LONDONASSEMBLY

LONDON ASSEMBLY BREXIT DIRECTIVE II – A Brexit strategy for London

For the Mayor of London to deliver to Government

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Sadiq Khan
Mayor of London

(Sent via email)

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Dear Sadiq

The true extent of the effect of Brexit is becoming clearer for London. The range of risks is broader than initially expected, more companies and institutions are seriously considering relocating some or all of their operations to mainland Europe, and the end of the European Structural and Investment Funds creates an uncertain environment for SMEs and voluntary sector organisations in the capital.

Following our recent meetings with you, Lord Heseltine and experts on European funding, this letter pushes for further action in relation to the financial services sector and funding regimes, and highlights the need for an overall plan.

Current issues facing the financial services sector

The issues facing the financial services sector have become particularly acute of late. In November 2016 we identified some of the risks that were known at that time in our report on *EU exit and financial services*.[1] Since then, the sector has developed a range of potential solutions to allow companies to continue accessing markets in mainland Europe. The key problem now seems to be that most of these are deemed unworkable. So, the use of 'shell companies' to access Europe will be prevented; there are concerns around 'equivalence' as a solution because it does not cover key areas of the financial sector; and the ongoing status of London's derivatives market looks unclear at best.

You will be aware of recent reports of planned relocations of firms to Frankfurt, Paris and Dublin, especially of investment banks. There is a risk that London will lose significant numbers of jobs in financial services, with potentially serious knock-on effects for the other sectors which depend on these firms. Furthermore, as you highlighted at our meeting on 19 October, such decisions are generally "irreversible". Once gone, these companies are unlikely to return.

London consistently ranks top of the Global Financial Centres Index, ahead of New York, Hong Kong and Singapore.[2] The sector employs 360,000 people and is home to over 250 foreign

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[1] EU exit and financial services
[2] http://www.longfinance.net/images/gfci/GFCI21_05_04_17.pdf

banks, the highest concentration in any financial centre.[3] Without a deal on transition or trade, we can expect this shift of staff to accelerate. But an EU exit deal which involves 'mutual recognition' of regulation and 'mutual access' to markets could minimise the need for staff and operations to leave. We ask you to press this point with the Secretary of State for Exiting the EU at your future meetings.

European Structural and Investment Funds: where next for London?

At our meeting on 18 October, we heard that European funding regimes have a long and established record in the UK of contributing to improvements in our infrastructure, skills and the health of our SMEs. European funding supports various programmes in the capital, including skills and employment initiatives, small and medium sized businesses, and the low carbon economy. It has provided an important boost to both the demand and supply side of our economy.

The current round of European Structural and Investment Funds will finish in 2020. We were encouraged to hear about the Government's plans to continue such regional development with a *UK Shared Prosperity Fund*. We will be writing to the Government to reiterate how essential this will be in providing crucial support for marginalised groups in the labour market and in improving survival rates for our SMEs.

One issue which was raised at our meeting was the role of the Local Enterprise Partnerships in regional development. The London LEP, the London Economic Action Partnership or LEAP, determines the broad allocations of European Social Fund (ESF) and European Regional Development Fund (ERDF) funding in the city. Lord Heseltine told us that he admires the LEP model and feels that these bodies could make a larger contribution to local areas. We would like reassurance that you are committed to the development of the LEAP and will resource this properly to ensure its work on London's competitiveness and productivity can continue.

The need for a London plan for post-Brexit survival

We were encouraged by your answers at our meeting on 19 October and your response to the issues we raised about the status of EU citizens in London. We are also pleased to hear of your work with the Metro mayors and, previously, the other devolved bodies. While we all have different challenges in responding to Brexit, where there is common cause, it is important that both you and the London Assembly raise these issues with the Government.

We think you need to go further, however, and would like to see a published plan of action to give London and the markets further reassurance. This could usefully cover the issues we raise in today's letter and also areas that we have publicised previously, including the impact of Brexit on the security of our city and on the regulatory framework for environmental standards.

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[3] Key facts about the UK as an international finance centre (TheCityUK, 2015)

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In addition, we are looking to you to keep up the pressure on the Government to reflect London's needs in the negotiations with the EU. In your next meeting with David Davis, we urge you to:

- make the case for protecting the future of the financial services sector in London
- press for current law enforcement and security arrangements to be maintained
- lobby on behalf of our law enforcement and criminal justice agencies for any additional measures that could further improve safety and security
- continue the pressure on the Government to accelerate the development of the UK Shared Prosperity Fund and:
    - for the Fund to be properly devolved to the GLA to retain its ability to distribute funds
    - for eligibility of the Fund to be based on the Index of Multiple Deprivation, which gives a much more granulated measure of need, rather than GVA (gross value added) data
    - for London to be allocated funding at the same level, at least, as that received under ESIF.

Finally, would you join with us in making it clear to the Government that leaving the EU with no deal in place on trade/a transition period could have a disproportionate effect on London. The financial services sector needs to have access to business in mainland Europe. A no deal situation makes that unlikely and could cause serious harm to London's economy.

Yours sincerely

Len Duvall AM,
Chair of the EU Exit Working Group