

# STRANGE DAYS – LONDON AFTER THE EU REFERENDUM

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## SUMMARY

The EU referendum of 23 June 2016 was a seismic event for the United Kingdom, with aftershocks and impacts that will be felt for many years to come. Three weeks on, like the rest of the UK, London is poised between idea and reality. Many of the certainties of the past 40 years have been thrown in the air; we have yet to see where they will land.

On 8 July, Centre for London convened a discussion comprising business leaders, politicians, and representatives of voluntary and community sector organisations, to discuss the risks that the referendum result poses for London, and the prosperity and quality of life that it offers its citizens, as well as any opportunities that accompany these. This paper draws on that discussion to offer an initial snapshot of three of the main challenges facing London, and to set out possible responses.

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## THE REFERENDUM RESULTS IN LONDON

London, voting 60:40 for Remain, was an outlier within England though perhaps not as dramatically as it might first appear. Several other cities also voted to remain in the EU, with Manchester, Oxford, Cambridge, Bristol, and Brighton and Hove all recording higher majorities for Remain. And London's 1,500,000 Leave votes were as many as elected Sadiq Khan as London's mayor in May; in five outer London boroughs (Barking and Dagenham, Bexley, Havering, Hillingdon, Sutton) Leave took the majority of votes; in two more (Bromley and Hounslow) the result was very finely balanced.

## SKILLS AND MIGRATION

London is a city fuelled by highly skilled people. Research by Deloitte suggests the city has 1.7 million highly skilled workers, with 200,000 more over the last three years.<sup>1</sup> These highly skilled workers form the foundations for London's economic success, attracting global firms and starting new ventures in fields from life sciences and tech, to financial services, law and management consultancy.

A significant proportion of these workers are from overseas. More than one in ten of London's workers were born elsewhere within the European Union, and the number rises higher in some of London's critical industries.<sup>2</sup> Mainland Europe does not just supply London's waiters and construction workers, but also many of our bankers, architects, designers, and lawyers. Even in sectors like tourism, where the declining value of the pound might boost demand, a skills shortage could scupper London's ability to benefit.

Attendees at the Centre for London discussion reported that there were signs that many large corporations had been prompted by the referendum to consider options for relocation, with the need for highly skilled employees their prime consideration. This would add to the pressure on job numbers being created by automation and tech innovation. London needs to work hard to retain its comparative advantage. If London could still attract and retain the workers, it would have a good chance of retaining international businesses, even if other trading conditions worsened.

1 Deloitte (2016). *Global cities, global talent. London's rising soft power*. Retrieved 13th July from: <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/Growth/deloitte-uk-global-cities-global-talent-2016.pdf>

2 ONS. Annual Population Survey 2015. See also Brown, R., & Oduwaiye, A. (2016). *London's links with Europe*. Centre for London.

The uncertainty about the nature of London's disengagement from the EU – whether we would retain membership of the European Economic Area, whether a full or partial version of free movement of people could be retained, whether existing residents from other EU countries would be permitted to stay – was exacerbating rather than ameliorating the situation. Anecdotal evidence suggested that international candidates were already turning down job offers because of uncertainty, and there was a real danger that current EU workers would begin to look for opportunities elsewhere, voting with their feet before Brexit negotiations have brought any clarity to the situation. Young Britons might well follow them.

We need to staunch this flow in the short term. Government should immediately make clear the status of existing EU-born residents and those who arrive before the terms of Brexit have been implemented, allowing them to stay to avoid the hemorrhage of 600,000 London workers.<sup>3</sup> London should also fight back against negative international coverage, not only through the formal campaigns emphasizing that London is 'open for businesses', but also through the soft diplomacy of plays, festivals, nightclubs, restaurants and fashion shows – the aspects that make London a global beacon of creativity and an exciting place to live and work, regardless of international alliances.

In the longer term, London needs immigration and training policies that enable the city to maintain its success, and the net contribution this makes to the UK Exchequer. Given the lower levels of Leave voting in London, and the generally positive attitudes towards immigrants that have been expressed in the capital<sup>4</sup>, the potential for a 'London only' work permit should be explored. This approach is not without precedent (Canada has a provincially defined element within its immigration programme)<sup>5</sup>, and would enable London to mimic as closely as possible the conditions of freedom of movement (and to access global as well as European talent). Whether these would apply to all sectors or only to specific high-skilled and/or in-demand occupations would be a matter for local decision.

3 ONS. Annual Population Survey 2015.

4 Ford, R., & Heath, A. (2014). Immigration: A Nation Divided? In *British Social Attitudes 31*. Edited by Park, A., Curtic, J., and Bryson, C., NatCen Social Research, London. Retrieved on 13th July 2016 from: [www.bsa-31.natcen.ac.uk/read-the-report/immigration/introduction.aspx](http://www.bsa-31.natcen.ac.uk/read-the-report/immigration/introduction.aspx)

5 Vineberg, R.A. (1987). Federal-provincial relations in Canadian immigration. *Canadian Public Administration*, 30: 299–317.

Alongside this, London should be able to invest in training its own talent pool, with delegated power to set the skills strategy that London needs, and to provide innovative training and employability programmes. A global city's economy will always require immigrants as well as local skills, but devolution could enable the two to be better linked, through initiatives like matching permits for high skilled immigrants with a requirement for apprenticeships for Londoners.

## **DEVELOPMENT AND INFRASTRUCTURE**

It is hard at this stage to judge the long-term impact of the referendum result on London's property market. In the commercial property market, agents are reporting dramatic price falls, and many developers are reviewing the business case for uncommitted schemes. The residential market has also seen a hiatus in transactions (with some reports of a surge in demand from overseas investors) immediately after the referendum, and there has been some speculation that currently planned schemes might switch from sale to rental, maintaining supply while accounting for uncertainty on the part of retail buyers. Meanwhile, overseas buyers are investing in UK property companies, attracted by the opportunity to buy sterling denominated assets at bargain prices.

There may be short term drops in rents and sale prices, for both commercial and residential property, benefitting first-time-buyers and business start ups. But most commentators are expecting a slowdown as developers delay decisions on new schemes (when these may take five years or more to come to fruition), with the prospect of losing EU-born construction workers (who currently make up around 25 per cent of the London construction workforce) acting as a further drag on delivery. This will create problems in the longer term, by failing to keep up with London's current or future demand. In a worse case scenario, shortage of office space may contribute to relocation decisions.

Failure to put in place new infrastructure might also hasten these decisions. Infrastructure is much more dependent on funding from commercial and residential development than it was in the past. New schemes like the Northern Line extension to Battersea Power Station, and planned schemes like Crossrail 2 and the Bakerloo line extension, are premised on developer contributions; on a smaller scale, parks, playgrounds and affordable homes are also funded by private developers as planning obligations, rather than being funded through government grants or borrowing. The state could step in to invest, to boost the economy and maintain London's offer to investors, but this would involve a fundamental change in mindset.

Furthermore, any projects that require parliamentary time (for example Crossrail 2, which was to be the subject of a hybrid bill) may find themselves squeezed out, as Parliament becomes exclusively focused on the legislative impact of Brexit.

In these circumstances, London leaders should work with UK Government to find straightforward ways of maintaining investment in London infrastructure, perhaps through government borrowing secured against future tax revenues, through giving guarantees, through direct grants, or through special purpose vehicles to attract the international investment that is currently flowing into property.

None of these options is likely to be straightforward or uncontroversial, but London should underline that its future success outside the EU – and the tax revenues and additional spending that it channels to the rest of the UK – will rely more and more on offering a comparative advantage to firms in terms of affordability, quality of infrastructure and quality of built environment.

## **SOCIAL COHESION**

The third challenge for London is one of social cohesion, made more urgent by recent reports of an increase in hate crimes.<sup>6</sup> The referendum result has been portrayed as a rejection of ‘London’ by the rest of the UK. If this is the case, then 40 per cent of voters also felt excluded by this version of their city (in addition to the 1.6 million eligible voters who didn’t turn out).

But the London that has been rejected is a relatively narrow conception of the UK capital, based on its perception as a remote, elitist, unaffordable and decadent centre of globalization. London may speak of its tax revenues and its net contribution to the UK<sup>7</sup>, but many people see it as a drain, “a dark star, inexorably sucking resources people and energy from the rest of the country”, in the words of former SNP leader Alex Salmond.

No specific research has been undertaken on why five London boroughs voted leave (and two more came very close to doing so). As elsewhere in the UK, the boroughs that voted to leave were those with slightly older<sup>8</sup> and slightly less university-educated populations<sup>9</sup>. But perhaps more significantly, they are

6 'Hate crime in London up 50 per cent since Brexit vote', Sky News, 7 July 2016. Retrieved on 13th July 2016 from: <http://news.sky.com/story/hate-crime-in-london-up-50-since-brexit-vote-10428533>

7 McGough, L., Piazza, G. (2016). *10 years of tax, How cities contributed to the national exchequer from 2004/05 to 2014/15*. Centre for Cities.

8 ONS. Population estimates 2015.

9 ONS. Annual Population Survey 2015.

the places whose foreign-born population had risen fastest in the last ten years, not those with the highest foreign-born populations overall<sup>10</sup>. Perhaps, in London as elsewhere, many Leave voters may have been unsettled by the pace of change (and by the failure of public services to respond to it), rather than by immigration per se.

One can over-analyse; many Leave voters, in these boroughs as elsewhere, simply decided that the UK would be better off outside the EU. But there is perhaps something deeper too; the widening gap between those who are doing well from the capital's global status and those who are not. The city may create wealth, but many Londoners see little of it. London is a city where the implicit contract of modern social security is frayed: the city's employment levels are high, but one in five people in working families is poor, compared to 15 per cent in the rest of England.<sup>11</sup> Even many people on modest incomes are struggling, a predicament that was highlighted in Centre for London's 2014 report *The Hollow Promise*.<sup>12</sup>

And, as Centre for London's 2015 report *Inside Out* argued, the problems of poverty and exclusion are increasingly affecting London's suburbs.<sup>13</sup> In the outer boroughs, residents deal with the negative consequences of London's growth – congestion, high housing and transport costs, pollution – without any of their positive counterparts, like economic opportunities, privately funded public realm projects, the subsidized cultural offerings of central London, and the ever shifting array of restaurants, cafes and bars that it accommodates.

In the short term London needs to tread softly, to take care not to further alienate marginalised voters by looking like it is pursuing only the objectives and the interests of its globalized elites. Even as London strives to sustain and enhance its global status rather than allowing it to be diminished, it needs to find a way to reconnect – with itself as well as with the rest of the UK. Attendees at our round table emphasized that both connections needed to be priorities.

10 ONS. Annual Population Survey 2015.

11 Trust for London (2015). *London Poverty Profile*. Retrieved on 13th July 2016 from: [http://www.londonpovertyprofile.org.uk/2015\\_LPP\\_Document\\_01.7-web%255b2%255d.pdf](http://www.londonpovertyprofile.org.uk/2015_LPP_Document_01.7-web%255b2%255d.pdf)

12 Leadbeater, C., Wilson, B., and Theseira, M. (2014). *Hollow Promise: how London fails people on modest incomes and what should be done about it*. Centre for London.

13 Hanna, K. & Bosetti, N., (2015). *Inside Out: the new geography of wealth and poverty in London*. Centre for London.

Over coming years the localization of local government taxation could be used to cement a new social contract within London. When central government grants are phased out, and local government becomes more and more reliant on growth in business rates to fund expenditure, local authorities in London and beyond will need to agree how business rate growth is allocated, to avoid gross imbalances or dysfunctional tax competition.

In agreeing the distribution of funds, London government could set social cohesion as an explicit objective, and use funding to create a better quality of life for those who have seen only down-sides from London's growth to date. This is not redistribution, still less an act of philanthropy, but an acknowledgement of the simple fact that London is one city, as dependent on its care workers, scaffolders and couriers, as it is on lawyers, bankers and designers.

This paper has picked out three areas where urgent action is needed; where London can be given more control over taxes, over skills policies, over financing infrastructure – not to undermine the rest of the UK, but to enable the capital to maintain and strengthen its contribution.

In what is likely to remain a fast moving environment, Centre for London will monitor and update its assessment of the principal risks and opportunities facing London, and publish updates. We also hope to undertake specific projects looking at London's place internationally, and its relation to the rest of the UK.

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