Appendix 1

London Assembly Economy Committee - 11 January 2024

Transcript of Agenda Item 5 - The Impact of Brexit on London's Economy

Marina Ahmad AM (Chair): We'll now move on to our main item of business, a discussion with invited guests on the impact of Brexit on London's economy. Joining us at City Hall today are Ben Brindle, Researcher at the Migration Observatory at the University of Oxford; Laura Citron, Chief Executive Officer (CEO) of London and Partners (L&P). Is Laura here? You are, sorry, hello, Laura. Sorry I have something in front of me and I cannot see, because you were going to be here a little bit later, were you not? Thank you for being here now. Alex Conway, the Assistant Director of Economic Development and Programmes at the Greater London Authority (GLA). [Professor] Sarah Hall, 1931 Professor of Geography and Fellow of St John's College, University of Cambridge and the Deputy Director and Senior Fellow of United Kingdom (UK), in a Changing Europe, and [Professor] Dennis Novy, Professor of Economics from the University of Warwick. Thank you very much, a very distinguished panel, and I am hoping that we will have a really interesting discussion.

We are going to start off with the first questions, which I will ask. They are directed to Sarah and Dennis. The first one is, how would you summarise the impact of Brexit on London's economy today and in what areas has there been a discernible impact and have we had time now to understand that impact? Sarah, would you like to start?

Professor Sarah Hall (1931 Professor of Geography and Fellow of St John's College, University of Cambridge): Yes, thank you. Most of the academic research from economists looks particularly at the UK economy and suggests that there is a negative economic impact from Brexit, although the extent of that is hotly debated and as time has passed since the UK has left the European Union (EU), it is clear that it is very variegated in terms of geography and in terms of sectors. If we look at London in particular, a key distinguishing feature here is the importance of the service sector in London's economy, which makes it quite distinct compared to other parts of the UK. That is important because what the research is showing is that particularly services exports to the EU have held up rather more than we thought they would have done in the run up to Brexit.

There have been impacts on goods exports, which do affect London - I do not want to make a suggestion that London is just a services economy - but again the specificity of the impact is important here. For example, in goods the research suggests that it is impacting smaller firms and further down the supply chain more than larger firms. Therefore, as an opening statement, I would say that it is variegated within a general context that has posed economic challenges to the UK.

The other thing that is important to note is that we are trying to untangle here the impacts of the UK's departure from the EU, alongside some really other profound economic impacts and challenges, particularly the Russian invasion of Ukraine and the impacts of the COVID pandemic. If you just take COVID, trying to untangle those impacts is quite challenging. In some ways, COVID has helped services, it has normalised online delivery of services in ways that just would not have been thought possible for the pandemic. Therefore, in that sense, there is some evidence that has helped consultancy, information technology (IT) consultancy, those kinds of areas. That would be my opening position.

Marina Ahmad AM (Chair): Thank you very much. Dennis?

Professor Dennis Novy (Professor of Economics, University of Warwick): Good afternoon. As an economist, I have done a lot of that research myself on Brexit in particular. The summary I would give on Brexit is that it is very expensive. It is a very expensive policy adventure for the UK economy. What do I mean by that? As a headline figure I would say that the impact on UK gross domestic product (GDP) is something probably in the range of 3 percent to 4 percent of GDP. That is an enormous amount of money, therefore what that means is, if Brexit had not happened or if we had a very soft form of Brexit, the UK economy right now would probably be about 3 percent to 4 percent higher. The precise numbers are still a little bit unclear, as Sarah was pointing out, but that is the headline number.

Digging into this, why is that? Where does that impact come about? The biggest item, I would say, is costs for consumers, it is higher prices, it is inflation. The first bout of that came about at the beginning, after the referendum, when the pound exchange rate depreciated by about 10 percent during the night of the referendum. That was the biggest depreciation of any advanced country's currency in recorded history. It has fed through to higher prices and those higher prices come about because of imported products that become more expensive, Therefore this could be food, this be clothing items, and that has affected the average household in the UK by about £900 to £1,000 per year. This is a permanent cost that happens every year.

Ever since we have had further increases in inflation, because of Brexit - therefore they are unique to the UK, they did not happen elsewhere - and that is because of customs changes that were introduced and the UK imports a lot of food in particular, and that is where some of the impact has happened. In other areas of the economy, of course, it is not all about consumption and prices, there has been a negative effect on investment. Investment is very important for the growth and especially productivity growth of the economy. A lot of that decrease in investment is because foreign companies do not perceive the UK as attractive anymore, as they did prior to Brexit. UK companies have set up subsidiaries in the EU to still be able to serve the EU markets, an example would be easyJet. EasyJet is a British incorporated company, but they set up a subsidiary in Austria so that they can still fly within the EU. That is one example out of many, many others.

Also the uncertainty is really important to mention here. Uncertainty is somewhat a toxic influence for investment in particular. As you can imagine, businesses do not like uncertainty, and this also had an impact on higher prices. That is also more evidence. We have also seen a bit of evidence on lower wage growth that we would have otherwise not have seen, and that is because businesses, especially in the manufacturing industries, have seen higher input costs, partly because of the exchange rate depreciation, but also because of difficulties in supply chains. That has reduced the spending they have available for worker training and wages.

In that context I should say, as Sarah mentioned, most of trade is done by big companies and the problem with Brexit has been, because of the customs issues that are still coming in, mind you only in spring this year the UK will phase in customs checks. Right now everything essentially comes in the way it has always come in. Those customs checks are burdensome, especially for smaller companies. These small companies do not trade very much because most of the trade is done by large companies. However, some of these small companies grow to be big and that is a pipeline. That pipeline is now being disrupted because of Brexit, therefore there is evidence of that, and that evidence comes from all sorts of countries, obviously the UK, but also other countries like Spain and Portugal. Therefore, we can see those negative effects.

Finally, I should probably also comment on this question you asked, can we even say what the effects of Brexit are, given that we have had lots of other complications, COVID in particular. My answer, a bit different from what Sarah was saying, would be yes, we can, because COVID is not something that uniquely happened to the UK. COVID happened to other economies as well, particularly European economies, and it is a bit complicated from a statistical point of view, but you can tease out the differences. Now it will take a bit more time and the detail and the precise numbers are still going to be debated for some time, but the overall headline is very clear, Brexit has been very expensive for the UK economy. Of course that also extends to the London economy.

Marina Ahmad AM (Chair): Can I go back to something that you said just a moment ago about the larger companies having subsidiaries and you gave the example of easyJet. That is just the larger companies who can afford to have subsidiaries. Therefore what about the smaller companies? You talked about the fact that they are not able to grow in the way that they would because of Brexit but what about the business that they are doing with Europe if they do not have those subsidiaries in European countries?

Professor Dennis Novy (Professor of Economics, University of Warwick): The large companies have set up subsidiaries or they already have subsidiaries, that is, for example, the case in finance. Therefore, if you think about some of the big banks like Barclays, HSBC, they have been operating across different countries for decades. For them, it is relatively easy to adjust. Perhaps that is one reason why the losses in the financial sector, particularly job losses, are relatively minor compared to what some people had feared, probably in the thousands, not therefore much in the tens of thousands.

The small companies, to put it bluntly, they just stop trading with the EU. It depends a bit on the industry. Therefore if you are in some industries that are heavily affected, seafood is a case in point, chemicals, these are all highly-regulated industries where you have a lot of customs checks. The small companies stop trading, or they just do not grow, or they do not start. Therefore, this is precisely the pipeline problem that I mentioned and that is particularly acute for manufacturing. For services, as Sarah was pointing out, the UK essentially is a world leader in trade in services - and this is also for your recommendations a really important point to press with the Mayor and the Government - that the UK needs a strategy for services trade. Services trade is probably not as much affected as, say, seafood or chemicals, but the UK needs a strategies so that they can build on that. There are some problems in services, we have seen that, for example, with musicians and the culture and the arts sectors, where musicians cannot just work anymore like for a gig, say, in France or Germany, therefore there are issues to be dealt with. But there is some hope that the UK could formulate a cohesive strategy for services trade.

Marina Ahmad AM (Chair): Thank you. In terms of disentangling the various issues that have happened over the last few years, you both have differing views. Sarah, you have said that you do not think that it is still difficult to disentangle at the moment. Therefore, can I just ask you this, polling in December found that a clear majority of the British public now believes that Brexit has been bad for the UK economy, 63 percent believe that Brexit has been a factor in fuelling inflation and the cost-of-living crisis. Why do you think they have come to this view, targeting in specifically on Brexit?

Professor Sarah Hall (1931 Professor of Geography and Fellow of St John's College, University of Cambridge): That is probably an example of where economics and politics become very closely entwined. Therefore, if we go back to what we know about why people voted for Brexit, for many people it was a vote of disquiet with the status quo in terms of how they were experiencing economic growth within the UK. For some of the reasons that Dennis has outlined, it is fair to assume that people are experiencing profound increases in the cost of living, which have a Brexit element, may well have experienced disruption in their travel plans and challenges in supply chains in their local economy, and for those reasons it is fair to assume that voters reflect on what they were voting for and look at their lived economic experience now and see a disjuncture.

This reflects quite a long history of the UK's relationship with the EU. I have a sense that, if the UK's economy had been performing better, that figure that you have just quoted possibly would have been different and people would not be looking to blame Brexit quite so much.

Marina Ahmad AM (Chair): OK, thank you. You have both talked about the service industries that we have in the UK, and you talked about food as well, as one of our major trading elements. Can I ask you both, has Brexit had any noticeable impact on the trading goods, both with the EU and the rest of the world, in particular for London-based businesses? If, Dennis, you could start?

Professor Dennis Novy (Professor of Economics, University of Warwick): Any industry that has been hit is also found in London, but not always to the same extent. Sarah was pointing out that London is very services heavy. I do not think the difference between London and the rest of the UK is quite as stark. The UK economy is about 80 percent services, it is somewhat higher in London, but it is not that this is an enormous difference. Financial services are very strong in London, but you also have a lot of financial services employment outside of London. Therefore, once you look a bit more closely in detail, the London economy is not that different, with some big exceptions like tourism for example. Manufacturing is smaller in London, but there are some businesses that manufacture here. We have Tate and Lyle not far away from here, it is sugar, we have biscuit factories and so on. Yes, they have been affected in the same way as companies elsewhere in the UK have been affected.

On your question as to why have people come to the view that you just pointed out, more and more people believe Brexit has been bad for the UK economy. It is complicated, people come to their views in different ways, but I would say largely because it is true. The evidence is now there, and people are feeling it. I should probably also declare an interest, I am also on the Economic Advisory Council (EAC) of the British Chambers of Commerce (BCC), working with especially small and medium sized businesses, and these are major employers for up to 6 million people in the UK. People notice what happens in those businesses. They talk about the difficulties that they face. There is a recent quote of a UK business that no longer goes to trade fairs in Europe, and the reason they say is European companies are no longer interested in them and they do not approach them anymore. Then we have all the problems with the red tape, this enormous red tape, which is very burdensome for small and medium sized businesses in particular, that is very much a story for London businesses as well. Over time that trickles down and people understand the implications of Brexit.

Marina Ahmad AM (Chair): Thank you. Has Brexit had any noticeable impact on the trading goods both with the EU and the rest of the world, in particular for London-based businesses? Sarah, if you would like to start on that one?

Professor Sarah Hall (1931 Professor of Geography and Fellow of St John's College, University of Cambridge): If you are looking at UK-wide trade more generally, it is important to put it in a context where the UK's trade intensity, a measure of how open the UK's economy is to trade, has been relatively weak over a number of years. Therefore, there is that that wider context. The key information, which is coming out of academic research, is the differential impact of Brexit on goods and services that both me and Dennis have alluded to. Here we have seen a greater negative impact from Brexit on goods exports, particularly to the EU from the UK, less so on services.

The other important point to note when you are thinking about services and particularly financial services is that UK trade between the UK and the EU in financial services does not take place in a vacuum. It is really important to note the growing attractiveness of the United States (US) in financial services in particular in recent years. We have seen this with growing interest among firms listing in New York compared to London. Therefore, one important consideration, particularly if you are thinking about action points, is to not lose sight of the UK's relationship with other trading partners, in services in particular, and financial services, and to recognise that there are other growth markets that the UK historically has had very strong links with.

Therefore, the recent agreement of a mutual recognition agreement between the UK and Switzerland on financial services is a really interesting thing to watch. Put simply, it is a newer model of a financial services trade agreement that the UK has agreed with Switzerland, which makes it easier for UK-based financial services to access the Swiss market. That is really interesting because Switzerland is another major financial service centre internationally, one that also sits on the periphery of the EU. Therefore, when you are thinking about the impact of Brexit on trade and particularly in terms of services, it is important not to lose sight of what is going on, both between the UK and the EU, but globally as well.

Professor Dennis Novy (Professor of Economics, University of Warwick): I agree with everything that Sarah has said. I can make another point here that perhaps might be useful for your recommendations. You asked about London businesses in particular, perhaps London services exporters. One big issue here is the UK problem is we do not have the data, the data quality that is being provided for research is poor in the UK. Just not far away from here, in Stratford, His Majesty's Revenue & Customs (HMRC) have a data lab where you can access the data. It is incredibly hard to get access to the data. Then those data that HMRC provides are not linked up with other datasets from the Office for National Statistics (ONS), for example. Therefore, if you want to find out what kind of companies are we talking about, how big are they, how much revenue do they have, how many employees do they have, what are the wages of the employees, who do they trade with, and so on, it is incredibly hard to link up.

I work a lot with French data and the French data is just a different world. I could tell you a lot about the companies in Paris, the amount of detail I could tell you about those, no one in the UK or anywhere could tell you that about London because those data are behind difficult data protection walls. That really needs to change, especially if you want to find out about Brexit.

Another point about London and the rest of the world is an open question on Brexit is the issue of supply chains. Modern trade is no longer, "I produce something, and I send it somewhere else, end of". That is not how it works. We have trade and intermediate inputs that crisscross borders, often multiple times, with companies all over the world producing different things like Airbus aircraft, is a big example of that. What we do not know yet is whether UK trading relationships being damaged with EU countries, because of Brexit, whether that has other effects on other countries outside of the EU. Therefore, if a UK company is no longer seen as a reliable partner in the global supply chain because the difficulties that are arising with the EU, relative to other countries who do not have those difficulties, does it also make the UK less attractive for other countries that have nothing to do with the EU, like Japanese companies, for example? So that is one of the big open questions and that is a data issue. It is very hard to find that out in the UK.

Therefore, to summarise, I would just say Brexit is a bit of like a bleeding wound, it is not a gushing wound where blood is coming out in major quantities, but it is a small wound. Those wounds can sum up over time, but it is not sustainable and needs to be fixed. A lot of the politics is also focused, say, on the Trade and Cooperation Agreement (TCA), which will be reviewed next year. In my view, that is a bit of a red herring because it is essentially a non-committed, almost voluntary review, which has no hard meaning to it. But what does happen day in, and day out is regulatory divergence. Every day there is new regulation coming in the EU in all sorts of industries, be it food, be it chemicals, be it toys, anything, and day in and day out, if the UK does not copy those regulations, there is a divergence.

That is a huge problem for British businesses. You have, over time, a growing divergence of regulation that means British companies have to fulfil duplicate regulation. Recently one of those examples was this UK Conformity Assessment (UKCA) that the UK Government came up with to replace the EU conformity assessment regime that has been there for a long time, and of course the UK has always had that as a member state of the EU. British business lobbied very intensely to avoid that because, for them, it is just two regimes of regulation that they had to deal with. Now the Government recently, at the end of last year, said, "We are going to abandon that UK certificate. You can do it if you want to, but you do not have to, you can stick to one regime if you wish." That was very much what businesses want. Therefore performative Brexit, where you come up with differences and divergences for the sake of coming up with differences and divergences, really has to stop. That is what I mean by the bleeding wound. Instead of coming up with gung-ho, highfalutin trade agreements and all sorts of things that the country was promised over the years, what would really be useful is the hard grind of work of trying to stop the differences and trying to stop making life difficult for UK businesses and their employees.

Marina Ahmad AM (Chair): Thank you. Could I hand to Assembly Member Bokhari now for the question.

Hina Bokhari AM: Yes, thank you, Chair. A lot of questions have been covered already in terms of what I was going to ask. If there is anything else that you want to add in terms of the impact of Brexit on services, please do but is there any particular sectors of the London economy that has experienced a noticeable economic impact of Brexit to date? Is there anything that you can add to what you have already said? But, other than that, we have covered quite a lot already within this section.

Professor Dennis Novy (Professor of Economics, University of Warwick): One sector, quickly, is of course education. A lot of us work in universities, therefore we at the University of Warwick, and I am also at the London School of Economics (LSE), we have seen a big drop in students coming from the EU. The obvious reason is their fees have increased. They used to pay home fees and now they pay the foreign fees, which are a multiple of the fees they used to pay. That is a big hit. Therefore, the reliance on students from outside Europe has increased.

Hina Bokhari AM: We will be covering that as well later on. Thank you.

Marina Ahmad AM (Chair): Yes, thank you. Thank you, Assembly Member Bokhari.
Assembly Member Clarke.

Anne Clarke AM: Thank you for that. Just a minute ago, Professor Novy, you mentioned about financial services and the impact they are having, not just in London but across the country. I wonder if you could expand particularly on London - this could also be for you, Sarah, as well - on how financial services particularly have been impacted by Brexit in London.

Professor Sarah Hall (1931 Professor of Geography and Fellow of St John's College, University of Cambridge): Financial services is a strategic strength of the UK's economy, but essentially experienced a no-deal Brexit. Therefore the TCA, like other free trade agreements, does much more on goods than it did on services. This is because the EU single market is pretty revolutionary in terms of what it permits member states to do in services. Prior to Brexit, you could be a financial institution in London, based in London, and you had access to the single market through a mechanism that was called passporting. That was brought to an end when the UK left the EU and has been replaced by an equivalence regime.

Equivalence works whereby, if you are the EU, you decide does that country meet your regulatory standards in a particular part of financial services, and there are lots of different parts, and if you say yes, then you grant an equivalence decision. The UK adopted quite a liberal approach to equivalence and granted quite significant market access to EU financial institutions, and this also included a temporary permissions regime which allowed EU-based firms, which were already working in the UK, to continue to do so. The EU adopted a rather different approach, a more restrictive approach to single market access for UK and London-based firms.

Therefore, currently, the UK has just one equivalence decision from the EU, which is significantly less than other major financial centres like New York and Singapore, for example.

We might want to talk about what that one equivalence decision is in. It is in clearing. It has been extended twice already and there is a deadline of 2025 for that to end, therefore that might be something you want to discuss further. But if I just speak to the generalities of that. On paper, moving from passporting to one equivalence determination, there were some worst-case scenarios which were suggesting that you might see close to 100,000 financial and related professional services jobs leave London in particular for the EU when the UK left. Dennis has already alluded to the fact that has not happened. The latest estimates were around, we think, 7,000 to 8,000 job relocations.

Therefore, I would describe Brexit for financial services as being a long Brexit in that it was quite clear early in the negotiations the Brexit arrangement that would be available for financial services. Therefore, the sector got more notice in some senses as to what Brexit might look like compared to manufacturing. That was because, if you were going to end free movement, which the UK was clear that it was going to do, the EU was clear that you were not going to be able to cherry pick parts of the single market access for financial services. Therefore it is a long Brexit, there was more time to prepare, and, as Dennis mentioned, the sector already had quite significant cross-border bases across the EU. Therefore, it had an infrastructure that it could draw on to some extent to try to mitigate the impact.

That being said, I would note that the job figures look flat rather than significant growth in UK financial services. Therefore, I would probably sound a slight note of caution around that. There was a lot of debate in the run up to the UK's departure about would Frankfurt overtake London as Europe's leading financial centre and it was framed rather in a competition between different European centres. What we have seen is rather a picture of fragmentation where different types of financial services activity have tended to cluster in different European centres post-Brexit. Therefore, it has not been that one centre has overtaken London or directly challenged London's financial services, but perhaps London needs to be better at recognising the specialist ecology that is emerging within the EU. You are seeing banking relocations, for example, being clustered in Frankfurt, market infrastructure and clearing activity being clustered in Amsterdam, asset management in Dublin, and then some really interesting things going on in Paris around more of a full service range of activities. Therefore, the impact on paper has been less than worst-case scenarios would have anticipated, but what has unfolded in some ways is not exactly what was predicted in that we have seen this fragmentation across Europe.

As well, the other side of the coin is, what are the advantages potentially for London outside of the single market in financial services. Here people would point to the ability to be more flexible in regulatory terms, potentially more nimble, and being able to tailor financial services regulation to the specific needs of London, as compared with needing to design financial services regulation that met the requirements of all EU Member states. I would sound a slight note of caution around that because we know that London played a very significant role in shaping EU financial services regulation before the UK left and there is some sense within the sector that the speed of regulatory change has perhaps been slower than it would have liked to have seen, given the lack of single market access.

I would say in the past year, 18 months, there have been some strides made and the Financial Services and Markets Act would be a significant piece of legislation there, which essentially sets up the UK's post-Brexit financial services regulatory landscape. The agreement of the memorandum of understanding (MoU) between the UK and the EU on financial services regulation is an important piece of financial services diplomacy. We are yet to see exactly what that might produce. As I mentioned earlier, the UK is beginning to explore relationships with other third countries, notably Switzerland.

Anne Clarke AM: That is really helpful. Dennis, I see you want to come in there.

Professor Dennis Novy (Professor of Economics, University of Warwick): Yes. Financial services is really an interesting case, as Sarah and I were saying, the impact has not been that dramatic, there is about 1.3 million people in the UK that work in financial services and the job losses in London for financial services are probably less than 10,000. Therefore, that is relatively minor. Financial services are interesting because you have a really strong increase in agglomeration effects, the pool of depth and knowledge, both in the workforce and the activities in London financial services, is just enormous. There is no one other place in the EU that can rival that.

That is one of the reasons why there has been this fragmentation. Amsterdam has been picking off some of the equity trading and asset management has gone to Dublin, but no one place has been able to pick everything off. The UK banks in particular have tried to keep the high value added work in London. That is good news for the UK. That has not been lost. For example, mergers and acquisitions (M&A) activity, that work in the background is very labour intensive. That is where you generate value added, high wages, good jobs. But that does not mean there are no other places outside of Europe that can rival London. Obviously, New York, and New York has really benefited from Brexit, much more than European countries.

One final thing on regulation, it is really important to understand how regulation works, especially anything that has to do with trade or international affairs. This is a game of the big guys. Regulation is done by the US, by Europe, and China, maybe India in the future, that is it. The UK's fate from now on, despite all the talk about sovereignty here and there, is really to align with the EU. It is a bit ironic because the single market, including very much financial services regulation, trade policy, was really a UK strength. There is probably no other country in Europe that formed as much of that regulation as the UK, especially the Government under Margaret Thatcher [former Prime Minister], was really crucial for the single market. In trade policy that is definitely the case, Peter Mandelson was EU Trade Commissioner, before him there were other British Trade Commissioners. There is no question that the UK was the leading country in Europe. All of that is now out of the control of the UK, and if you diverge from that you are just going to have trouble. Therefore, businesses in the UK are resisting that, they do not want that to happen, it is not in the economic interests of the UK. It is really important to understand the UK now needs to think much more like much smaller countries, like Norway or Iceland almost. They are not as large as the UK, not even close, but qualitatively they are now much more in the same boat as those countries. That is really important to understand.

Anne Clarke AM: That is really, really helpful. That description of the UK making itself a smaller country effectively is the key point. Thank you both for your answers. I will hand back to the Chair because I know other colleagues have questions.

Marina Ahmad AM (Chair): Thank you very much. Moving on to the next section, which is about immigration and free movement. Ben, I have a couple of questions for you. Firstly, how has the UK's immigration system changed since Brexit and what impact has this had on immigration patterns to date?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): In the broadest terms, what has happened is migration has become more restrictive for EU citizens and more liberal for non-EU citizens. Therefore, if you think about the immigration system we had prior to the points-based system that we have now, EU citizens benefited from free movement, had the same rights to live and work in the UK as UK-born citizens, and that meant that they could take any role in the labour market that they wanted to, regardless of the salary or the skill level. By contrast, under the previous system, non-EU citizens generally were restricted to graduate level roles. There is a few exceptions there, but in general that was the case.

Now it is the same rules for both EU and non-EU citizens. People coming to the UK to work need to have a job offer from a UK employer and that job needs to have skills which are at least Regulated Qualifications Framework (RQF) level 3, which is equivalent to the skills gained from completing an A level. They also need to have a salary which is at the moment more than £26,200. That is set to increase to £38,700 later this year. There are some exceptions. If the job is marked on the shortage occupation list - that is also going to be revamped - but most roles need to be paid at least £26,200. This is very much reflected in the net migration statistics that we are seeing at the moment in terms of these rule changes. Therefore, in terms of work migration from EU citizens, that has fallen, it was minus-67,000 in the year ending June 2023, whereas for non-EU citizens work migration has increased and was 144,000 in the same period the year ending June 2023.

But it is important to note that work is only one aspect of net migration, therefore if we think about non-EU net migration specifically, the total number in the same period was 768,000, therefore work migration comprised only about one in five migrants in terms of that overall number. The other groups, which include the dependents of workers and the dependents of students, students themselves, people who have come on humanitarian routes from Hong Kong and Ukraine, family migrants as well, all of these groups are able to work in the labour market and therefore, while they might not be part of the formal work migration system, they still play a big role in the labour market and in the economy.

Marina Ahmad AM (Chair): Thank you. Are there any particular sectors of the economy that have been impacted either positively or negatively by changes to immigration patterns since Brexit?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): In terms of those sectors which have been most impacted, the most indicative way to look at this is to think about the share of jobs in each industry, which are no longer eligible under the work migration system. The Migration Advisory Committee (MAC) provided a breakdown fairly recently in October of last year and the three industries with the highest share of jobs, which are no longer eligible, are hospitality, wholesale and retail, and manufacturing. Then if one looks at London specifically, there is not too much data for specific regions, but HMRC data does break down into different regions. I had a look at these three industries and what we have seen across all of them is that the number of EU citizens working in these sectors has declined between December 2019 and December 2022. But at the same time the number of non-EU citizens working in these industries has risen. In the case of hospitality, that has offset the fall in EU citizens, this increase in non-EU citizens. In the case of wholesale and retail and manufacturing, it has reversed it entirely. That is to say, there is more non-UK-born people working in these sectors in December 2022 than there was in December 2019.

Then in terms of what is going on here, there are two plausible explanations, one more likely than the other. The first is that the increase in non-EU citizens is happening through the work migration system, therefore in these more skilled and better paying roles such as managers in retail, for example. However, if we look at visa grant data, it does not seem to match that increase that we have seen. Therefore, what is probably more likely and the bigger driver of the two is that this increase in non-EU citizens is happening with those groups outside of the work migration route, the dependents, students, etc.

Then on that question of which sectors have benefited, thinking about work migration specifically, overwhelmingly it is the care sector. Of the visas which were granted in the year ending September 2023, about half of skilled work visas were for the care sector. It is overwhelmingly becoming the case that visas under the skill work system are going to public sector jobs, and particularly health and care, while, for instance, some of the changes which are set to be implemented are going to make it more difficult for the private sector. Therefore, there is a real contrast and divergence there in terms of the ability to use the immigration system, at least with regard to work.

Marina Ahmad AM (Chair): Thank you. Assembly Member Bokhari.

Hina Bokhari AM: Thank you, Chair. My question is about - I do not like this phrase - lower-skilled sector. I would rather call them crucially-skilled people, that would probably be a better way of defining it. But what impact have the changes had on the labour supply for those particular roles that are considered to be lower skilled and the sectors that depend on these roles? Because there has been some really interesting research from academics Jonathan Portes and Jonathan Springfield that estimated that the end of freedom of movement has led to a shortfall of 330,000 workers in Britain. This must have an impact. What impact is that having on the long term for London's growth and productivity?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): Firstly, I would say that I agree in terms of what you say about low-skilled migration, I guess it is dependent on the amount of time it takes in terms of training and education, but there are other skills which do not count as skilled under that definition. therefore I would agree with you there.

In terms of the impact - "lower paying roles" would be a better way of describing it given the changes in the migration system - it is difficult to say, in part because there is a lack of data. Then also the changes that were implemented were done so at the same time as the pandemic, therefore disentangling the two is a little tricky. But it does appear that sectors, which previously were hiring EU citizens in quite large numbers, now have shifted their hiring patterns to non-EU citizens. Yet, as we see, vacancies are still very high by historical standards. That to me, what it suggests, is that migration is not a key driver of the difficulties hiring that we have seen, and that it may play a role, but other things such as the change in labour market behaviour following the pandemic play a much bigger role in terms of vacancies.

On the question of the idea of this EU emigration, previously it was thought that during the pandemic there was an emigration potentially of up to a million EU citizens across the entirety of the UK. Now, according to the latest ONS estimates, it seems to be the case that there was not this emigration occurring until January 2021 or that first quarter of 2021. Therefore that suggests that, rather than the pandemic, it was potentially the change in the immigration rules, the added bureaucracy, and restrictions then meant that there were more people leaving the UK than coming to the UK.

To go back to the initial point, in terms of where have there been those impacts on labour supply, and the fact that migration, I do not think, has played too much of an impact, that taps into a wider point that migration is one way of addressing vacancies in sectors, but it is not the only way, and it might not necessarily be the most effective way. Therefore, for example, employers could improve pay and conditions in roles to make them more attractive to workers who are already in the UK. Another thing would be automation to reduce the number of vacancies that are required. But then in terms of which of these are being done, there is a little research, there is some surveys of employers to ask what they are doing in reality. It does not appear that automation is the case, at least not at this point. I guess it can take time to innovate and change processes. At the moment, it is the former of those that is happening a lot more, this change in pay, this change in flexibility of roles, that seems to be at the moment how employers are responding.

Hina Bokhari AM: There has been a lot of work that we have done on the skills gap that you were implying there. The Government have had some approach to this. What do you think is the Government's reasoning when they have a staggered approach to raising the skilled worker visa income threshold, for example, over the course of 2024? Is it to allow the opportunity, perhaps, for the Government to have a U-turn and potentially it could be a damaging policy? What effect do you think is this having for the skills visa itself? Will it continue to have an impact on the pre-existing skills gap in London's economy? Will it benefit that? What is the impact of that particular approach from the Government?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): Of the increase in the skilled worker salary threshold?

Hina Bokhari AM: Particularly the staggered approach; that is what I am more interested in.

Ben Brindle (Researcher, Migration Observatory, University of Oxford): What do you mean by the staggered approach, sorry?

Hina Bokhari AM: It is not a one approach, it is not one, it is a slightly changing policy that seems to be emerging bit by bit by the Government.

Ben Brindle (Researcher, Migration Observatory, University of Oxford): Sorry, that might be the family threshold, because I guess that is slightly separate, therefore if I can come to that in a --

Hina Bokhari AM: Yes, it is based on politics more than economics. That is my impression. But what would you say?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): There was certainly opposition to the family threshold and now the final increase is set to happen in 2025, which could well mean that, because of the election, if there is a change in Government, that it is not enforced. Therefore, yes, it is quite possible that will not happen to the full extent that it is suggested it will at the moment.

In terms of the skilled worker salary threshold, on the face of it, it looks quite dramatic, this increase from £26,200 to £38,700. But it is less dramatic than it first appears. Firstly, because a lot of this increase is accounting for inflation since it was first introduced. The MAC recommended that each year the threshold be increased in line with inflation but, beyond a small increase last year of a few hundred pounds, that has not been the case. Therefore, some of this is simply accounting for inflation.

But then also in terms of the scope as well. There are not too many jobs which are going to be affected. If you think about the visas that were granted in the year ending September 2023, that was about 208,000 skilled work visas. About half of those were for the care sector and the care sector has been exempted from this change, therefore those roles are going to be unaffected, at least as far as the skilled worker threshold is concerned. There are restrictions on dependents, but that is a separate issue. Therefore of this other 50 percent, we then have a further 20 percent of roles which have salaries set according to national pay scales, things like doctors, nurses, higher education, teaching professionals, for example. Because the salaries on these jobs are set according to those pay scales, they too are exempt from the skilled worker salary threshold. Therefore, again, they are unaffected.

That means that where the impact would fall is on jobs which represented about 30 percent of visa grants. But then if we look at those in further detail, you see that a good number already are paying more than the new £38,000 threshold. Jobs such as IT professionals, accountants, and therefore they should be relatively unaffected as well.

Where it is going to fall therefore is on the middle skill roles, particularly if we look at the visas granted on butchers and chefs, but it is these types of roles where there probably is going to be quite a significant impact. One question there would be, and which we are still waiting for information on, is what the replacement for the shortage occupation list will look like. The current shortage occupation list has two real benefits to it. First, there is a going rate, which employers have to pay workers when hiring from overseas via this route. Those occupations added to the list can have a 20 percent discount on that. It is announced that it is going to be scrapped, therefore the benefit which would expect to continue, otherwise the list would not have much of an impact, is that employers can hire for under the general threshold. That is to say that, once the new threshold is in place, they will still be able to hire for under £38,700 but we are still waiting for details on that.

Then if I might just turn to London specifically, many of the impacts that we have seen or the trends that we have seen such as, for example, the fall in EU citizens and rise in non-EU citizens working in the labour market, much of these things are the case in London as the rest of the UK. But where that there are specific impacts, firstly that this fall in EU-citizens was the greatest in London as a share of the number of EU citizens that were working in December 2019. Then turning to the system that is in place now, London generally has higher-skilled roles, at least more so compared to the other areas in the UK, and it also tends to pay more for the same roles. Therefore, there are likely to be fewer jobs bound by the salary and the skill thresholds compared to other areas of the UK and therefore will be less affected in that sense. However, on the flipside, the cost of living in London can act as a disincentive. Therefore, there is a higher vacancy rate for nurses in London than other parts of the UK and evidence looking into this suggests that it is, because the cost of living is higher, earnings do not go as far, and therefore moving to other parts of the UK is more appealing.

Hina Bokhari AM: Thank you. My last question is, how is London likely to have been impacted by changes to immigration patterns since Brexit compared to other regions in the UK?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): As I say, they are the real differences. Otherwise the picture is broadly the same. It does come to that key aspect of the fact that generally roles in London tend to be higher skilled or better paying and therefore there should be less impact in that way. But then the flipside on the cost of living, things like that. I would not expect much of an impact on wages, for example, there is a fairly large body of academic evidence now which shows that immigration has very minor impacts on wages at most. It is unevenly distributed, with wages increasing slightly towards the top of the earnings distribution, which in this case could apply more to London, and falling slightly towards the bottom of the earnings distribution. But these impacts are very small and therefore the trends we have seen are the same and we think the labour market impacts are going to be fairly small as well. But that is the case, not just for London, but for the UK as a whole.

Marina Ahmad AM (Chair): Thank you. Assembly Member Hirani, did I see your hand up?

Krupesh Hirani AM: Yes, just a quick follow up on some of that questioning really, just on some of the rhetoric and policy that we have seen in the last two years, in particular around this. You mentioned about the change in the wage limits and numbers on the shortage occupation list. Unfortunately, and I say this as a politician, you are seeing some elements of politicians playing on the rhetoric of fear and it is getting to a place where the reasonable or rational debate around this issue is not possible all of the time when people are playing on people's fears rather than addressing them. It has resulted in significant damage to our economy, we are hearing, and society and social cohesion as well. Given the negative impact, what do you feel, Ben, needs to be done to maybe start to try to address or tackle that?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): Sorry, can you clarify your question slightly? Sorry, I did not get it.

Krupesh Hirani AM: Yes, it is just with what we are seeing with the negative and toxic debate around immigration, it is obviously having an impact, and the net result or the end result is maybe what we are seeing or what the panellists have been explaining about the impact on London's economy and the UK's economy, how would you suggest that we can try to maybe tackle and address some of that to get more of a positive narrative and engagement around the topic?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): This is very much what the Migration Observatory tries to do, hopefully we succeed to some extent. Some of the key things that we try to do is to try to bring more evidence into the debate, therefore looking a bit more in depth at policy and what is happening, for example, on things like the labour market impact and public services. Often there is a difference between public perceptions and then what we see in evidence that is produced.

Another thing as well, often migration is talked about in very broad brushstrokes, not only sometimes migration and asylum, those topics can be conflated, but also too in specific topics. Therefore, in the context of work, for example, if, in opinion surveys, people are asked what they think about migration levels and are they are too high, too low, there is quite some support for migration levels to be reduced. But then if those same people are asked about specific occupations and specific types of migration, generally the reception is more positive. Therefore thinking about different types of occupation, for example, the only one which people on balance say they would not like more of are bankers. Then in terms of groups more widely, Ukrainians command high support, students do as well, and therefore talking less than these broad-brush strokes and some of the nuances would be important for the debate and bringing facts and evidence into that too. It is obviously quite difficult, there are a lot of actors in the migration debate, lots of opposing interests in places. But to the extent that can be brought in, it should be, and that is certainly what we try at the Migration Observatory.

Marina Ahmad AM (Chair): Thank you. Assembly Member Polanski.

Zack Polanski AM: Thank you, Chair. Today, Brexit has been described as a bleeding wound. We saw after referendum hate crime on the rise, we have seen the toxicity in our politics. There are no Conservative Assembly Members in the Chamber today. It feels like they have fled the scene of the crime. But their one argument was that this would deal with the fact that wages were not rising, but we have already heard from Professor Novy that there is no discernible difference on wage growth. From what I understand that you just said, there has been wage growth at the very top, therefore the richest people have benefited from Brexit, whereas the poorest are seeing their wages fall, if anything. Can I just check if that is a correct characterisation and why did they get this so wrong?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): I should clarify that slightly. Some of this research took place before Brexit, some of it is over the period, we are still waiting for some afterwards. Also, these impacts are incredibly small, therefore in this particular study, for example, which reflects other studies as well, but we are talking 1 - 2 pence an hour, therefore it really is a very small impact relative to tax policies or education policies and things like that. Therefore, technically yes, there has been a slight increase in the distribution of wages, but it is very, very small.

Zack Polanski AM: But it would not be accurate to say that Brexit has created higher wages for people across the board?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): This research seems to be both before and after Brexit, it is across developed economies. These results generally get found, it seems to be a similar pattern, therefore I am not sure I could say too much of the role that Brexit has had on changing this equation in any particular way.

Zack Polanski AM: Understood. Is there any work that is specific on wage growth for migrant workers and wage growth for UK citizens who were not migrants?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): There is not too much in terms of breaking this down. A lot of the academic evidence focuses on the UK-born. But one thing we do know on this is that migrants do tend to be more impacted by immigration and more migrants arriving in the labour market, essentially because they tend to have more similar skills and therefore are more likely to be in direct competition. If you compare UK-born workers and arriving migrants, UK-born workers tend to have more in the way of communication skills and therefore they are more likely to be in those type of occupations, whereas migrants, at least when they arrive due to things like not having the correct qualifications or language ability, tend to be in more roles which use manual intensive skills. Then they tend to transition later on as well. But we would expect migrants to be more impacted by immigration on the basis that they are more similar.

Zack Polanski AM: Absolutely. Of course, it is not all about wages, has there been any research or data done around attitudes or working conditions?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): Attitudes have improved since the Brexit referendum. Part of that might have been the fact that immigration was considered as being under control. But then the Brexit process was taking place. But then also during the pandemic, things were looked at slightly different, and therefore, when we look at specific types of groups, there is this fairly positive perception of migrants. It is when we are in these broader brushstrokes and thinking about migration as one whole that the perceptions are more negative. But, yes, since Brexit, opinions have become more positive as seen in surveys.

Zack Polanski AM: Thank you. Assembly Member Bokhari alluded to the threshold rising for the spouses, what impact could this have - if this continues to rise - on London's economy?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): It does not have too much of an impact in terms of the economy, either for London or for the UK generally. Where the impact is, it is on people's personal lives. If you are looking to bring a spouse over or already living with a partner who is there on a family visa, having these rule changes coming in, that is going to have a significant impact on your life if you are caught within those changes. It could lead potentially to separations of families, the children, for example, can be seen as extraordinary circumstances as a reason for somebody to not have to leave the UK, but it is not always the case. Therefore, there is that possibility. Unlike a small increase as well, it is quite difficult if one is earning £18,600 to have their salary increase to £38,700 by next year, and therefore there could be a quite high number of people that are caught in this net. In fact, comparing the old threshold, the £18,600, to the £38,700, which it is set to reach by next year, at present it is about 75 percent of people earned over the old threshold in 2023, that number falls to 30 percent now. While that might be less the case in London, because, as I say, people tend to earn better, there are still going to be a lot of people caught in the scope of those changes.

Zack Polanski AM: It is horrendous; it is people's lives. I am going to move sections, but it is just to check if anyone has anything they want to say about free movement or immigration that has not been said. It is a very open question. Professor Novy.

Professor Dennis Novy (Professor of Economics, University of Warwick): Just something very basic, because also Mr Hirani asked about the toxic debate on immigration in this country. It is important to say that the UK is not a particularly high immigration country. The UK does not have that much immigration, it is in the middle of the pack. If you look at the data here right in front of me, Organisation for Economic Co-operation and Development (OECD) countries, the share of foreign born people as a share of the total population in the UK is 14 percent. That is the same as in the US and Spain. That puts the UK in the middle of a pack. Therefore, it is much higher in Estonia, Norway, Germany, Belgium, Ireland, Iceland, Austria, Sweden, Canada, it is 21 percent for example, Israel, New Zealand, Switzerland, Australia, Luxembourg, their immigration is a lot higher than the UK, therefore it is just not true.

However, what is very important for the public debate, not just in the UK, elsewhere, is the population has a pecking order as to what immigrant they like and what immigrant they do not like. I know this is quite gruesome and quite blunt, but if you look at the data on this, for example, this YouGov poll here I have, this is asking the British people, this is from 2020, What are your top ten countries and what are the bottom ten countries in your view?" The top ten countries according to the British people are New Zealand, Canada, Australia, the UK, Spain, Italy, Norway, Sweden, Netherlands and Denmark. Therefore, you know what kind of countries these are. "What are the top ten worst countries?" According to the British people, North Korea, Syria, Iraq, Iran, Afghanistan, Saudi Arabia, Libya, therefore these are all Muslim countries, then Russia, then China, and then Somalia. Therefore, if you ask other countries, if you do that poll in France or in Germany, you get a very similar response. But that is behind a lot of the immigration debate, it is not so much about immigrant, it is about where does the immigrant come from. That is particularly toxic.

But from an economic point of view, we also have to recognise that immigrants subsidise the local population. This may not be a very winning argument on a political side, because if you tell native British people. "It is foreigners or foreign immigrants that pay for you", that does not tend to go down well at all. We have seen that in the Brexit referendum. But that is the thing we have to keep in mind, it is very uncomfortable, it is quite gruesome, but that is what people think.

Zack Polanski AM: This is so important. When I think about the leadership in this country, we have Rishi Sunak [Prime Minister] running around saying, "Stop the boats" and conflating that with migration. We have [Sir] Keir Starmer [KCB, Leader of the Opposition and Leader of the Labour Party] yesterday, doing a Nigel Farage [Honorary President of Reform UK] tribute act saying, "Have you lost control of the borders?" as if we are being flooded with migrants. Why do you think these people are not making the connection, overriding the racism - and it is fair to call it racism especially when you list those countries - why do you think the economic arguments are not piercing through this? That might be the million dollar question that you have to reflect back to a politician, but do you have any thoughts about it?

Professor Dennis Novy (Professor of Economics, University of Warwick): I am not a politician, and I am not elected, therefore I am not going to expound on that in any detail. What I would say, though, is that we have learned that lesson more broadly in the entire Brexit referendum campaign, is that when it comes down to it economic arguments are trumped by other - call them - culture wars or cultural arguments. Therefore with the economy, it was not a surprise, and it was widely debated prior to the referendum that Brexit would have costs and those costs would be borne by the British people. Also, of course, by the EU, but to a lesser extent. That is not what decided the vote in the end. That is where I am going to leave it.

Zack Polanski AM: Therefore a grim place to have a break but thank you for the honesty. Thank you.

Marina Ahmad AM (Chair): Yes, an interesting place to leave things. Therefore if we could break now for a few minutes. If we could be back by 3.15[pm] please.

[The meeting adjourned at 3.09pm and reconvened at 3.16pm.]

Marina Ahmad AM (Chair): OK. If we can now go back to the next part of this investigation, which is about Foreign Direct Investment (FDI). Going back to Assembly Member Polanski.

Zack Polanski AM: Thank you very much, Chair. Laura, if I can turn to you please, has there been a noticeable change in levels and patterns of inward investment since Brexit? I will just get you to pop your mic on if that is OK, thank you.

Laura Citron (Chief Executive Officer, London and Partners): Thank you. I thought it might be helpful to just start by giving some context on what FDI to London typically is and how, as L&P, we work with foreign direct investors because that hopefully will give a bit of context to the perspective I can share. We have heard fantastic data from our colleagues on the panel and I can share some data but also more of a practitioner's insight from our work with hundreds, if not thousands, of investors.

Therefore, our focus today specifically on FDI, by which we mean international companies who come to set up a new operation in London, and that is obviously distinct from other kinds of international investment into London, which could be capital investment for the built environment, it could be investment into financial products, and so on. But let us talk about FDI, which is companies setting up. Typically, the clients that we work with as foreign direct investors are scale-up companies, they are in the innovation driven sectors, therefore they are research and development intensive. They tend to be making their first move outside their home market, therefore if they are from Bengaluru or from Shenzhen or from Silicon Valley, this is their first move into an international market, not always, but typically. They tend to be growing very fast.

We focus on businesses in five key sectors where London has real competitive advantage. That is life sciences, fintech, financial technologies, enterprise software, green and clean, and creative technologies, things like immersive experiences and gaming and stuff like that. If we look at all of FDI into London, about a third of those projects that come into London, we support them, they come through L&P. Of those, about 65 percent are what we would call contestable, meaning that they were thinking about going somewhere else and they ended up coming to London. That hopefully gives you a sense of the bit of the market that we can see very closely.

Therefore, if we look at what has happened to FDI pre and post-Brexit, FDI to London was growing before Brexit and it has continued growing since Brexit. But it is growing more slowly than in the rest of Europe, or certainly than Western Europe. That is both in terms of the number of projects and the size of the projects. What we have seen over the period is that the average number of jobs that are created by an inward investor when they come into London is smaller than the average number of jobs that they would have created before. That is different in Western Europe where those job numbers have been growing on average per project.

But, within that, and similarly to what we have heard from colleagues, there is a lot of difference in what is happening. Just to unpick that story a little bit, the differences between sectors, by and large we are really talking predominantly about services here anyway, but within services the heavily-regulated sectors have been more impacted than the less-regulated sectors. Therefore, life sciences in particular and financial services that we have heard a lot about have been more impacted than, for example, a gaming technology or an immersive headset or somebody who has a carbon accounting technology platform. Those have been less affected because there is not the same regulatory barrier that there is for the more regulated.

We are also seeing that the nature of FDI has changed because investors are adapting to a new situation. I have mentioned already that the projects are smaller and that potentially partly reflects the desire to invest in the UK and the level of risk. But it also reflects the fact that, particularly post-pandemic, companies feel much more confident doing business virtually. Therefore, in order to trade in London, you do not need to put as many people in London as you used to. Previously, if you were a US company and you were going to expand into the UK, you might put in a team of, let us say, ten people. Now you might think, "Well, I only really need five sales and marketing people on the ground and the rest can just sit virtually and work with them online". Therefore there is something about reducing the size of the projects.

We have seen more M&A than before, by which I mean that an international company, rather than thinking, "I am going to come to London and set up my own subsidiary", they now might more say, "I am going to buy a London-based company that does a similar thing to me because that is going to be less friction post-Brexit of having to overcome all the barriers myself. I will just buy a company that is set up here."

We have also seen some businesses that were already trading in Europe who have set up a small operation, a subsidiary in the UK, in order to continue to be able to trade with the UK after it left. But that has not been a big positive because those tend to be very small, what we would call brass-plating operations, therefore you just need to have a subsidiary, but you do not need many people working in it.

Therefore, to summarise, overall there is growth, the growth is lower than in our competitor markets, and there is quite a lot of sectoral difference within that.

Zack Polanski AM: Thank you. That was really extensive and really interesting. In terms of that, I hear that there is still growth happening, but the growth has slowed down and also the size of the projects are smaller. A similar question to before, but can you disentangle that information from COVID and also the war in Ukraine? I do not know if it is the same answer, because you have already said that in Western Europe they have not seen that loss of growth.

Laura Citron (Chief Executive Officer, London and Partners): It is difficult to do that quantitatively, but I can give you my perspective from the market. COVID has not had a particularly significant impact on FDI specifically. It has obviously had massive impact on other parts of the London economy because most of these businesses are high tech service businesses, what we saw was in the immediate six to eight weeks when lockdown started there was a complete freeze, and all deals came to a standstill. They quickly adapted, worked out how to keep going, and we saw 2021 was a record-breaking year for venture capital investment in technology. Therefore, I would say COVID minimal from an FDI perspective for London and the kinds of investment we have in London specifically.

The bigger impact, which we would have to disentangle from Brexit, would be the war in Ukraine and particularly its impact on inflation and therefore interest rates. Therefore, it is partly the inflation impact, but these companies by and large are backed by venture capital and high interest rates has led to a very significant drop in venture capital investment, which tends to be the fuel through which these companies expand internationally. Therefore, that has been very significant.

Increased competition, the rest of the world has not stood still since Brexit and we have seen really strong increase in competition, to some extent from European cities like Paris, but really strongly from Dubai and Singapore, and then the US with the Inflation Reduction Act acts as a complete magnet for investment in anything green and clean technologies. Therefore, we are seeing that the competition from the rest of the world, independent of Brexit, has grown in that period.

Then the final factor that we need to, to some extent, disentangle is the impact of L&P's own response on FDI. Because quite a significant share of FDI comes to London because of our support and the majority of that is contestable, meaning that it might otherwise have gone somewhere else, the fact that London invested in us to be able to respond will have made a difference to the outcome for London. Therefore, before the pandemic, we did not have any offices in Europe, we were not working in Europe proactively with European investors in that way. We set those up in 2018. That was part of our post-Brexit response. But we also, for example, expanded our footprint in India, which is one of the really big post-Brexit opportunity markets. Therefore, if we were trying to pull out what has the effect of Brexit been, mixed in with that is how did London respond to Brexit to mitigate some of the impact.

Zack Polanski AM: If our Conservative colleagues were here, they would say to you at this point that they do not think that L&P are proving that money is only coming to London through L&P work, but I will not rehearse those arguments because they are not here, therefore I will move on.

Laura Citron (Chief Executive Officer, London and Partners): If it is helpful, Assembly Member, the Government recently did a review of FDI led by Lord Harrington [*The Harrington Review of Foreign Direct Investment*], which looked at FDI across the UK, and Lord Harrington's review recommended that the whole of Government should use L&P evaluation methodology because it is the most rigorous.

Zack Polanski AM: I am now glad I asked. Thank you. Thanks, Chair.

Marina Ahmad AM (Chair): Thank you, Assembly Member Polanski. Can I just say we probably should not suggest that they are going to say something as those Members are not here to give a response or a right of reply to that. Thank you very much. Next is Assembly Member Clarke.

Anne Clarke AM: Thank you, Chair. The question I was going to ask has been answered. But I am just going to come back to Laura, because you have all been giving excellent responses, but particularly with regards to, despite all of this, what is interesting is, despite the challenges brought forward by Brexit and COVID, but particularly by Brexit, it is interesting that the businesses are still choosing London. To me there is an obvious reason for that and that is it is the best city in the world obviously. Just curious, just ahead of Christmas, the *Time Out* had said that London was the world's most popular destination for Christmas. To me that felt quite symbolic of how London is still competing on a global stage that people, you can travel anywhere you like, and they are choosing London. I am just wondering, from L&P's point of view, why is it that London, despite the Government making us a smaller country, less important, why are we punching so far above our weight?

Laura Citron (Chief Executive Officer, London and Partners): You are absolutely right. From a FDI perspective, London is still the number three city globally after Singapore and Dubai, which is a huge achievement. Any investor, when they are looking at where to go, they are always weighing up pros and cons. The fundamentals of London remain hugely compelling, which for these types of businesses are access to customers, these businesses go where the market is, and London is one of the biggest clusters of decision-making headquarters of buyers in the world. If you are selling directly to consumers, you have a more retail product, the UK with 60 million people is still quite a big market.

What is particular about London is it is a very digital, fast-adopting market. Therefore, if you have some new app or piece of software, you know you can launch it in London and people will tend to have rapid, rapid adoption. Therefore, the market is great. They come for capital, to raise funds, because we are a globally leading financial centre. They come for talent because we have some of the best universities in the world, really deep and broad talent pools, and that is one of the big drivers, particularly for these types of foreign direct investors. They come for a supportive ecosystem. We have fantastic professional services, incubators, accelerators, all these different support programmes to help these entrepreneurs to do well. They come for lifestyle and values, they come because London is a place where they feel they belong, that they are welcome, that they can have a good life if they are going to relocate, and that their talent will want to be there.

Therefore, all of those factors drive. Also regulation, having predictable and open regulation that supports innovation is another key driver.

Then they look at all of those pros and you would struggle to find an international investor who would not want to come to London because it is clearly a real draw. The question is, for some of them, will the frictions and the costs or the risks or the uncertainty outweigh the potential benefit.

Anne Clarke AM: Very helpful, thank you.

Marina Ahmad AM (Chair): Thank you, Assembly Member Clarke. Moving on to the next section, which is about the United Kingdom Shared Prosperity Fund (UKSPF), Assembly Member Hirani.

Krupesh Hirani AM: Thank you. Thank you, Chair. My questions are mainly to Alex. The first is on the amount of money that is being received through the UKSPF by the GLA, how does it differ to the amount that was received through the European Structural Funds?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): Thanks, Assembly Member. London's share of the UKSPF was £144 million over three years. It is not quite comparing like with like because you may have heard me say before when we talk about the European Structural Funds that London receives, and which are just coming to their final, final end, we are paying the final claims in the next couple of months, that was a seven-year programme worth over a billion pounds, half EU money and half match funding. You have to bring the match funding. But a crude way of looking at it is to say that the UKSPF is approximately half what we were receiving before. If you average out the EU money, around £90,000,000 a year. The UKSPF is well short of that. A significant thing there is when the Government first talked about the UKSPF back in 2017, they said it would replace European Structural Funds and be of the same value. In London, and in other parts of the country as well, it has to be said that has not been the case. We only have half what we had before, and we have also lost Local Enterprise Partnership (LEP) funding that has been worth several hundred million pounds over the last few years and that funding has been wound up as well and not replaced.

Krupesh Hirani AM: What impact has that had on the GLA in terms of what you can invest in, what you cannot invest in, what would you say has been scaled back as a result, or opportunities that you might have liked to have invested in but have not been able to?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): That is a good question. With European programmes, we could support a much wider variety of projects, therefore there was more going on in London, whether it was about providing advice, guidance and support to businesses, or indeed loans or equity to businesses, helping people not in education, employment or training, into education, employment or training. We had a greater volume of projects going on. From my point of view, when you have these different kinds of projects, you always learn some things work brilliantly and you look to replicate them, other things do not work so well, but you learn lessons from that as well through evaluation. Therefore, there is much less. One of the things that we have had to concentrate on, we have worked very closely with Laura and the team on this, is when you have less funding, you have to think about how you use it in a concrete way. We have been working with L&P and boroughs and other partners to make sure that we get best value out of the smaller pot of funding that we have.

Krupesh Hirani AM: In terms of the GLA's roles and responsibilities in managing the UKSPF, what is the difference compared to the previous scheme?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): It is quite similar, is the first thing I would say. That is a good thing because the GLA had a unique role within England in relation to European programmes, in that we were what is called an intermediate body. It basically meant that Government devolved responsibility for the funding to the Mayor and to my team, whereas in other parts of the country European funding was managed by teams of civil servants. Therefore, we had a unique position there.

One thing that some Members may recall we were worried about - going back a few years - was that Government would remove that kind of control and we would see more of these top-down bidding regimes, the levelling up fund, the towns fund, like that, where decisions were basically being taken by Ministers in a rather mysterious and unaccountable way. When the UKSPF was introduced, we were therefore glad to see that it was devolved to local authorities. There are 256 lead authorities with responsibility for UKSPF, most of those are district councils with £1,000,000 or so each to spend in their areas, but some of the combined metropolitan authorities, Birmingham, Manchester, lots of Cornwall, do have bigger allocations. In London we have the biggest single allocation at £144 million over three years but my team is managing those programmes in much the same way that they managed the European programmes.

Krupesh Hirani AM: OK. Dennis, did you want to come in on the UKSPF? No, OK. I also sit on the Audit Committee and one of the issues that came up there was about the Government portal for reporting and exchanging information on the UKSPF. You are chuckling already. It is not working. Has that now been rectified or not?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): They have got it sorted, I am pleased to say, Assembly Member Hirani. For colleagues' information, and again this does not reflect terribly well on central Government, to be honest, but part of this new programme, of course, is that they need to get information from these 256 authorities in an orderly way. It is something the Government had so far failed to do. We kept being encouraged to download lots of information on to spreadsheets or through apps that then crashed and did not work but, as of last week, our Chief Finance Officer was able to upload that information. Therefore, with about one year to go in these programmes, of a three-year programme, they seem to have cracked it.

Krupesh Hirani AM: Year two into a three-year programme, you can get the information on it. It has been a shambles, as we have been hearing on that particular Committee. I am just going to go into the particular allocations as well. According to the information I have, £38 million has been allocated to the People and Skills. Of this, £25 million is being awarded to the four subregional partnerships to coordinate activities with boroughs. How does that work in reality from the work that you are doing? Do you have direct oversight into what that is achieving?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): We will do. The important thing to bear in mind about the People and Skills, there are three strands of UKSPF funding, which we may come on to later, one around Communities and Place, one around Supporting Local Business, one around People and Skills. The odd thing about that £38 million for People and Skills, and I may have said this to the Committee before, is that for reasons that the Government simply never explained, they only allowed this funding to be used in the financial year that is about to start, 2024/25. In Scotland, Wales, and Northern Ireland, they are explicitly allowed to use that funding over three years. I can honestly not think of any rational reason why in England we were told you could only use it for one year. It is obviously not good programme practice to run one-year programmes. What the Community and Skills Team within the GLA, who are responsible for this funding, have very sensibly done is look to, in advance, say "Where are the skills and employment programmes already happening?" and of course the four subregional partnerships that you mentioned are already responsible for some quite successful European Social Fund backed skills and employment programmes, therefore there is £25 million there that we are basically saying we are going to use to help economically inactive, unemployed adults access work.

Again, I am afraid a bit of a sad story in terms of unhelpful interventions from Department for Work and Pensions (DWP) in this whole area where we told them two years ago what we were going to do with the money, they came back a few months ago and said, "Oh no", although they have already approved it, they effectively backtracked on that and said, "No, we are not happy". Anyway, we had a further set of negotiations and it all got sorted out, but more of an example of Government not acting in a very joined-up or helpful way.

Therefore, in truth, we will have to come back in March 2025 and tell you what the outcomes are. What I can say is that we are not trying to reinvent the wheel with this time-limited, relatively small pot of money. We are trying to build on what has already worked in relation to skills and employment.

Krupesh Hirani AM: OK. Just on People and Skills, it says according to my briefing that £11.75 million was made available for an open competitive call, which closed in October. Do we have the results of who has won with their bids?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): Again, it is a team separate to mine within the GLA. The expectation is it will be more than fully utilised, a shortlist of projects are being finalised, successful projects should be notified next month, and delivery will start in April. Therefore we will keep you posted on that. We should be able to advise the Committee, if it is helpful, in the next month what the outcome is.

Krupesh Hirani AM:. Just on that, would you be able to provide a list of the projects that are going through the four subregional bodies, as well as the successful projects from the open calls to this Committee?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): Yes. We have that information now, the £30 million is going through the final stages of the due diligence process, that is all.

Krupesh Hirani AM: OK. Moving on to the second strand, according to my briefing it says £40 million is allocated to the Communities and Place. Can you give us a flavour of what that funds and what you are hoping to achieve from that as well?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): That is, again, and this is a slightly new approach that we took when we were asked by Government to draft a UKSPF implementation plan, which I think we have shared with the Committee before. We had to do that in double quick time in 2022 and the agreement we reached in partnership with boroughs was that we would give money out. We did not go through having an open competitive bidding round as we have done with supporting local business. The money was allocated in its entirety to boroughs in return for what I will broadly call regeneration related outcomes, including capital expenditure. That money has all been allocated. The money is coming out the door. The results are coming in, in terms of what they are spending on, but you are talking about 33 different sets of activity, and it is quite broad. Unlike European structural fund programmes where you can only spend money in very specific ways, I think it is a welcome boost to hard-pressed boroughs' bank accounts in terms of being able to undertake some of the high street regenerative style activity capital funding for community assets. It has been used in a lot of different ways. The outputs are all summarised in the UKSPF investment plan, which we can share the details, but in terms of individual projects, again, we can maybe supply some more details about what individual boroughs are up to if that --

Krupesh Hirani AM: Yes. That would be helpful, especially speaking for those of us who are constituency members. Obviously, it would be interesting for Committee Members as well, just to know what is happening in every borough and what they are doing with that pot of money.

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): It is probably worth saying, from a management point of view, our role at the GLA is to ensure that all 33 boroughs are getting that money out the door. We have allocated the money to boroughs and boroughs are getting that money out the door. If there is any risk it looks like that is not happening, we will be ratcheting up our monitoring activities here to make sure that that happens because we want the best possible story to tell any future government about why more of this funding should be devolved in the future.

Krupesh Hirani AM: Sure, and then I will naturally move on to the first round, which is supporting local business, and it is £62 million allocated to this strand of which £30 million through an open competitive call to 28 projects. Again, happy for you to supply us in writing what those projects are and where they are taking place, and obviously £13 million also provided directly to boroughs to support business support activity, to give details of that as well.

I am going to turn to Laura next because £19 million of that is allocated to L&P to develop and expand the London Business Hub. Could you explain details about what the Hub is providing, and what it is going into. Do you have more funding outside of that £19 million which is going into the Hub as well and what are you hoping to achieve from that?

Laura Citron (Chief Executive Officer, London and Partners): Thank you. That £19 million is in two chunks. There is one which is for, as you say, the continuation of the London Business Hub, which I will come back to, and the rest is for our work in the high growth sectors. The money covers both the work supporting London-based businesses in high growth sectors to trade and to a lesser extent indirectly supports FDI that we have touched on, and then the work with the London Business Hub is much more focused on microbusinesses in local communities. It is supporting both types of business. The work supporting the London Business Hub builds on the London Business Hub programme that had been run by the GLA for several years and also a pilot that had been run by the GLA called Wayfinder. We have combined those two previous programmes together into a new programme called Grow London Local.

Grow London Local exists to help entrepreneurs who run smaller microbusinesses in London to get the support that they need to make their households more financially resilient because we know that large numbers of business owners in London do not get any support with their business. In fact, under 20 percent of entrepreneurs are getting support with their business and yet if you get support, it improves the outcomes, and our disadvantaged communities are particularly facing higher barriers to getting access to support. Why is that? Because people do not know where to find it, because the ecosystem for business support is really complicated and fragmented, because it can be expensive, because it is not convenient - it is not available at the right time or the right channel - because they feel it is not for people like them, and it is maybe not available in the right languages. Therefore, Grow London Local is a signposting service to connect microbusinesses at scale with service providers with an aim to significantly increase the uptake of business support. London has lots and lots of business support provision, some of which is fantastic, but not enough businesses are taking advantage of it and using it.

Grow London Local has two channels. One is that we have teams of advisers who are in communities face-to-face everyday in partnership with boroughs and local business improvement districts, Chambers of Commerce, universities, colleges, community groups and so on. Meeting businesses face-to-face and doing diagnostics where we say, "Tell me about your business. What are your ambitions? How can we help you?" And then referring them on to support providers. That is the in-person channel. The other aspect is digital self-service where anyone can go online, do a quick diagnostic online and then it says, "These are the different services that might be relevant, or you would be eligible for". That is the Grow London Local service, and it is currently in its second phase of pilot. We have rolled it out across over half of the boroughs, and it will launch formerly at the end of this month and have a full roll-out to all boroughs by the end of this financial year.

Krupesh Hirani AM: Thank you. That sounds like a valuable service. I think it would be worth us, as Assembly Members, referring people in our areas to and businesses that come to us as well who need that support, I am sure. Just on the teams of advisers, what is the criteria for support? How does a business come forward, or how does an individual come forward, to say that they would prefer face-to-face? They may have gone through digital already and want a bit more, let us say, hands-on support.

Laura Citron (Chief Executive Officer, London and Partners): We are finding and reaching out to these small businesses in lots of different ways. Once we have done the formal launch later this month, we will be marketing everything from outdoor posters to lots of digital highly targeted adverts to going doing lots of community outreach. Broadly speaking the digital service is for everybody and it really is a mass offer. The face-to-face we are trying to keep as much as possible for our under-served communities because there is obviously a limited number of in-person diagnostics we can do and we are keen that those financially vulnerable entrepreneurs get access to them first, which is why we are doing very targeted community outreach where we know that we have significant numbers of microbusinesses that are financially vulnerable. We are reaching out to them. Literally, we have teams out doing door-knocking, we are working with local community groups, as I said, through various different partners and would welcome the support of any Assembly Members. Please do put us in touch with local community organisations or directly with entrepreneurs that you think would benefit from the service.

Krupesh Hirani AM: Thank you. Thank you, Alex.

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): Just to add, again Assembly Members will be aware, in his 2021 manifesto the Mayor talked about having a single front door for businesses to access business support and essentially this is the means by which we are looking to do this. This is what we have been working on for the last few years and to come back to some of the UKSPF funding, you mentioned earlier that some of the money is going to boroughs and business support. Again, that is about boroughs also being able to augment the offer so that as many people as possible are aware of the options, be they face-to-face, online or whatever, of the business support offer from advice and guidance to funds and so on.

Krupesh Hirani AM: OK, and Laura you mentioned that the face-to-face and the teams working locally are in operation in half of the boroughs. If you could supply us details of the boroughs where people can today get support. I recognise at end of financial year people will have access across all of London, but if we have information of who is able to receive it now, that would be helpful as well, in writing.

Laura Citron (Chief Executive Officer, London and Partners): We are happy to provide support across all boroughs now. We are just not doing proactive outreach across all boroughs yet.

Krupesh Hirani AM: OK.

Laura Citron (Chief Executive Officer, London and Partners): We are very keen that once we start doing really proactive outreach in a local community that we have a full mapping of what the support is available locally, because to your point, Alex, about a single front door, through the single front door the vision is you can access everything from big national programmes that are run by government to things which are run at a pan-London level and funded through UKSPF to support from a borough, but also support from private sector, from local business improvement districts, Chambers of Commerce, and further education (FE) colleges. We want to be sure that when we start sending people out in a local area, we are really able to refer to local services. What takes the time is building up that very local ecosystem, but if in the meantime people want to speak to an adviser, they can register online, and we will call them back. That is available now.

Krupesh Hirani AM: OK. I am going to ask this question to Alex, but if anyone else has anything they would like to say on my next question, feel free to come in and it is on the future of the UKSPF. What would you like to see a future iteration of the UKSPF looking like, what elements would you like to retain and what would you like to possibly see changed?

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): In fairness, I would say my biggest issue with UKSPF is not the nature of what it supports or how it works, but the quantum of funding. Going back to work that has happened under this administration with the London Finance Commission (LFC) and actually the previous administration as well under the LFC, all said in order to make a real difference in this area we need to see proper devolution of a big single pot of funding - whatever you call it - and ideally a pot of funding that is, like European programmes, available for seven years. If that is not possible because of the way the treasury works for at least three-year programmes well in advance, not three-year programmes that are only finalised one year into that three-year programme.

I think we would like to see doing something along the way that we are doing at the moment but expanded. It is worth drawing the Committee's attention to the fact that we are hitting a cliff edge pretty soon in March 2025. Civil servants are aware of this; we are aware that the General Election has been pencilled in for the autumn. I think we need to step up the reminder that we cannot be in a situation where all funding for business support and skills employment funding just stops in March 2025 because people forgot about it. Fair to say that, informally, civil servants have suggested that obviously there are ideas on the table for potentially extending programmes for a further year while government - whatever government it is - thinks about what comes next. I think that is something where we are going to need to continue to lobby quite strongly if we do not want a gap in the important services that Laura was just talking about.

Krupesh Hirani AM: Yes. On that quantum of funding, is there work happening in the background - and this could be from you or other people who work with the funds across the country - around, for how much £1 invested, this is how much is recovered by the treasury? As such, if some of that work is happening and if the evidence base is built up, hopefully a case can be made that is a bit more, let us say, stronger.

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): I would say there are probably three steps. One, there are the evaluations that we already have about the success of locally managed programmes over nationally managed programmes and there is a very good story to tell, certainly, in relation to European structural fund programmes on that. Secondly, there is some work - and National Audit Office (NAO) and others commented on this late last year - about the wastefulness of the Government's separate pots of money. I think this is one of our points. You do not even necessarily need to increase the amount of funding overall in the UK, but if you just instead of handing out money in penny packets - as the Government has been doing - for a new initiative around public toilets around seaside towns all managed by groups of civil servants, if you devolve this money locally in one big programme, you could immediately honour the commitment to equal the size of European structural fund programmes without any new money from the treasury at all. I think there are some quite powerful arguments to be made to central Government along those lines. Of course, we would welcome further funding as well.

Krupesh Hirani AM: OK. Great. Before I hand back to the Chair, does anyone have anything they want to add on UKSPF? No. Thank you.

Marina Ahmad AM (Chair): Thank you. We are almost at the end, and I have the final question. As part of that final question, I am going to ask you all, panel, a couple of minutes from your perspective what has been good and bad about Brexit for London and then what would you like to see both the Government and the Mayor of London do to address the challenges and the opportunities of Brexit? If I could start with you, Ben.

Ben Brindle (Researcher, Migration Observatory, University of Oxford): I think in terms of what has been good or bad it is really a mixed picture essentially. It is going to take time to adjust. I do not think it is necessarily possible to see quite what the impact has been in the change in migration just yet. We often seem to have a pendulum as well, certainly in the past few years, where rules are tightened and then liberalised and so the extent to when it will actually settle, it could be a few years before we actually get a better picture of that. One thing that I would say, in thinking about vacancies in the labour market and the role of immigration, is to remember that while migration is a reasonable way of addressing those, it is not the only way. There is a suite of policies outside of migration that can be used in tandem with immigration policies or separately from immigration policies altogether. One final thing is that in thinking about work migration, it is not just those people that come on work routes but generally the overall migration, many of those non-work people also play a key role both in the labour market and in the economy more broadly.

Marina Ahmad AM (Chair): Is there anything else that you would like to see the Government and the Mayor do to address any of those issues?

Ben Brindle (Researcher, Migration Observatory, University of Oxford): The Migration Observatory does not do policy recommendations so I cannot say anything specifically, but I think that there would be more stability if there were one direction chosen. Policy is always going to need to change because of how migrants respond to certain policy in businesses and things like that, so there is always going to be responding to events to some extent, but I think just to travel in one broad direction, regardless of what that is, would give stability and certainty from which businesses and policy makers can work around more generally.

Marina Ahmad AM (Chair): Thank you. Laura.

Laura Citron (Chief Executive Officer, London and Partners): Thank you. It is not L&P's role to take a position on whether Brexit is good or bad but, in a very practical way, respond to do our best for London in the context in which London finds itself. For us, some of the challenges that Brexit have created have been around having to fight much harder for our inward investment and we have responded to that by putting our teams into Europe, by focusing on those really big contestable projects, and by expanding our presence in the markets outside of Europe. We have also tried to make the best for London of opportunities created by Brexit. For example, supporting London-based companies to grow into those markets where there have been significant post-Brexit free trade agreements - Singapore and Australia being good examples of that - where we are seeing real appetite from London-based companies to expand so trying to support that.

Like Ben, it is not my position to make policy recommendations. The Mayor has been supporting our response to Brexit, both in terms of its challenges and its opportunities, and I know that if my clients, both London-based and international, were sitting here they would say from Government certainty, predictability and working to Professor Novy's point on regulatory divergence would be priorities.

Marina Ahmad AM (Chair): Thank you. Alex.

Alex Conway (Assistant Director for Economic Development and Programmes, Greater London Authority): Firstly, I cannot resist having a go at the challenge to come up with something good so I will just say that maybe people cannot blame the 'EU bogeyman' for decisions around immigration or rules and regulations that in truth were always decisions that national Government was able to take and maybe people will start to understand that a bit better.

As a GLA officer, just to state the obvious, the Mayor's views around Brexit are well-known. You are going to hear a bit more at the Mansion House speech tonight on that subject as trailed in the media today and worth saying, you have already heard from academic colleagues here a lot of thoughts around the effect that Brexit has had and which I would broadly categorise as negative, though to different extents. One thing that we at the GLA have just released today are the updated reports from Cambridge Econometrics on the effects of Brexit, again, saying that the impact on the UK's GDP may be 2 percent to 3 percent lower overall with a risk that that percentage gets higher over time really just reflecting what you have heard elsewhere and that is also exacerbating those labour market shortages in London by sectors that previously relied on an inflow of European workers.

We are mindful that it is not enough to bemoan the problem. We also have some work, which I hope we will be able to share with colleagues at some point fairly soon, which we have been doing with colleagues from UK in a Changing Europe around some potential ideas for mitigating the effects of Brexit. I do not want to steal the thunder of it because we will share it properly in due course, but at one end you could say we will rejoin the EU and at another you might say, as the Mayor has said before, we should consider rejoining the single market or the Customs Union, but this work is a little bit focused on what might be possible in terms of the very hard Brexit deal we have at the moment; are there ways you might start chipping away at some of that? I hope we will have some ideas that we might be able to share with the Committee quite soon on that.

Marina Ahmad AM (Chair): Thank you. We look forward to that. Thank you, Sarah.

Professor Sarah Hall (1931 Professor of Geography and Fellow of St John's College, University of Cambridge): Yes, as for other panellists, at UK in a Changing Europe we conduct research and we try to use research to provide helpful advice to policymakers, but we do not make policy recommendations. Therefore, it is not for us to say if Brexit is good or bad, but as a researcher I have been clear on what I think the economic impacts are on the downside, but I do think it has forced researchers and policymakers to take a long hard look at the persistent strengths and weaknesses of the UK economy and has focused attention on persistent issues around relatively low productivity high regional inequality and I think that is good in terms of research terms but also in terms of policy terms.

In terms of the UK's relationship with the EU in the future and London's role within it, I think the research suggests that the economy is really calling for stability, certainty, and strategic direction and particularly my own work focuses on services, so I am going to focus a little bit on services. On this question of strategy, we hear quite a lot about, "Where is the UK on industrial strategy?" I think there is potentially room to think a bit more about what the UK's strategy is on services and particularly London's role within that. That is a really thorny issue politically for the UK, particularly following the 2007/08 crash where talking about financial services strengths in London was quite tricky and there has been a policy turn towards thinking about towns. We have heard quite a bit about that today and levelling up. If you do not think about what the research shows are the

UK's strategic economic strengths, which are services and which are important in London, there is a real danger that levelling up could end up levelling down and I do think that you need to integrate the position of London in services in the UK in economic policymaking for growth in the UK. I think that is one big area where there is scope to advocate for London's position.

I think the other is to be realistic about what might be possible vis-à-vis the UK's relation with the EU and particularly what London might need in that picture. Alex has alluded to some work that UK in a Changing Europe is doing here, and I do not want to rehearse it in detail, but I think one of the key things is to be clear about what the UK would like to see. There are a number of important dates coming up in terms of the UK's relation with the EU: a TCA review in 2026, the GDPR adequacy decision has a sunset clause in it such that, broadly put, adequacy would not be maintained in terms of dataflows with the EU if the UK was not deemed the same as the EU, and there is this equivalence decision on financial services, all within the next two-to-three years.

Therefore, I think being clear about what the UK would like to see in those different spheres is important and I would just like to emphasise that I do not think seeing the TCA as the point at which Brexit is renegotiated is a very effective way of doing that. I think Denis noted this that you cannot hang a lot on the TCA review. It is quite unclear and indeed I would suggest up for negotiation as to what the TCA review actually is. What is clear is that the Brexit which was negotiated met a lot of the strategic aims for the EU on its strategic strengths in goods and manufacturing. The UK arguably met less of its strategic asks on services, which as we have said are particularly important in London.

It would be important to think about what might be possible within the confines and the operation of the TCA for London's economy and I draw attention here to two areas where I think it is important to focus activity. One is really understanding regulatory divergence because regulatory divergence is not just the UK opting to do something different. It could be the EU changing direction and the UK not moving in the same direction, but equally regulation applies to areas that were not really being regulated at the point the UK left the EU and I draw attention here to artificial intelligence (AI). London is widely identified as Europe's AI capital and within that, the figures I have seen are that 70 percent of AI activity and corporate activity in the UK is in London. That is obviously almost an entirely new area of regulation. Therefore, accurately understanding what is happening in terms of regulation and how the UK decides to sit in relation to the US and the EU is going to be important, not just in areas that already regulated but in new areas which could be real potential strengths for London, and the UK more generally. I draw attention to technology, AI and the green transition here as being really important areas there.

Marina Ahmad AM (Chair): Thank you very much. Finally, Dennis.

Professor Dennis Novy (Professor of Economics, University of Warwick): I think Sarah's summary was excellent. I 100 percent agree with everything that she said. I am speaking as an economist, as a researcher who has looked at the data in a hard and cold way and the good thing about Brexit is an increased realism to understand where we are in this world and what we can do and what we cannot do. That is a really important thing; a strength potentially we can work from. Specifically for the London economy, whether this was intended or not, this increase in immigration - especially immigration from outside the EU or Europe - is probably going to be a big strength for the London economy in the future. This might take many years to come, but arguably London is the most global city in Europe, perhaps in the world, and I think that will benefit London tremendously because of all the talent and expertise it can draw from that.

There are certain sectors of the economy that have benefited from Brexit, but it is very easy to be flippant about this. For example, if you were planning a career as a customs officer, then you could probably benefit from

Brexit. There are some of these isolated incidents but overall, the economic impact - and I am talking about the economy here - has been bad. It has been an expensive event for the UK economy. It has been costly for businesses. It has been costly for people, and it is just not helping the UK economy. That is true for the UK, but it is also true for London and in terms of what I would wish we would have in the future is more predictability, less uncertainty - that was previously mentioned by other panel team members - and stop doing foolish things. We talked about divergency. A regulatory divergence in my view is the big number one issue. Brexit is not done. It is continuing every day. That is what I meant earlier when I referred to Brexit as a bleeding wound. Stop it.

The future has to be the UK will be somehow in the orbit of the EU. It does not matter whether you are Conservative, whether you are Labour, Green Party or Liberal Democrat, this is just the future of the UK economy and I wish politicians strength and courage - the art of the possible was mentioned before - to do this in a way that they can take voters with them. I think there is a big political problem in this country. 52 percent of voters voted for Brexit in the referendum 2016. A lot of them might be disappointed by now. They feel that they were lied to. How can we take this 52 percent of voters along with us? The Labour Party is very concerned about them. The Liberal Democrats even are not talking that much about Brexit anymore, presumably because they are competing for some of the seats where a lot of people voted for Brexit. That is the art of the possible, so it is whether it is align with the single market or rejoining the Customs Union or having lots of bilateral deals Swiss-style that will be down to future politicians, but I hope we can have this conversation in a sensible, objective way without a lot of the noise and the sound and fury around it.

I really wish that we can go down that route and then very much along the lines of what Sarah said, I think it is important for the UK to have a strategy; thinking about what the strengths of the UK economy are. I think that is services for sure and especially trade in services and London is well-placed to benefit from that, exactly along the lines that Sarah outlined. I could not agree more with that, and I also hope that across parties we can have a consensus there as to what the strengths of the UK economy are and what policies could support that strategy for the future.

Marina Ahmad AM (Chair): Thank you, and an excellent note to end this investigation on. Thank you very much.