

BETTER BREXIT, BETTER CITY - A MANIFESTO FOR LONDON

SUMMARY

London has been growing since the early 1990s, and the capital's openness, diversity and economic specialisation have made it one of the world's leading global cities, though this growth has also brought strains on infrastructure and affordability. Brexit will represent a dramatic change, for London as for the rest of the UK.

This manifesto, drawing on 'Open City – London After Brexit', a joint project between Centre for London and the Institute for Policy Research at the University of Bath, identifies the challenges for London, and argues for the policies and measures that the next Government and the Mayor of London should adopt to make a success of Brexit for the capital, backed by a new alliance of city leaders.

In the short term, London needs devolved powers to attract and develop the domestic, European and global talent, and the terms of trade that enable prosperity – a better Brexit. In the longer term, to maintain competitiveness from outside the EU, London needs new powers over taxation to meet its housing and infrastructure needs, and to better manage its property market – a better city.

INTRODUCTION

Brexit is the biggest event in London's history for a generation, perhaps since the Second World War.

London's population and economy have been growing since the 1990s. Today the capital is one of a handful of truly global cities in an urbanising world. Its global character is reflected in the diversity of its population, in its relatively relaxed attitude towards immigration and in the clear majority of Londoners who voted to remain in the EU.

London is a global centre for finance, for tech, for creative industries, for not-for-profits and for higher education. Its vitality, diversity and economic growth have made it a magnet for young and creative people from across the country and the world. London's economy generates one fifth of the UK's GDP and one third of UK taxes, and firms based in the capital provide jobs across the country. Its success is Britain's success.

Growth has also brought strains to the capital. Speculation and undersupply have pushed up house prices to levels that are unaffordable for many middle-income Londoners. Transport congestion constrains mobility and worsens air quality, while transport costs are also rising as workers have to commute longer distances. For many Londoners and non-Londoners alike, the capital's prosperity seems detached from their own experience.

London's success is not solely a result of EU membership, but Brexit presents big challenges to the capital – challenges that are different both in degree and in character from those posed for the rest of the UK. Addressing these obstacles – and the opportunities that Brexit could offer – in the upcoming negotiations and in domestic devolution, will be essential to ensuring a prosperous future for the UK.

DEVOLVED SKILLS AND REGIONALLY MANAGED MIGRATION TO RETAIN TALENT

The capital is much more reliant on European workers than other areas of the country: in 2015 more than 700,000 London workers were people born in other European countries. These made up 13 per cent of London's workforce (twice the proportion of the rest of the UK) and included those working at all skill levels and in all sectors. A similar proportion of London's students are from other European countries. Losing access to talent from across the EU would drain London's businesses and its universities, but could also impair London's character as an open and welcoming city.

The vote to leave the EU makes it more important than ever that we ensure Londoners have the skills they need to thrive.

Unemployment rates in London are as low as they have ever been, but more could be done to help Londoners into work. High childcare costs mean that the capital has lower rates of employment for women with children, and national apprenticeship and skills programmes are not offering Londoners the skills they need for London's growth sectors.

- **The Government should commit to devolving responsibility for early years education and childcare to London and other cities, and give them greater control over apprenticeships and other skills funding.**

But London needs to remain open to international talent too. This includes high-skilled professionals in medicine, law, and other highly specialised sectors, but it does not end there. London also relies the mid-skilled workers who keep the city's bars, cafes, building sites and care homes running, and on the young people who visit to learn languages and skills and start new enterprises. Many of these people work in sectors like tech, where the bureaucracy and cost of directly recruiting overseas and seeking work permits would be prohibitive for employers.

London and other UK regions need to be able to take control of their own labour needs, rather than having blunt nationwide quotas imposed on them. In London's case, longer-term visitor visas would enable freedom of movement, within limits. EU citizens could visit to look for employment, with fast-tracked work permits for jobs in sectors where London faces shortages, and similar arrangements for entrepreneurs starting new ventures. A more generous regime could be applied for young people, enabling continuation of the frictionless flow across borders that has become the norm for a generation of young Europeans.

- **The Government should introduce a regionally-managed migration system, with different regions able to define their skills needs and to agree work permit quotas with Government.**
- **In London's case, one-year 'City Maker Visas' would allow European citizens to visit the city to look for employment or startup opportunities, with fast-track work permits for those who are successful.**
- **The Government should also extend working holiday visas to the EU, allowing easy access for young people for two years, with fast tracked work permit applications permitted at the end of that period.**

- **Open access to higher education across the EU should be maintained, with student numbers removed from net migration targets and a new post-study visa should be introduced in London to enable graduates to stay on to work.**

CLARITY ON TRANSITIONAL ARRANGEMENTS FOR TRADE IN SERVICES

London already trades globally as well as within the EU, but many of its growing service sector exports rely on EU regulatory frameworks. International banks can trade across the EU from a London base, professional services firms rely on mutual recognition of qualifications and jurisdiction, UK airlines can fly within Europe and between Europe and the USA by using EU aviation agreements, and EU regulations allow tech firms to share data over borders.

It is in the interests of both the UK and other EU countries to negotiate trade agreements that minimise the impact of regulatory barriers on trade in these service sectors, as well as reducing tariff barriers to trade in goods. These agreements will be complex, but should not be neglected – trade in goods may be hampered by tariffs if it has to fall back on World Trade Organisation (WTO) rules; trade in services could simply stop as a result of regulatory barriers. For many services, there are not even WTO arrangements to fall back on.

And the problem is urgent. If a full trade agreement cannot be negotiated and agreed before March 2019, transitional arrangements will be needed. These should be confirmed as quickly as possible, rather than left till the last minute. If the issue is left unresolved, the danger is that employers will seek to manage the risks associated with a potential ‘hard Brexit’ by moving operations out of London and other UK cities. We suggest that interim membership of the European Free Trade Association is sought: this would enable continuing access to most elements of the single market through the European Economic Area, though this would also require interim continuation of freedom of movement.

- **The Government should confirm that regulatory frameworks for services will be prioritised in discussions of future trade relationships with the EU.**
- **The Government should work with the EU to clarify transitional trade arrangements as soon as possible after the election, with EFTA membership representing one ‘ready-packaged’ option.**

DEVOLVED TAXES TO TACKLE LONDON'S HOUSING AND INFRASTRUCTURE CRISES

Since London's population began to recover in the 1990s, politicians have struggled to provide the housing and infrastructure that the city needs. As a result of undersupply, and the value attached to residential property as an investment, house prices have risen twenty times faster than wages over the past five years (and rents have risen ten times faster). Congestion on roads and rail has been increasing fast, and new investments like Crossrail 2 – still awaiting Government sign off – will be essential if London is to accommodate the forecast growth.

These problems are not new, nor are they caused by Brexit, but the UK's imminent departure from the EU should sharpen our focus. Unaffordable housing exacerbated the social divisions that boosted the Brexit vote – areas of east London had some of the strongest Leave votes in the UK – but it also threatens long-term damage to London's global position. If immigration and trading become more complex, will businesses and skilled workers be prepared to put up with high costs of living, and congested public transport, for all the attractions that London has to offer? London can no longer afford to be complacent about its offer, to its residents and to visitors alike.

One fundamental issue for London's housing market is the tax system. Domestic property taxes – council tax and stamp duty land tax – are outdated, regressive and perverse. They tax expensive property very lightly, adding to its attraction as an investment, and make buying and selling homes more expensive.

Devolution of these taxes, as recommended by the London Finance Commission earlier this year, would help London to meet its needs and tackle its problems. This should also help the rest of the UK; by supporting income and corporation tax growth in London, property tax devolution would support the UK economy as a whole.

At the very least council tax should be reformed, to bring values up to date, and allow more variation between tax rates for the cheapest and most expensive property. A more radical approach is introducing land value tax, which would tax the land that a property occupies (or, for the rent that would be paid for that land). The tax would be hard to evade, and taxing empty or underused sites would encourage more efficient land use in a city where development sites are scarce. The tax would be politically risky, but recent work on land value capture by Transport for London underlines the extent to which private landowners can benefit from unearned value increases as the result of public investment in infrastructure.

- **The next Government should devolve property taxes to the Mayor of London, and enable him to experiment with reforms, from updating council tax ratios to exploring the impact of land value taxation in London.**

BUILDING A CITY ALLIANCE FOR A BETTER BREXIT

Many other UK cities share London's interests and most also voted to remain in the EU. They have diverse and cosmopolitan populations, major universities and look to knowledge-based service sectors for their growth. Between them, London and the ten core cities account for nearly half of the UK economy. The success of these cities will be essential to the success of Brexit, and their interests should not be neglected.

The election of new metro mayors across the country gives the Mayor of London the opportunity to work with other UK cities and their elected leaders, to argue for a Brexit deal that reflects their interests, and allows them to take control of their own affairs through devolution of taxes and services.

- **The Mayor of London should join with the mayors and leaders of the UK's major cities to form a Convention of City Leaders on Brexit, and the next Government should actively engage with these cities, to ensure that their needs are properly addressed in negotiations and further devolution.**

KEEPING LONDON OPEN

London faces both short- and long-term risks from Brexit. In threatening London, these threaten the prosperity of the UK as a whole.

Falling out of the single market without a comprehensive trade deal or adequate transitional arrangements would be catastrophic for London businesses, as would the sudden loss of EU workers. The longer-term risk is more subtle but no less serious – the erosion of the creative edge, conviviality and variety that distinguishes London from so many other cities that offer well-equipped offices and international airports.

London's resilience and ingenuity will help the city to mitigate these risks and seize the opportunities that will come with them. But, like other UK cities, London needs to be open, liveable and affordable to do so. In the run-up to June's general election, political parties and candidates need to demonstrate that they understand the importance of this.

About Centre for London
Centre for London finds new solutions to the capital's challenges. We publish research. We hold events. We collaborate and influence.

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