

REQUEST FOR DIRECTOR DECISION – DD2663

Title: The impact of leaving the EU on London's economy post Trade and Cooperation Agreement

Executive summary:

This decision requests approval of expenditure of up to £55,000 to refresh the previous analysis and report on the possible impacts of the current UK-EU relationship (per the Trade and Cooperation Agreement (TCA)) on London's economy.

This analysis builds on [Preparing for Brexit](#), a 2018 report published by Cambridge Econometrics (prepared for the GLA) that speculated on impacts at a time when the TCA was yet to be agreed. Now that Brexit has been agreed and formally implemented, we can revisit the analysis and update it to reflect the new realities. The updated report will compare such realities with a counterfactual scenario in which the UK remained in the EU. In this way, it will analyse differences in London's gross value added to the economy, employment and investment trajectories. Doing this analysis will help build the evidence base for future economic development work as well as assisting in the development of robust economic advocacy strategies for London.

Decision:

That the Executive Director of Strategy and Communications approves:

- expenditure of up to £55,000 to procure a report on the impacts of Brexit on London's economy
- an exemption, under section 10 of the GLA's Contracts and Funding Code, to commission Cambridge Econometrics to complete the analysis.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Niran Mothada

Position: Executive Director, Strategy and Communications

Signature:



Date:

09/10/2023

PART I – NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1. Since the June 2016 Brexit referendum, various reports and studies have attempted to quantify the impact of this decision on the London and broader UK economies.¹ However, the size of these effects remains unknown as the UK and London economies adjust to the realities of the Trade and Cooperation Agreement (TCA), signed between the UK and the EU in 2020. The effects of this agreement continue to reverberate, while the UK and London economies continue to navigate a series of internal and external challenges.
- 1.2. In the short run, beyond the direct impact of sterling's decline, the impact of Brexit on the UK economy continues to be debated.
- 1.3. Now that the TCA has been in force for at least two years, there is more clarity on the nature of the UK-EU relationship. This permits us to more confidently refresh pre-agreement scenarios to assess the true impacts of the existing arrangement. The outcome also depends on several other factors, such as agreements on research collaboration and funding; the perception of London and the UK as a place to do business; the post-Brexit taxation environment in the UK; and any changes to the UK's migration regime.
- 1.4. In order to adjust the response to Brexit in a clearer and evidence-based manner, the GLA needs to refresh the analysis to account for the arrangement in force and its potential impacts. This refresh needs to include headline indicators for the London economy; and more detailed analysis on the parts of London likely to be most heavily impacted. This would allow us to address several Mayoral priorities as outlined in the London Plan, such as "promoting the strength and potential of the wider city region" and "ensuring that London's economy diversifies and that the benefits of economic success are shared more equitably across London".²

Exemption from the GLA Contracts and Funding Code

- 1.5. Section 10.1 of the GLA Contracts and Funding Code (the Code) provides that a contract may be awarded directly on the basis of: the service provider's continuation of existing work, which cannot be separated from the new project/work; the complete absence of competition; or the supplier's unique ability to provide compatibility with an existing service.
- 1.6. Cambridge Econometrics has a long track record of providing state-of-the-art analysis to serve the GLA's needs at a competitive price. Its long involvement with the GLA means it already has insight into: the GLA's work to introduce evidence-based policy to support Londoners; and the unique political landscape within which the Mayorality operates. It also possesses a unique general equilibrium model that permits a comparison of economic impacts on London and other UK regions. For these reasons, Cambridge Econometrics is best placed to refresh its previous analysis to account for the new reality of the TCA and political/economic changes over the past five years.
- 1.7. The amount cited in this decision represents value for money, given the scope required for this study. While no formal procurement was undertaken, we discussed getting a favourable fee from Cambridge Econometrics given the long history of collaboration between the two organisations. Given that the previous study was performed five years ago and cost £50,000, Cambridge Econometrics agreed to charge us the same fee. We asked them to tailor their model to take into account the GLA's very own gross value added (GVA) and demographic projections. This would ensure that Cambridge

¹ See for example: Mayor of London, August 2014, '[The Europe report: a win-win situation: Appendix A](#)'; HM Treasury, 18 April 2016, '[HM Treasury analysis: the long-term economic impact of EU membership and the alternatives](#)'; IMF, June 2016, '[United Kingdom: Selected Issues](#)' (IMF Country Report No. 16/169); and OECD, April 2016, '[The Economic Consequences of Brexit: A Taxing Decision](#)'.

² Mayor of London, [The London Plan](#), 2021

Econometrics' London forecasts are based on the most up-to-date, London-specific data. This entailed an extra £5,000 charge, arriving at a total of the £55,000.

2. Objectives and expected outcomes

- 2.1. The first objective is to refresh Cambridge Econometrics' 2018 analysis (procured via ADD2142). This is to account for the coming-into-effect of the TCA; and to assess not only how the impacts compare to previous forecasts, but also how they would compare to a scenario in which the UK remained in the EU. The analysis would look at short and long-term impacts (i.e., up to 2030).
- 2.2. The second objective is to compare the TCA's impact to a scenario in which the UK remained an EU member (up to the present). The analysis would look specifically at effects on:
 - GVA for both London and the UK
 - employment in London and the UK
 - investment in London and the UK.

3. Equality comments

- 3.1. In carrying out any functions in respect of his skills and employment programmes, the Mayor will comply with the public sector equality duty under Section 149 of the Equality Act 2010.
- 3.2. Under Section 149 of the Equality Act 2010, as a public authority, the GLA must have 'due regard' of the need to:
 - eliminate unlawful discrimination, harassment and victimisation
 - advance equality of opportunity and foster good relations between people who have a protected characteristic and those who do not
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 3.3. GLA Economics has previously pointed out that, when it comes to employment prospects, Londoners with protected characteristics (including, women, BAME Londoners, and Londoners with disabilities) are more likely to be affected by adverse outcomes – such as a higher cost of living, unemployment and lower income – due to reduced growth post-Brexit.³ Quantifying this impact would allow us to focus on lobbying the government to mitigate the adverse effects to the benefit of London and the city's under-represented groups.

4. Other considerations

- 4.1. The contract will be managed via TfL procurement under the existing GLA Economics procurement framework.

Risks and issues

- 4.2. If this analysis was not carried out, it would limit the GLA's ability to plan how best to respond to the impact of Brexit based on the most recent evidence, and given the nature of the TCA.

³ See JRF, [How could Brexit affect poverty in the UK?](#) and LSE, [By the end of 2021, Brexit had already cost UK households a total of £5.8 billion in higher food bills – new LSE research](#)

- 4.3. Cambridge Econometrics provided a reasonable timeline to deliver the project on time and on budget. However, there is always a risk of delay in project delivery for unforeseen reasons related to, among other possible factors, resource allocation or insufficient data availability. As a mitigation, GLA Economics could provide the required data and provide support to help Cambridge Econometrics complete the work.
- 4.4. Cambridge Econometrics was commissioned for this work due to its involvement in the aforementioned 2018 report. (This means it is already familiar with our exact requirements and objectives.) The state-of-the-art general equilibrium model it uses allows us to isolate impacts at the London and UK levels; and it has an established track record in delivering high-quality analysis on time and on budget. Moreover, Cambridge Econometrics is familiar with existing Mayoral strategies, particular the London Plan and the Economic Development Strategy.

Link to Mayoral strategies and priorities

- 4.5. Promoting London's economic interests, competitiveness and talent on the international stage and at home is one of the Mayor's key priorities. Supporting start-ups, scale-ups, and small and medium-sized enterprises, and protecting them from the potential adverse impacts of Brexit, remain fundamental to fulfilling this priority.
- 4.6. At present, no modelling endeavour has sought to empirically establish the extent to which businesses in London have been hurt financially by Brexit – whether through diminished investment; reduced flow of skilled workers; or inability to access funds from EU-administered programmes. This work seeks to address this major gap linked to Mayoral business priorities.
- 4.7. Supporting Londoners during the cost-of-living crisis is another major priority. Brexit is projected to undermine employment in major sectors of London's economy (such as tourism and hospitality). As such, we need the evidence base on which the Mayor could better put in place the strategies necessary to shield Londoners from the adverse impacts of this crisis.

Conflicts of interest

- 4.8. This work entails an objective assessment of economic impacts, post-Brexit, by an independent consultant with no particular links to any GLA-affiliated staff. As such, it does not present any potential conflict of interest.

5. Financial comments

- 5.1. The expenditure of up to £55,000 will be funded by the GLA Economics budget within the City and Intelligence Unit, in the Strategy and Communications Directorate.

6. Legal comments

- 6.1. The foregoing sections of this report indicate that the decisions requested of the Executive Director of Strategy and Communications concern the exercise of the GLA's general powers, falling within the GLA's statutory powers to do such things considered to further – or that are facilitative of, or conducive or incidental to – the promotion of economic development and wealth creation, social development or improvement of the environment, in Greater London.
- 6.2. In implementing the proposals in respect of which a decision is sought, officers should comply with the GLA's related statutory duties to:
- pay due regard to the principle that there should be equality of opportunity for all people

- consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom
- consult with appropriate bodies.

- 6.3. In taking the decisions requested, as noted in section 3 above, the Executive Director of Strategy and Communications must have due regard to the Public Sector Equality Duty under section 149 of the Equality Act 2010, namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010; to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, age, sex, sexual orientation, religion or belief, pregnancy and maternity, and gender reassignment) and persons who do not share it; and to foster good relations between persons who share a relevant protected characteristic and persons who do not share it. To this end, the Executive Director of Strategy and Communications should have particular regard to section 3 (above) of this report.
- 6.4. Section 1 of this report indicates that part of the sought budget will amount to the provision of services, whereby section 10.1 of the Code is seeking to be relied upon to directly award a services contract to Cambridge Econometrics. The Executive Director of Strategy and Communications must ensure that the services required are procured in accordance with the Code and GLA Officers must ensure that an appropriate contract documentation is put in place and executed by the GLA (with the assistance of TfL Legal) before the commencement of services.

7. Planned delivery approach and next steps

Activity	Timeline
Procurement of contract	October 2023
Delivery start date	November 2023
Delivery end date	First week of December 2023

Appendices and supporting papers:

ADD2142 The impact of leaving the EU
Cambridge Econometrics, [Preparing for Brexit](#)

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will be published either within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under the FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Adam Yousef has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Jeremy Skinner has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board

A summary of this decision was reviewed by the Corporate Investment Board on 9 October 2023.

✓

INTERIM CHIEF FINANCE OFFICER:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:



Date:

09/10/2023