In addition, the UK is expected to remain competitive in terms of tourism, as sterling's falls against most currencies, reduces costs for international travellers and increases overseas demand for hotel rooms. Exchange rate changes could also increase the number of British people taking 'staycations' as the cost of holidaying abroad becomes comparatively more expensive. CBRE's biggest concern post EU-exit was the implications for hotel staffing and subsequent costs if British workers demand higher wages (average payroll costs account for 32 per cent of hotel revenues)²³⁵.

PwC's hotel's forecast for 2017, offers a mixed outlook for London in wake of referendum uncertainty and other concerns, as well as cuts to business travel budgets. PwC forecast that the weak pound may bring short term benefits as numbers of international leisure travellers rises, but that most key performance indicators will be down, including a 0.5 per cent fall in revenue per room (RevPAR). However, PwC's forecast also noted that London retains some of the highest occupancy rates (80 per cent in 2017) and average prices (£142 average room price in 2017), by global standards²³⁶.

Existing legislation

Much EU legislation affecting the Accommodation and food service activities industry is either applicable across business (such as employment law) or has been implemented as being in the best interest of the consumer (such as food hygiene or pest control standards).

The Tour Operators Margin Scheme (TOMS) specifically affects the tourism sector and has been in place since 1977 as a simplification measure for VAT accounting on component parts of tours, such as travel and accommodation. While far more practical than requiring operators to register and pay VAT in every country in which they operate, this legislation has not been applied uniformly across member states, as many EU members do not view it as in their country's best interests to enforce TOMS²³⁷.

Completion of the internal market

Accommodation and food services are seen as a national competency and as such there is no direct EU regulation in this area. However, some regulations, such as EU employment, or health and safety directives, will have a significant impact on the sector.

Effects of losing access

EU influence

The UK has chosen not to take-up many of the EU sanctioned benefits that could help the UK's Accommodation and food services industry, with it enforcing tighter visa regulations than Schengen, and maintaining the higher level of VAT than most European countries (EU legislation allows 5% VAT for labour intensive industries, such as hospitality). Retaining influence over liberalising this sector therefore appears to be a low priority for HM Government, who prefer stricter regulation than the rest of the EU.

²³⁴ CBRE Global Investors is one of the world's largest real estate investment management firms, with \$87.9 billion in assets under management. Their clients include: pension funds; insurance companies; sovereign wealth funds; foundations; endowments; and private individuals.

²³⁵ CBRE, April 2016, '[Brexit – The impact on the hotels sector](#)'.

²³⁶ PwC UK, '[Facing the future: UK hotels forecast 2017](#)'.

²³⁷ ECIAA, '[Annex – Shortcomings in the current TOMS scheme](#)'.

London's labour force

In London 27% of Accommodation and food service activities workers in 2018 were born in the EEA. This is the second highest proportion of any sector. There is a concern that should these workers no longer be eligible to work in the UK, filling this many places will put a large burden on business and London's economy more generally.

Trade

In 2017, London exported £2.4 billion of Accommodation and food services, of which £1.2 billion were to the EU. The UK exported £14.7 billion, of which £7.1 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Accommodation and food services was £12.8 billion, 23% of UK activity, and in Q2 2019, 18% of all UK workforce jobs in the sector were in London (434,000).

A10: Manufacturing (SIC C)

Table A.10: Overview on the Manufacturing sector

Sector	Legal instruments	Current impact	Implications of leaving the EU
Manufacturing: 2% of London's GVA, 2017 2% of London's workforce jobs, Q2 2019	Employment regulations Environmental standards Product safety directives Health and safety regulations	Parity across industrial regulations gives UK companies improved access to the single goods market	Without a full transposition of regulations, UK companies may face difficulties trading with the EU and new tariffs may apply, but a loss of state aid regulation would allow HM Government to subsidise manufacturing sectors as they saw fit

Background

The London Business Survey 2014 showed that 26 per cent of London's manufacturing firms are exporters, selling on average 8 per cent of their total goods and services to customers outside the UK²³⁸.

Looking at the UK's future relationship with the EU, a recent report by the EEF called for 'an orderly and stable exit that avoids long term damage to manufacturers' interests, growth, and investment opportunities'. They view it as vital that the UK retains unrestricted access to the single market and remain within the Customs Union. Manufacturers are also concerned about retaining access to skilled labour and have asked that any change to rules on freedom of movement do not restrict the ability of business to operate smoothly. Finally, the EEF report calls for regulatory stability (such that the UK absorbs the existing regulatory framework as standard) and that UK business is allowed to continue to benefit from common EU programmes, such as the internal energy market and innovation funding²³⁹.

²³⁸ GLA, November 2014 '[London Business Survey 2014: Main findings](#)'.

²³⁹ EEF, September 2016, '[Britain and the EU: manufacturing an orderly exit](#)'.

Existing legislation

There is little regulation that affects the Manufacturing industry specifically, but many EU regulations have an impact on the sector none-the-less. Many individual and commercial arrangements are based on EU law which will continue to subsist long after the UK leaves the EU. EU employment and social security regulations, health and safety regulations, product safety and standard directives and environmental regulations will all continue to affect the Manufacturing sector, which must comply with many of these to continue trading with the rest of the EU²⁴⁰.

In the area of environmental legislation, the Eco-design of Energy Using Products Directive requires manufactures to decrease the energy consumption of their products by establishing minimum standards for energy efficiency.

Completion of the internal market

Manufacturing would likely benefit from an improved internal market for goods, for example, the introduction of a unified patent litigation system. Accompanying measures to current industrial policy could include directives such as a simplified, predictable, and stable regulatory framework for new products, which do not exist under the current system, and could go a long way to helping to complete the internal market.

Effects of losing access

Regulatory changes

Without a full transposition of regulations, UK companies may face difficulties trading with the EU (particularly in product safety and standards), as well as tariffs when importing raw materials from the EU, or exporting finished goods to the EU. In addition, much of EU health and safety law and environmental practices are heavily embedded in company investment decisions, company policies, and management and working practices; any fundamental change to this is likely to be hugely disruptive for companies in the short to medium term. Finally, in areas such as air quality, the UK has made significant improvements in reducing industrial emissions; becoming less aligned with the EU could put these achievements at risk.

Some manufacturers themselves show little interest in reducing the burden EU regulation places on them. The EEF found that 23% of their members believed the UK should not adopt waste directives, even in chemical regulations, which are known for being the most burdensome. Manufacturers believe that discarding existing regulation could undermine investment in improving air quality so far, and could hinder the incentives for this kind of work to continue²⁴¹.

EU influence

Manufacturing is an area in which the UK has been fairly successful at focusing EU policy towards those sectors of importance to London, such as biotechnology and advanced manufacturing, which could be lost with the UK's withdrawal. A loss of EU access will mean that the UK can also no longer influence the development of future standards and regulations for manufactured goods which could have negative consequences for UK traders.

London's labour force

In London 15% of Manufacturing workers in 2018 were born in the EEA.

²⁴⁰ Slaughter and May, March 2015, '[Brexit Essentials: The legal and business implications of the UK leaving the EU](#)'.

²⁴¹ EEF, September 2016, '[Britain and the EU: manufacturing an orderly exit](#)'.

Trade

In 2017, London exported £975 million of Manufacturing services, of which £362 million were to the EU. The UK exported £15.4 billion of services, of which £6.6 billion was to the EU.

Value of London to the UK economy

In 2017, London GVA in Manufacturing was £8.3 billion, 5% of UK activity, and in Q2 2019, 5% of all UK workforce jobs in the sector were in London (133,000).

A11: Primary and utilities (SIC A, B, D, E)**Table A.11: Overview on the Primary and utilities sector**

Sector	Legal instruments	Current impact	Implications of leaving the EU
Primary and utilities: 1% of London's GVA, 2017 1% of London's workforce jobs, Q2 2019	Internal Energy Market (IEM) EU Emissions Trading Scheme (EU ETS) Capacity Markets (CMs) Carbon Price Floor (CPF) Markets in Financial Instruments Directive (MiFID) EU Drinking Water Directive EU Water Framework Directive Common Agricultural Policy (CAP)	The UK must seek to comply with EU standards on renewable energy and climate change which do not necessarily best suit the UK, while also receiving farming subsidies from CAP and no tariffs on agricultural exports, but have made significant gains in water purity	The UK could lose access to the IEM which could increase costs and decrease security of energy supply, but could see lower food prices if CAP is replaced with a UK support scheme

Background

The UK's energy market is heavily interlinked with Europe. In the UK, four of the UK's 'big six' energy companies are owned by non-UK domiciled parents: Centrica and Southern/Scottish Energy are UK-owned; EDF is French-owned; E.ON and 'Npower' are German-owned; and Scottish power is Spanish-owned. While the majority of water and sewerage companies operating in the UK are British owned, with others water providers owned by companies based in the US, Australia, and Japan²⁴².

Power and water are inputs into most goods and services we produce, and as such can have a significant impact on price. Over the last decade, the Government has prioritised the move towards a single energy

²⁴² Wikipedia, accessed September 2019, '[United Kingdom water companies](#)'.

market under the logic that the larger the market, and fewer barriers to trade, the lower prices paid by consumers, and the more secure energy supply will be.

The UK energy sector is currently undergoing significant change, moving more and more towards renewables, biomass, nuclear, and thermal methods of generating power, and at an increasingly local level²⁴³. The water sector has also undergone significant change, mostly as a result of changes to environmental legislation.

Energy UK – the trade body representing the UK energy sector – has called for the Government to maintain efficient trading of power and gas, retain access to supply chain products (tariff free), maintain liquidity, and ensure access to skills²⁴⁴, while Water UK has emphasised the importance of stable and predictable legislation in allowing water companies to raise long term finance and deliver benefits to customers and the environment at an affordable price²⁴⁵.

Existing legislation

Many domestic policy tools are already in place to regulate the utilities sector, including through the Capacity Market (CM), Carbon Price Floor (CPF), and Contract for Difference (CfD) auctions, which will provide much stability for the industry as the UK withdraws from the EU. The CPF – the minimum price payable for carbon emissions in the UK – was, in fact, established as a response to the EU Emissions Trading Scheme (EU ETS) price being insufficiently strong to deliver the investment signal required and is just one example of where HM Government has chosen to go beyond the EU to tackle climate change.

One area where the UK would be legislatively less well covered is in climate change and renewable energy targets, which at present primarily come from the EU²⁴⁶, but the industry anticipates that existing Government targets would hold and potentially even strengthened. At present, the UK's above average performance on climate change masks a lack of action from other EU member states; by leaving the EU, the UK could leave the EU unable to deliver its Paris Agreement commitments²⁴⁷.

Like the Financial sector, the utilities sector is heavily affected by MiFID II in terms of commodities trading. Energy UK anticipates that when the UK leaves the EU, the Government will implement a strict market abuse regime to maintain confidence in the market and protect consumers²⁴⁸.

The agricultural sector, on the other hand, is mostly affected by the Common Agricultural Policy (CAP), which dates back to 1962. CAP has undergone significant reform since the 1990s and the budget has shrunk significantly (71 per cent in 1984 to 39 per cent in 2013)²⁴⁹. CAP continues to pay out subsidies to UK farmers which help diversify rural economies, safeguard food standards, and protect the environment. However, as there is so little farmland in London, the impact will be minimal (other than through its impact on consumers).

Completion of the internal market

Agricultural trade is free within the EEA, completing the internal market, but CAP distorts production and trade, along with high tariffs placed on produce from outside the EU.

²⁴³ Department of Energy & Climate Change, November 2013, '[UK Renewable Energy Roadmap](#)'.

²⁴⁴ Energy UK, Autumn 2016, '[Priorities for the energy sector following the UK's decision to leave the European Union](#)'.

²⁴⁵ Water UK, August 2016, '[UK Water sector: priorities post-EU referendum](#)'.

²⁴⁶ House of Commons, October 2016, '[The energy revolution and future challenges for UK energy and climate change policy](#)'.

²⁴⁷ Energy UK, Autumn 2016, '[Priorities for the energy sector following the UK's decision to leave the European Union](#)'.

²⁴⁸ Ibid.

²⁴⁹ European Commission, June 2013, '[The common agricultural policy \(CAP\) and agriculture in Europe ' Frequently asked questions](#)'.

Over the last 20 years, the EU has also worked to develop a single market for energy in the form of the Internal Energy Market (IEM). This aims to liberalise the market, and strengthen cross-border infrastructure. Many measures are still in the process of being agreed but huge efficiencies in power and gas trading, as well as reduced costs to consumers, have already been achieved²⁵⁰. In February 2015, the EU Commission approved proposals for a single European energy market, mostly aimed at reducing Europe's dependence on Russian gas²⁵¹.

Effects of losing access

Regulatory changes

The IEM delivers access to power and gas across borders, enhanced liquidity, easy access to supply chain materials, and the EU ETS, all of which are hugely popular among UK businesses as they increase efficiency and allow savings to be passed on to consumers²⁵². Equally, the UK benefits from membership of the European Network of Transmission System Operators for Electricity, and Gas (ENTSO-E and ENTSOG), as well as Ofgem's presence within the Agency for the Cooperation of Energy Regulators (ACER). Loss of these memberships could be damaging to the industry, and to consumers.

EU regulation of the water industry is primarily aimed at safeguarding standards; the EU Drinking Water Directive ensures that the drinking water in member states remains world class, and the EU Water Framework Directive seeks to improve quality of rivers and beaches (which is particularly relevant to the UK, as an island nation)²⁵³. These environmental improvements could be put at risk should UK law fail to adopt EU water regulations.

UK farmers, on the other hand, will no longer be eligible for CAP subsidies when the UK leaves the EU and may face high tariffs on food exports; UK dairy exports could face tariffs of anything from 30 to 200 per cent²⁵⁴.

Energy Supply

The UK and European gas and electricity networks are linked through transmission interconnectors which give countries an opportunity to trade electricity and gas driven by price differentials. If the UK was outside the IEM, it is uncertain what rules would apply to cross-border flows of power, which could endanger security of supply. This said, while the UK is a net importer of electricity (5.8 per cent of supply in 2015) the UK is currently not heavily dependent on gas imports from Continental Europe and is doing much to explore new ways of producing energy nationally²⁵⁵.

EU influence

If the UK retains access to the IEM, it will have to accept changes set out by the EU without participating in any of its governance arrangements, which could lead to unnecessary cost or impact security of supply. For instance, negotiations are currently taking place regarding a move to an EU-wide 15-minute imbalance settlement period (ISP) which although potentially beneficial to other countries, would impose costs that outweigh any potential benefits for UK customers²⁵⁶.

London's labour force

In London, 9% of Primary & utilities workers in 2018 were born in the EEA.

²⁵⁰ Energy UK, Autumn 2016, '[Priorities for the energy sector following the UK's decision to leave the European Union](#)'.

²⁵¹ BBC, February 2015, '[EU Commission approves proposals for single energy market](#)'.

²⁵² Energy UK, Autumn 2016, '[Priorities for the energy sector following the UK's decision to leave the European Union](#)'.

²⁵³ Water UK, '[EU policy](#)'.

²⁵⁴ Horizon Market Intelligence/AHDB, October 2016, '[What might Brexit mean for UK trade in agricultural products](#)'.

²⁵⁵ Energy UK, Autumn 2016, '[Priorities for the energy sector following the UK's decision to leave the European Union](#)'.

²⁵⁶ Ibid.

Trade

In 2017, London exported £11 million of Primary & utilities services, of which £8 million were to the EU. The UK exported £1,138 million, of which £298 million was to the EU.

Value of London to the UK economy

In 2017, London GVA in Primary & utilities was £4.5 billion, 5% of UK activity, and in Q2 2019, 6% of all UK workforce jobs in the sector were in London (46,000).

A12: Arts, entertainment and recreation (SIC R)**Table A.12: Overview on the Arts, entertainment and recreation sector**

Sector	Legal instruments	Current impact	Implications of leaving the EU
Arts, entertainment and recreation: 2% of London's GVA, 2017 3% of London's workforce jobs, Q2 2019	Intellectual property (IP) rights Audiovisual Media Services (AVMS) Directive (EU) Community Unregistered Design Right.	The EU currently funds a significant number of 'creative' projects and sporting endeavours in the UK, as well as facilitating a number of key collaborative work streams	Loss of access to the EU may reduce the amount of long term funding available to the UK's creative industries, could make it harder for touring groups like orchestras, theatre companies, and sports teams to perform internationally, and could put inward investment at risk

Background

London undoubtedly is a strong cultural capital and key tourist destination, with both national and international visitors coming to enjoy the many museums, galleries, sports venues and theatres.

As an industry, it is one of London's fastest growing, supporting 152 per cent more jobs in 2015, than in 1971. Only Professional services and Other services have seen a greater change in jobs as a percentage.

London is home to four UNESCO heritage sites, 349 live music venues, and 857 art galleries²⁵⁷. Data from the World Cultural Cities Report show that London performs strongly against other major European cities, especially looking at theatre admissions, where London has almost twice as many as Paris, Madrid, Rome, and Berlin combined, while on a global scale, these trends are even more pronounced²⁵⁸. Data from the Association of Leading Visitor Attractions shows that all of the top 10 UK visitor destinations are in the capital, 9 of which are free to enter²⁵⁹.

As a sector, Arts, entertainment and recreation is more often described under alternative titles, including smaller elements from other SIC codes. As such, much of the general information discussed in this sector will

²⁵⁷ GLA, November 2016, '[Economic Evidence Base 2016](#)'

²⁵⁸ Ibid

²⁵⁹ Ibid

more accurately relate to the non-defined 'culture' or 'creative' sector, rather than strictly to arts, entertainment and recreation.

Existing legislation

Intellectual property (IP) is particularly important for those working in the arts and entertainment industry. It is predicted that intangible assets such as IP can account for as much as 80 per cent of a business' value²⁶⁰. At present, much of the UK's IP rights regime is enshrined in EU Directives, including cover for trademark, copyright, design, and patent rights.

Completion of the internal market

There is no formal internal market for the Arts, entertainment, and recreation sector, but many of the regulations affecting it, such as IP, show more completeness.

Effects of losing access

Regulatory changes

London's creative sector is particularly concerned about the gap left if the UK does not remain signed up to the (EU) Community Unregistered Design Right as in order to secure Community Unregistered Design Rights, the design or fashion product in question must first be made available in the EU. This could de-incentivise designers to launch their products in the UK, which in turn could adversely impact on UK showcasing and trade shows, for example London Fashion Week which generates £269 million of income per season showcase²⁶¹.

The television sector could also be affected by a loss of EU regulation. Television and on-demand services licensed by Ofcom access the single market supported by the Audiovisual Media Services (AVMS) Directive, which requires any Member State to permit the reception of service under the jurisdiction of another Member State.

The Department of Culture, Media and Sport, estimates that London's design sector is the largest in Europe, and the second largest in the world²⁶². At present, this sector is covered by IP design rights which protect product and fashion design. Any decrease in IP rights following an exit from the EU will place all UK creative industries at a disadvantage.

EU access

There is significant risk from loss of EU access to the broadcasting sector. At present, over half of the 1100 channels licensed in the UK broadcast to overseas markets. The multi-channels sector generates £4 billion in GVA per annum, invests more than £700 million a year in UK television and media content and directly supports 12,000 jobs in the UK. London is the European hub for broadcasting with major TV and media channels like Discovery, Disney, Sky, Turner Time Warner and Viacom headquartered here²⁶³. In addition, cheap and easy access to the EU has helped to develop audiences for young talent²⁶⁴.

Funding and collaborative streams

London's creative and cultural sector benefits from EU programmes – both by applying for money from London's share of the European Regional Development Fund (ERDF), and as leaders or partners for transnational programmes such as Creative Europe that support the wide range of cultural activity from film

²⁶⁰ Forbes, October 2014, '[Pay Attention to Innovation and Intangibles – They're More Than 80% Of Your Business](#)'.

²⁶¹ Fashion United, September 2016, '[This is how much money London Fashion Week generates](#)'.

²⁶² Department of Culture, Media and Sport, Creative Industries Economic Estimates, January 2015.

²⁶³ Royal Television Society, October 2016, '[Hard Brexit: A turn-off for TV](#)'.

²⁶⁴ Creative Industries Federation, October 2016, '[Brexit Report](#)'.

to music to visual arts and dance. During its first two years Creative Europe has supported 230 UK cultural and creative organisations and audio-visual companies as well as the cinema distribution of 84 UK films in other European countries with grants totalling €40 million²⁶⁵.

CIF research shows that the UK receives more money through Creative Europe and Horizon 2020 than any country apart from Germany, and that this has been transformational for many parts of the UK. 'Projects such as Sage Gateshead and High House Production Park in Thurrock, Essex, have become important hubs for their communities and boost their local economies'²⁶⁶.

There is also significant value to UK creative business from collaborating with EU partners. Programmes like Creative Europe promote transnational relationships and broker new opportunities for artistic exchange, touring and exhibition. This risk has been lessened by the Government's pledge to fully fund all projects with contracts signed before the November 2016 Autumn Statement²⁶⁷.

London's labour force

In London, 10% of Arts, entertainment, & recreation workers in 2018 were born in the EEA. The Creative Industries Federation (CIF) has stressed the importance of the UK's international staff as driving innovation, plugging skills gaps, and providing competitive advantage by offering expert insight into foreign markets for fashion, design, and beyond²⁶⁸.

Free movement of labour has been particularly beneficial to film and TV production and festivals, as well as touring companies such as bands, orchestras, and dance and theatre companies²⁶⁹.

Value of London to the UK economy

In 2017, London GVA in Arts, entertainment & recreation was £8.3 billion, 32% of UK activity, and in Q2 2019, 20% of all UK workforce jobs in the sector were in London (209,000).

²⁶⁵ Creative Europe, June 2016, '[Creative Europe Desk UK statement](#)'.

²⁶⁶ Creative Industries Federation, October 2016, '[Brexit Report](#)'.

²⁶⁷ HMT, August 2016, '[Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU](#)'

²⁶⁸ Creative Industries Federation, October 2016, '[Brexit Report](#)'.

²⁶⁹ Ibid.

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