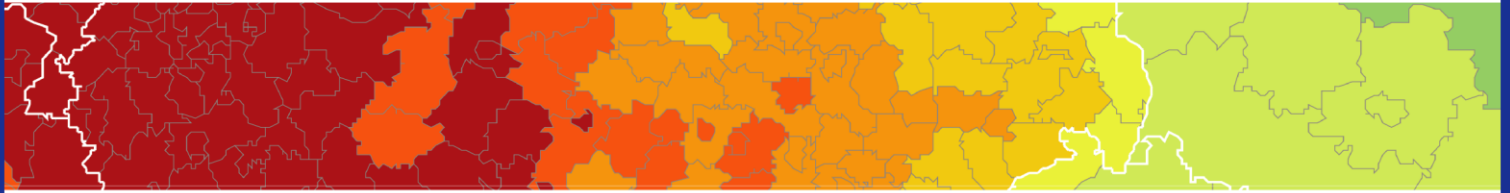


Inspire policy making by territorial evidence



The Geography of New Employment Dynamics in Europe

Applied Research

Annex to Chapter 6

**Case Study – LONDON (UK)
Final Version**

9.3.2018

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The Geography of New Employment Dynamics in Europe

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Executive summary

London has been a leading knowledge economy, high-tech and financial services hub and a prime destination of highly-qualified EU migrants. For example, the **City of London** and associated financial, professional and business services have **acted as a key pull factor** for highly-skilled young migrants from the EU. Indeed, London attracts a large number of EU migrants, more so than the rest of the UK's regions. Its high skilled/knowledge economy sector is large, with 29% of its workforce employed in high-skilled jobs.

London's significant migratory inflows have also been underpinned by the fact that during and after the global financial crisis the UK's economy has grown reasonably quickly in relation to other European countries. For example, over one third of all active movers in the period 2008-2012 came to the UK because of better employment opportunities. As part of this trend, the UK in general and London in particular were the recipients of large numbers of highly-qualified EU nationals from Southern Europe – which was hardest hit by the crisis.

However, **Brexit and its implications for free movement of labour is likely to have a substantial adverse impact on London** and its future as a leading knowledge economy, high-tech and financial services hub and a prime destination of highly qualified EU migrants. **There are already signs of talent flight among EU nationals living and working in the UK in general, and London in particular.**

Brexit is also expected to exacerbate skills and labour shortages in a number of sectors which employ both highly- and low-skilled workers (as well as medium-skilled ones). Indeed, the UK (and London) is already experiencing increased skills and labour shortages in a number of sectors – both low- and highly-skilled ones – due to a fall in the number of EU nationals who either choose not to come to work here or have left (or plan to leave). Crucially, as a recent survey found, 47% of highly-skilled EU workers were considering leaving the UK in the next five years (Deloitte, 2017). **Brexit has also called into question the future of the City of London as one of the world's leading financial centres.**

The employment and skills-related implications of Brexit will depend on the actual nature of the final Brexit agreement, including notably the limits on freedom of movement which, at present, seem to be absolute, i.e. 'hard' Brexit.¹ However, even in this case, there are various options in relation to migration policies vis-à-vis EU nationals, each of which will have different implications in relation to labour and/or skills shortages. **Since London employs by far the largest number of highly-skilled EU migrants, it will be disproportionately (and**

¹ *'Hard' Brexit* would involve a complete and 'clean' break from the EU with the UK leaving both the EU's single market and the customs union as well as the jurisdiction of the European Court of Justice (ECJ). At the other end of the spectrum, *'soft' Brexit* would involve keeping close formal ties with the EU, possibly through some form of membership of its single market and customs union, in return for a degree of free movement and budget contribution.

adversely) affected, albeit to varying degrees, depending on the form of final Brexit deal.

The official Brexit negotiations started only recently and are accompanied by a high degree of uncertainty, which is already having a negative impact on the UK's (and London's) economy.

1 Motivation for the selection of this case study

London is a prominent example of significant migratory inflows, as it attracts a large number of (both low- and highly-skilled) migrants, more so than the rest of the UK. Several factors make London an interesting case study, especially in the aftermath of the Brexit vote.

- **London is a leading knowledge economy, high-tech and financial services hub and a prime destination of highly-qualified EU migrants.** For example, the City of London and associated financial, professional and business services have acted as a key pull factor for highly-skilled young migrants from the EU;
- **London's significant migratory inflows have also been underpinned by the fact that, during and after the recent economic crisis, the UK's economy has grown reasonably quickly in relation to other European countries.** For example, over one third of all active movers in the period 2008-2012 came to the UK because of better employment opportunities;
- **The widespread use of the English language as a second language also means that migrants are attracted to London (and the UK) because they have the necessary language skills;**
- **The fact that large (EU) migrant communities and networks already exist makes it easier for new migrants to settle,** e.g. Polish, Greek Cypriot and Portuguese communities. More recently, there has also been an influx of highly-skilled professionals from France, to the point that London, currently hosting 300,000 to 400,000 French nationals, has been described as 'France's sixth biggest city';²
- **There has also been, post enlargement, an unprecedented increase in the number of economic migrants coming to the UK from the rest of EU.** This followed the UK government's decision in 2004 to open its labour market to mobile workers from new EU Member States in Central and Eastern Europe (CEE). For example, between 2004 and 2011, the total number of immigrants living and working in the UK rose from 1.5 million to 2.5 million, two-thirds of whom were Polish. It is estimated that approximately 200,000 Polish are based in London;
- **With four of the top 30 universities in the world, London³ attracts large numbers of international students.** Indeed, London and its 38 higher education institutions (HEIs) which make up a quarter of all UK education institutions has long been a magnet for international, including European, students. A relatively large proportion of such

² <http://www.bbc.co.uk/news/magazine-18234930>

³ Times Higher Education World University Ranking 2015-2016

international students, especially EU nationals, stays on and works in London after the completion of their studies;

- Finally, **the migration of Southern Europeans (as well as, to some extent, Eastern Europeans, including migrants from the Baltics) to London reflects the fact that the global financial crisis and its aftermath has caused migratory outflows from worse affected economies** (see Table A.1 in the Annex).

2 The hypothesis under analysis

London has been a key destination for highly-skilled migrants. Their contribution to London's economy, social and cultural life has been significant. For example, it has been estimated that international, including European students studying at London universities directly contributed £3.7 billion to the UK economy in 2013-14 and supported over 37,000 jobs (London & Partners, 2014). According to an important UCL study, EU migrants who arrived in the UK since 2000 contributed more than £20bn to UK public finances between 2001 and 2011. Moreover, they have endowed the country with productive human capital that would have cost the UK £6.8bn in spending on education (Dustmann and Frattini, 2014).

However, **Brexit and its implications for free movement of labour is likely to have a substantial adverse impact on London and its future as a leading knowledge economy, high-tech and financial services hub and a prime destination of highly-qualified EU migrants.** There are already signs of talent flight among EU nationals living and working in the UK in general, and London in particular. For example, there has been a 30% rise in the number of EU academic staff who have left in just two years, with more than 1,300 EU academics having left British universities in the past year, prompting concerns of a Brexit brain drain (Savage, 2017). Such a trend is highly likely to negatively affect London based HEIs in view of the high proportion of EU academics employed there. For example, 38% of the London School of Economics (LSE)'s academic staff are EU nationals, while other London colleges such as Imperial, King's and University College London (UCL) – employ between a quarter and nearly a third of EU academic staff (Talbot, 2017).

Brexit is also expected to exacerbate skills and labour shortages in a number of sectors which employ both highly- and low-skilled workers (as well as medium-skilled ones) (CIPD and Adecco Group, 2017a and 2017b). Indeed, as has been argued, the UK is 'already seeing some negative effects, with the number of EU nationals arriving looking for work falling by 180,000 in the year to September 2016, for the first time in ten years' (CIPD and Adecco Group, 2017a). Official data also show that the growth in the number of non-UK EU nationals in employment had slowed in recent months. Such developments are expected to start having a negative effect in terms of skills and labour shortages as well as recruitment difficulties in those sectors most reliant on EU labour such as the hospitality, construction, agriculture and manufacturing sectors (CIPD and Adecco Group, 2017a and 2017b).

However, such adverse effects are also expected in sectors employing highly skilled workers, including both the UK's public sector – most notably the NHS, social care and education – and the private sector such as the financial services sector. Indeed, a recent survey by Deloitte found that 47% of highly-skilled EU workers were considering leaving the UK in the next five years (Deloitte, 2017). Significantly, as the survey indicated, 'the [Brexit] referendum effect was strongest among highly-skilled EU workers in the UK, with 65% describing the country as less

attractive since the Brexit vote. Among less skilled workers, 42% of EU nationals and 25% of non-EU nationals said the UK was now less attractive' (Deloitte, 2017).

Brexit has also called into question the future of the City of London and its role as one of the leading financial centres in the world. As has been argued, 'Brexit will have negative effects for the City of London, and the preliminary results of our analysis suggest that such effects will be substantial' (Djankov, 2017). Although estimates vary, the direct negative effect of Brexit for the City of London and its financial sector will be a 12–18% loss of revenue and a 7–8% drop in employment – most of the latter being highly-skilled and paid employment (Djankov, 2017). Moreover, it is unclear whether London outside the EU will remain the single most important location for foreign direct investment (FDI) in the UK and in fact across the whole of Europe (The CityUK/Oliver Wyman, 2016; TheCityUK, 2017).

3 The profile of the area

3.1 Territory

London, the capital of England and the UK, is located in South East England which is the most populous of England's nine official regions. It occupies a favourable geographic position, with a convenient time-zone which allows contacts with all regions of the world during their business hours. This, in turn, has contributed to London attracting international businesses – especially in the financial sector, since it allows for interaction at all hours with, *inter alia*, Stock Exchanges, dealing rooms and trading floors all over the world.

The London region, also known as Greater London, is one of nine regions of England and covers an area of 1,583 square kilometres. Based on the 2011 census, **London is the largest city in Europe with 8,173,941 inhabitants** and a population density of 4,542 inhabitants per square kilometre. Greater London is split into Inner London and Outer London and includes the City of London and 32 boroughs. The Office for National Statistics (ONS) and Eurostat define Inner London and Outer London differently: Inner London includes the City of London, Haringey and Newman and excludes Greenwich (defined as Outer London).

London is split by the river Thames, a navigable river, into North and South. The London Underground is the oldest railway network in the world, with 270 stations and 400 km of track. It serves Greater London and has 14 stations beyond the M25 London Orbital motorway. According to data from Transport for London (TfL), **the London Underground is used every year by 1.37 billion passengers**.⁴

The 'travel to work area (TTWA)' is a statistical measure that indicates an area where the population would generally commute to a larger town or city for the purposes of employment. **At 8.4 million, London has the largest population of all TTWAs in England and Wales**, including nearly all areas within the boundary of Greater London (ONS, 2016a). According to the 2011 Census, 42 local authorities had one in 10 working residents commuting from outside London to the capital.⁵ **London, with its six international airports** (Gatwick, Heathrow, City, Luton, Stansted, Southend) **has the busiest city airport system in the world** in terms of passenger traffic (133,709,327 passengers in 2011) (GLA, 2017).⁶

The term 'London' is used in reference to Greater London, while the tiny City of London, which is the small area in the heart of Greater London, is called 'the City' (or Square Mile, as it covers 1.12 square miles or 2.90 km²) and forms the main financial district. Canary Wharf, located on

⁴ <https://tfl.gov.uk/corporate/about-tfl/what-we-do/london-underground/facts-and-figures>

⁵ <https://londondatastore-upload.s3.amazonaws.com/Zho%3Dttw-flows.pdf>

⁶ <https://data.london.gov.uk/dataset/busiest-airports-by-passenger-traffic>

the Isle of Dogs, is a business district in east London and has developed into a new financial and commercial hub, with 1,500,000 m2 of office and retail space.

3.2 Population and migration

With its 8,173,941 inhabitants, London is the EU's largest city. Almost 40% of the city's population is foreign-born, representing the second biggest immigration population, behind New York. It has had the highest population growth in Europe, increasing by 1.58% (ONS, 2016b). Over the last 10 years, the UK-born population of London has increased by an average of 0.4% per year, compared to the 7.7% of the EU-born population and 2.2% of non-EU born population. From 2005 to 2015, the proportion of non-EU born residents in London grew at six times the rate of UK-born, while the EU-born population grew at more than 18 times the rate of the UK-born resident population (London First and PwC, 2017).

Table 3.1: shows the number of migrants who registered for a National Insurance number (NINo) between 2014 and 2017. NINo is used in the administration of the UK's social security system to ensure that one's insurance contributions and tax payments are properly recorded.

Table 3.1: NINo registrations – Total number of registrations issued to adult overseas nationals entering the UK (000s). Data are for England and All London boroughs (excl City) from 2014/15 to 2016/2017

| Period | National Insurance Number registration | | | |
|-----------|--|---|--|---|
| | People (000s) | | | |
| | England | Minimum for all London Boroughs (excl City) | Mean for all London Boroughs (excl City) | Maximum for all London Boroughs (excl City) |
| 2014/2015 | 749.21 | 1.95 | 10.42 | 26.48 |
| 2015/2016 | 752.30 | 2.13 | 9.92 | 25.66 |
| 2016/2017 | 713.94 | 1.98 | 9.08 | 23.39 |

Source: Department of Work and Pensions

Since 2001, with only the exception of Kensington and Chelsea, **all London's boroughs have seen a population increase – a large proportion of which has been attributed to higher migration levels** (see Table A.2 in the Annex).

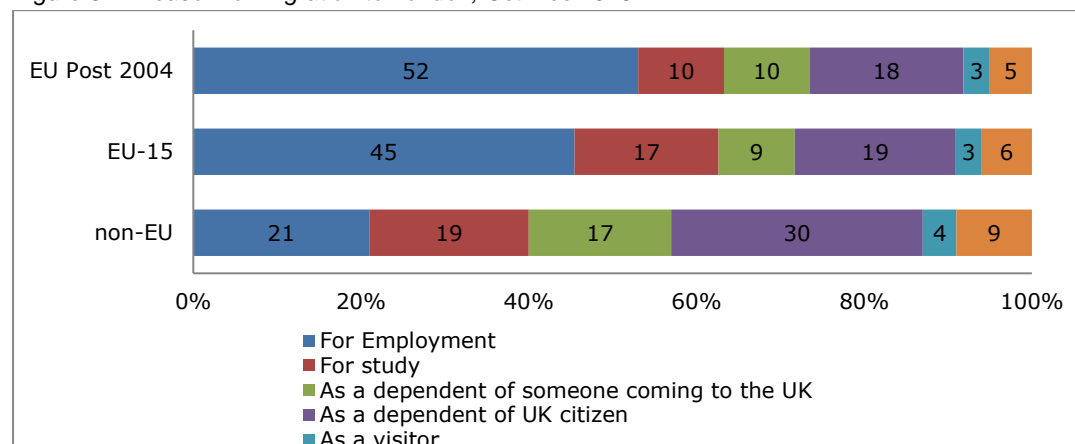
Over the last 10 years, house prices in London have almost doubled – they have increased by an average of 92% (compared to an 18% rise in the average wage in that period).⁷ This massive rise in house prices – exacerbated by a chronic underinvestment in house building and ensuing lack of adequate supply of housing stock – is a key factor influencing the distribution of workforce within London. The number of commuters living in areas with more affordable accommodation, i.e. in Greater London or further afield, travelling to central London for work is constantly growing (London First and PwC, 2017).

London is a magnet to foreign nationals who come to the capital to live, work, study and visit. Indeed, no other UK region compares in term of migration inflows. Unsurprisingly, London's

⁷ Source: ONS ASHA data

share of European (EU) nationals⁸ is considerably higher than any other region in the UK (London Assembly Economic Committee, 2017). As shown in Figure 3.1: below, about half of EU migrants move to London for employment reasons, compared to 21% of non-EU born migrants. About 15% of EU migrants initially come to study, compared to 19% of non-EU born migrants. Twenty-five per cent of EU migrants come to London as a dependent of either a UK or a foreign citizen. Differences between EU and non-EU migrants can be explained by the different (stricter) visa regime which applies to the latter (London First and PwC, 2017).

Figure 3.1: Reason for migration to London, Oct-Dec 2015



Source: ONS - Labour Force Survey (LFS)

A key aspect of the London's distinctiveness is its diversity. In 2015, almost a quarter of London's population was non-UK born compared to one in ten across the rest of the UK's population. **London's share of EU nationals is also higher: in 2015, 12% of London's population came from the EU compared to 4% in the UK as a whole** (ONS, 2016b; London Assembly Economic Committee, 2017). Around a third (32%) of EU nationals in the UK are living in London (around 1 million people) (Hawkins/ONS, 2017). The countries more represented among London's EU migrants are Poland (1.9%), Ireland (1.2%), France, Italy and Romania (1% each) (ONS, 2016b; London Assembly Economic Committee, 2017). **The migrant population is not evenly distributed within London's 32 boroughs:** at 55.2% (18.6% are EU migrants) the borough of Newman has the largest proportion of migrant residents compared to Havering which has the lowest at 13.6% (only 4.9% are EU migrants).

In June 2015, London was the destination of 38% of international migrants arriving in England and Wales, registering the highest net international migration of all regions at 133,900 – up by 26,500 from the previous year. Statistics show that, in June 2015, London continued its pattern of having the greatest outflow of people to other parts of the UK than any other region, with a net loss of 77,500 people. More people of every age left London for other parts of the UK than

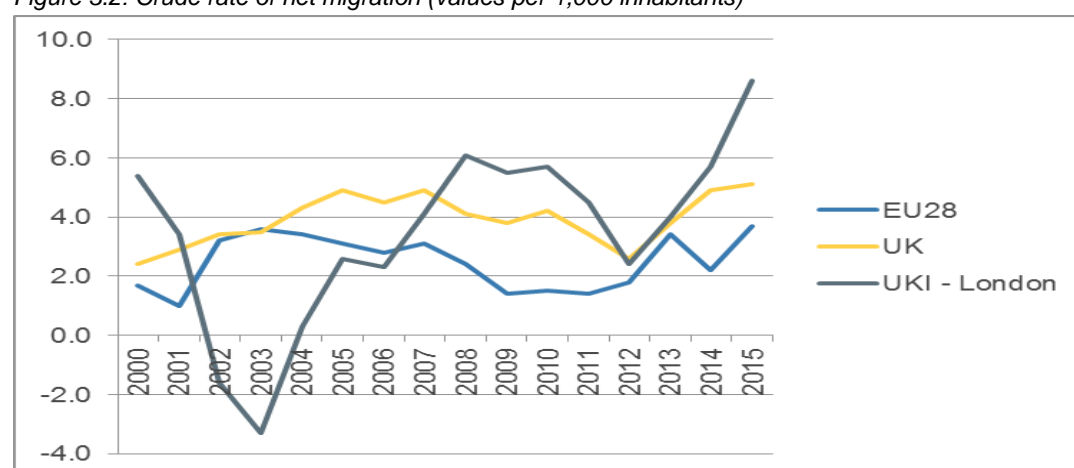
⁸ This includes nationals not only from the EU, but also from EEA countries not part of the EU (Iceland, Liechtenstein and Norway) as well as Switzerland

arrived, except for people aged 21-28. In this case, more people aged 21-28 arrived in London from other parts of the UK than left (ONS, 2016b).

London is one of the youngest regions in the UK: most of its immigrants are young adults and, for this reason, **London's birth rate is increasing**. Young people come to London in search of jobs and/or learning opportunities and tend to leave the city when they have other priorities, such as family commitments or buying an affordable house. The majority of leavers choose to stay just outside Greater London (ONS, 2014).

Figure 3.2 shows the fluctuation of the crude rate of net migration, with a negative pick observed in 2002 and 2003 (the crude rate of net migration reached -1.6 in 2002 and -3.3 in 2003). **Since 2003**, reflecting the fact that the UK in general and London in particular had become popular destinations for migrants, **the crude rate of net migration was always positive and, since 2012, has grown constantly reaching 8.6 in 2015**.

Figure 3.2: Crude rate of net migration (values per 1,000 inhabitants)



Source: Eurostat

Note: The crude rate of net migration is the rate of the net migration including statistical adjustment during the year to the average population in that year. The value is expressed per 1,000 inhabitants. The crude rate of net migration is equal to the difference between the crude rate of population change and the crude rate of natural change.

As mentioned previously, London is a young city. As Table 3.2 shows, the proportion of people aged 65 and over compared to those aged 15-64 is lower in London compared both to the UK and the EU-28 average. While between 2001 and 2015, reflecting ongoing demographic ageing, the average proportion of people aged 65 and over compared to those aged 15-64 grew both in the UK and the EU-28, it fell in London.

Table 3.2: Old-age dependency ratio*

| | 2001 | 2015 |
|----------------|-------|-------|
| UKI London | 17.9% | 16.5% |
| United Kingdom | 24.3% | 27.5% |
| EU 28 | 23.5% | 28.8% |

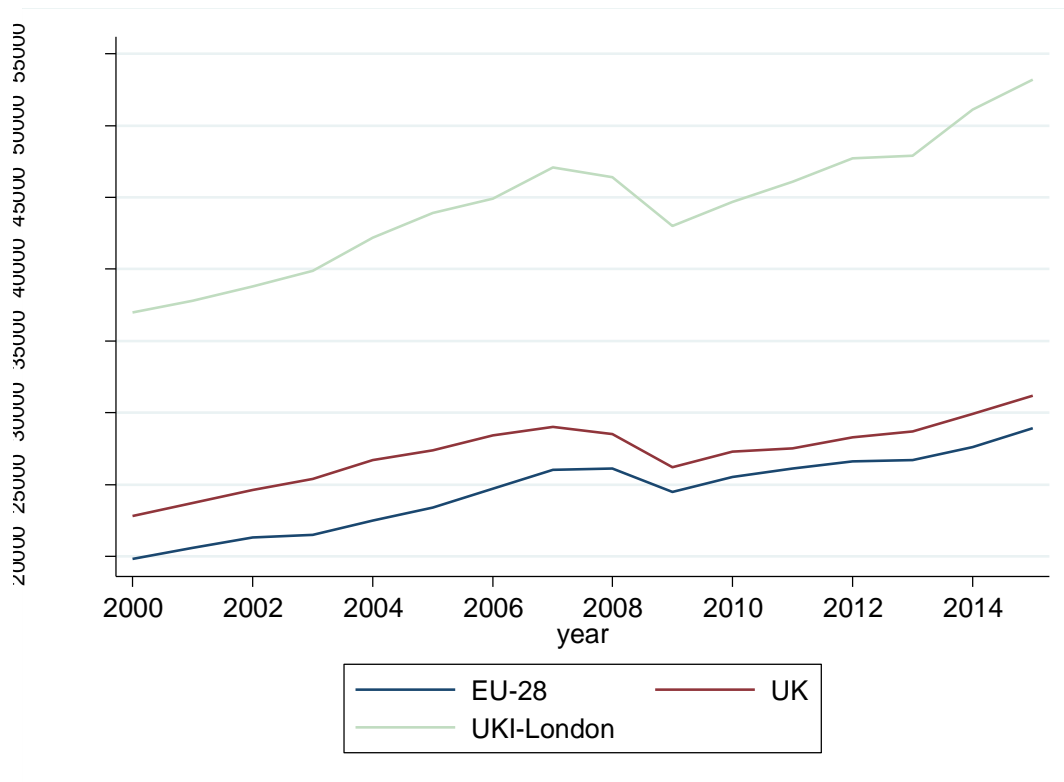
Source: Eurostat

Note: Ratio between the number of people aged 65 and over (the age when they are generally economically inactive) and the number of people aged between 15 and 64. The value is expressed per 100 persons of working age (15-64).

3.3 Economy and labour market

London has one of the highest GDP per capita in Europe. Its level has been almost twice the EU-28 average during the period 2000-2015. Figure 3.3: shows how the trend of growing GDP per capita was interrupted in 2008 as a result of the global financial crisis, which led to GDP contraction in both London and the UK as well as the EU-28.

Figure 3.3: GDP per capita (PPS) at current market price for the period 2000-2015



Data source: ESPON database

The biggest factor determining the level of GDP is the Gross Value Added (GVA). Several sectors contribute to GVA with knowledge economy being an increasingly important factor for London's regional GVA. As shown in Figure 3.4:, **the value of services and goods created by Professional, Scientific and Technical activities in London (NUTS1) experienced a period of growth between 2001-2015**, with a decrease only in 2009 (probably as a consequence of the financial crisis), but **with an average growth of 6% over this period**.

Figure 3.4: Percentage Growth of GVA for Professional, Scientific and Technical Activities (constant price, base year 2015)

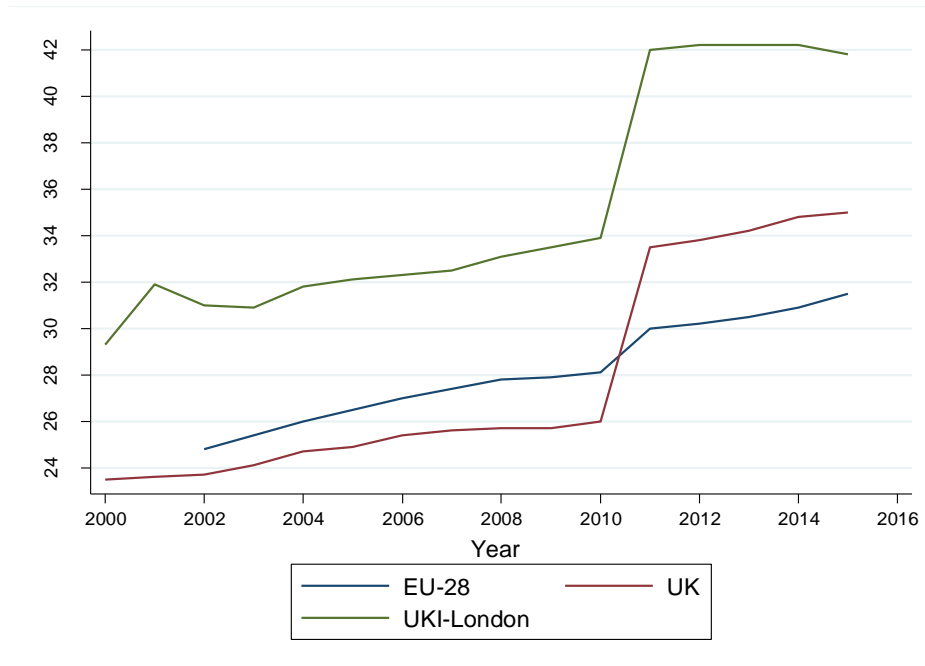


Data Source: UK's Office for National Statistics (ONS), Nomis -Official labour market statistics

From 2007 onwards, there has been a decline in the value of important labour market variables. In particular, there has been a strong contraction in the employment rate for young people aged 15-24. The rate dropped in London from 44.3% in 2007 to 36.8% in 2011. The UK's average fall was 0.7% smaller for the same period, while the fall in the youth employment rate in Europe was 3.9% – albeit with significant country and regional variations (ESPON database). During the same period, the decrease in employment rate for young people was mirrored by a 6.3% increase in the unemployment rate, for the same age group in London. This rise was consistent with the average unemployment rate for young people in Europe (6.2%). However, the overall unemployment rate grew by 3% for the same period in London. This means that the economic crisis and associated austerity policies had, typically, a greater adverse effect on the UK's and London's youth labour market.

As shown in Figure 3.5, irrespective of the negative impact of the economic crisis which was temporary, **in London, the percentage of people employed in science and technology increased over the period 2000-2015, with no interruption in this upward trend.**

Figure 3.5: Percentage of people employed in science and technology on active population, 2000-2015



Data Source: ESPON database

In 2010, there was a large increase in people employed in science and technology both in London and the UK, in contrast to the European average which did not grow to the same extent. This increase was sustained in subsequent years, indicating that the science and technology sector managed to overcome the economic crisis more successfully, playing a key role in the relative resilience of the UK's (and London's) labour market. This sector's relatively strong performance is likely to be linked to the higher demand for, and associated migration inflows of, highly-skilled workers. Data on the proportion of people aged 30-34 with a tertiary education degree in London shows a stable growth of around 3% until 2002, when a strong decline was registered, and again a stable growth of 1-2% until 2009.

Reflecting the impact of the crisis which was particularly felt in the rest of the EU, especially the Eurozone countries, in 2010 an increase of circa 6% of people employed in science and technology was registered, dropping to 3% in 2015. This is linked to the fact that, **following the global financial crisis and its aftermath (2009-2014), the UK experienced one of the largest increases (+57%) in the inflows of EU migrants** (European Commission, 2017). As part of this trend, the UK in general and London in particular were the recipients of large numbers of highly-qualified EU nationals from Southern Europe – hardest hit by the crisis. For example, London has attracted a large number of Spanish IT experts (EUKN, 2013). This pattern suggests that London has been able to attract highly-skilled workers also during periods of relatively weak economic performance.

Between 2005 and 2015, the London workforce grew by an average of 2.3% per year. UK-born workers represent 62% of London's total workforce. **The EU component of the total London workforce has increased by an average of 11.4% each year** (London First and PwC, 2017).

EU nationals occupy a significant number of jobs in London. According to the latest data from the 2015 Annual Population Survey which estimates the number of jobs by country of birth and nationality of job holder, **in 2015, about 600,000 jobs (around 13% of the 5 million jobs in London) were held by EU nationals.** In contrast, only 5% of the jobs in the rest of the UK were held by EU nationals (ONS, 2016b; London Assembly Economic Committee, 2017). As has been argued, access to highly-skilled workers underpins London's success, with more highly-skilled workers than any other city. Indeed, as a recent study found, **London has been substantially the biggest global hub for high-skilled knowledge-based sectors, employing 47% of the combined total of all highly-skilled workers in the top five European cities** (London First, 2014a and 2014b; Deloitte, 2013).⁹

As expected, London's workforce is employed in a wide range of sectors and job roles covering the full spectrum of skills and qualification levels. While UK, non-UK and **EU-15 migrants are more likely to work in managerial and professional roles** across the full range of industry sectors, **post-2004 enlargement EU migrants, i.e. CEE/EU-13 migrants tend to be employed in semi-routine and routine work**, mainly in construction, retail and tourism sectors (London First and PwC, 2017; Bruzelius et al, 2015). For example, over 55% of EU-15 migrant workers are in managerial or professional roles as opposed to 22% of post-2004 accession migrants (London First and PwC, 2017). In contrast, more than 60% of post-2004 accession migrants are in routine occupations or self-employment, reflecting in part the fact that a large number of them work in construction (London First and PwC, 2017). Overall, **in London, a sizeable proportion of EU-born workers are employed in professional occupations and senior-level positions (one in five in 2015);** however, this is **in contrast to the rest of the UK where EU-born workers are mainly employed in low-skilled occupations** (London Assembly Economic Committee, 2017).

Over one sixth of the London economy is represented by financial services which covers a range of skilled services such as banking, insurance, securities trading and fund management. **Fifteen per cent of the nearly 300,000 employees is EU-born** (London First and PwC, 2017). The main centres of the financial services are the City and Canary Wharf where 74% of this sector's workers are based. One of the main reason that attracted foreign banks to London is the no-restriction regime on foreign ownership. Foreign banks are allowed to buy local brokers and there are no foreign exchange controls. The City employs more than 160,000 people in 250 foreign banks.

The NHS is another sector which employs large numbers of highly skilled EU workers. Specifically, the NHS employs approximately 175,000 skilled people in London, 25% of whom were born outside the UK. Thirteen per cent of doctors in the NHS are from the EU (London

⁹ In 2013, the high-skilled employment figures were as follows: 1.5 million people were employed in London, compared to 1.2 million in New York, 784,000 in Los Angeles, 630,000 in Hong Kong and 425,000 in Boston (London First, 2014a and 2014b; Deloitte, 2013)

Assembly Economic Committee, 2017). **EU nationals are also highly represented (30%) within the tech/ICT sector** and half of the top ten start-ups have been founded by EU migrants (London First and PwC, 2017). **The construction industry in London employs approximately 300,000 people, 30% of whom are EU workers. The hospitality sector in London is one of the sectors where UK-born workers are in the minority representing only 30% of the workforce. In this sector, which employs about 250,000 (lower-skilled) people in total, about 100,000 are EU nationals** (London First and PwC, 2017).

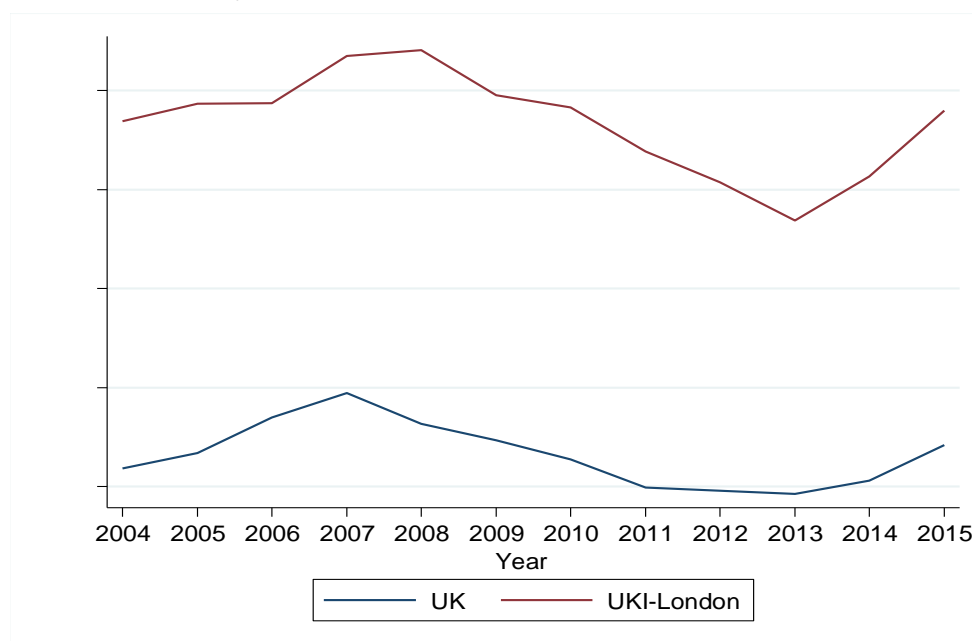
Given the figures presented above, **the result of the Brexit referendum is likely to adversely affect the labour supply of and demand for highly-skilled young people.** Indeed, the negative implications of Brexit in terms of London's (and the UK's) ability to attract and retain EU migrants with low, medium and high levels of skills working in a wide range of sectors, from construction, retail and hospitality to financial services, the NHS and education has been highlighted in a growing number of studies, intensified government lobbying and advocacy by business and even increased references to such an outcome in both political and media debates. The adverse implications of Brexit on London's economy and prosperity (as well as its highly valued diversity) were also stressed by this case study's stakeholders.

3.4 Education

London has a number of the most prestigious HEIs in the world which act as a magnet for international (and EU) students and academics. At the same time, reflecting the type of work opportunities in London which is, on the whole, relatively more skilled, a large proportion of its workers employed in the professional services, finance and business services, health, education and IT-related sectors are highly qualified: **43% of London's workforce hold a university degree or equivalent qualification, compared to 28% of UK average** (London First and PwC, 2017). Indeed, London is the capital with the largest proportion (55%) of graduates in the world (London First and PwC, 2017).

ONS data on the value of human capital, measured in monetary terms as the total potential future earnings of the working age population assuming a labour productivity growth rate of 2%, discount rate of 3.5% and age of retirement fixed at 64 are presented in Figure 3.6. **The value of employed human capital per head is approximately 33% higher in London compared to the UK for the period 2004-2015.** This figure is consistent with what emerged in the previous subsection, suggesting that more highly-educated workers tend to concentrate in London. The economic crisis had also an impact on the monetary value of human capital per head, but recovery to pre-crisis level seems highly likely.

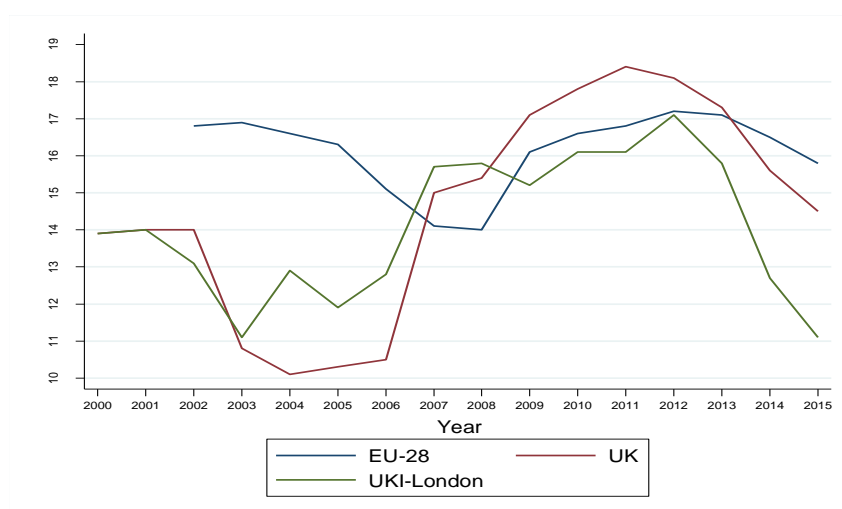
Figure 3.6: Value of employed human capital per head (£)



Data Source: ONS

In relation to young people who are neither in employment nor in education and training (NEETs) aged 18-24, although there was a significant increase in their registered number in the UK and London in 2006, this did not occur in Europe until two years later, i.e. at the onset of the global financial crisis. In contrast, **reflecting the UK's (and London's) relative greater resilience and better performance** during the recent crisis, a **markedly decreasing trend in the NEET rate was observed in both the UK and London earlier than in the rest of the EU**. Although by 2015 London had brought its NEET rate below its 2000 level (11.1% in 2015 vs. 13.9% in 2000), the rest of the UK had not managed to do so.

Figure 3.7: Percentage of young people neither in employment nor in education and training (NEETs) (18-24 years-old)



Source: ESPON Database

In general, **London has managed to recover from the financial crisis more quickly than the rest of the UK.** As has been argued, this might be, at least in part, **due to the structure of London's economy which attracts and employs large numbers of highly-skilled workers from all over the world, including the EU.**

As mentioned earlier, **London attracts international students – 30% of its students are international – who come to study in one of its 38 universities** (see Table A.3 in the Annex). As far as costs are concerned, although London is an expensive city in global terms, studying in London is considered to be good value for money and a good investment. One of the stakeholders interviewed stated that London scores very high in the '4 Cs': (i) Culture; (ii) Courses; (iii) Career; and (iv) Costs. For example, as that stakeholder stressed, **London has a strong reputation as an open, diverse and multicultural city.**

'People like the fact that the culture in London is open and welcoming and that they can meet people for all sorts of backgrounds and countries and that London is so vibrant...If you are a Chinese student coming from a particular region, you will meet somebody in London who speaks the same dialect, so students can always find others with something in common...So living and studying in London is extremely attractive to many international students who see this as opening their eyes to a new way of life but in a place which is naturally multicultural and naturally open'.

Moreover, compared to other major competitor cities for international students such as New York and Melbourne, the costs of studying in London are quite comparable. Crucially, since one can do a Master's Degree in a year in the UK (instead of longer somewhere else), this compressed time for post-graduate study is also seen as a way of saving study costs. As a result, **the costs of studying in London are both a pull and push factor.**

The fact that London has one of the largest and most diverse clusters of universities and higher education (HE) colleges in the world means students can choose from an extremely wide range of both academic and vocational courses. This **course plurality and diversity greatly enhances London's appeal to international students.**

'However obscure your subject, you can find someone who teaches it in London. This is very significant for foreign students'.
(Stakeholder)

London offers career and networking opportunities as many international/global companies have their headquarters here. For example, it is a truly global financial centre and has a leading global share of trading in many international markets, including cross-border bank lending, international insurance, foreign-exchange trading and over-the-counter derivatives trading. It is also the European capital for hedge funds and private equity funds.

'Because London is the base of many international companies and the well-established leading role of the City of London as a key if not the key global financial centre, many international students come here not only to study but also to make the connections, acquire some valued work experience and start their career in a very positive way'.
(Stakeholder)

Overall, **the UK has the most highly-educated migrants in the EU and more than half of all foreign-born residents are graduates** (London First, 2015). **The role of the 38**

Universities in London is particularly important for the regional economy as they provide 56,896 jobs and high quality employment. However, over the last ten years total student numbers in London have decreased by just under 22,000 – from 381,600 in 2005 to 360,000 in 2015. This is due to a decrease (-15.3%) in the number of UK undergraduate students probably related to the introduction of fees – which in 2012 trebled to £9,000 per year – and the (higher) cost of studying in London, while until the Brexit vote the number of EU and non-EU students continued to rise for both undergraduate and postgraduate studies (London First and PwC, 2017).

Since 2012-2013, graduates from universities in London have created over 4,000 new start-ups or social enterprises (Universities UK, 2017). **Highly-skilled migrants fill the skills and employment gaps particularly in STEM-based** (science, technology, engineering and mathematics) **occupations.** As pointed out by both the HEIs and stakeholders interviewed, **any restriction on EU migration as a result of Brexit is likely to hit international (notably EU) students, academics and researchers disproportionately hard.**

3.5 Institutional characteristics of the area in relation to the KE and skilled migration

The UK operates a highly centralised migration system through the Home Office which decides the country's immigration policy at a national level (MRN, 2010). To this end, the Home Office operates through a number of (i) divisions such as the Border Force, Immigration Enforcement and UK Visas and Immigration (UKVI) and (ii) non-departmental public bodies such as **Migration Advisory Committee (MAC)** and the Office of the Immigration Services Commissioner. For the purposes of skilled migration, of particular significance is MAC which, sponsored by the Home Office, is an independent, advisory, non-statutory, non-departmental public body that provides independent and evidence-based advice to the UK government on migration issues such as the impact of immigration; the limits on immigration under the UK's points based system; and skills shortages within occupations (Shortage Occupation List) (Gower, 2016).¹⁰ For example, in January 2016, MAC recommended the UK government tighten the Tier 2 skilled migrant route so as to reduce non-EU migration (MAC, 2016).

Although the overall immigration policy is set centrally, policies and interventions relating to migration are implemented at national, regional and local levels (MRN, 2010). For example, enforcement is coordinated at both regional and local levels (MRN, 2010). Moreover, **strategic planning, support and integration work, coordination of services and enforcement in relation to migration, including highly-skilled migration have**

¹⁰ When occupations are placed on this list, UK employers face fewer restrictions in recruiting workers directly from overseas, i.e. outside the EU, EEA and Switzerland. They also no longer need to complete a residency test, which involves demonstrating that a search for suitable candidates within the UK in the first instance has been unsuccessful. MAC developed a methodology for identifying such occupations, based on a combination of statistical analysis, qualitative evidence from stakeholders and expert judgement (Sumption, 2017).

increasingly become regionalised (MRN, 2010). Indeed, central government has no specific policy on migration in London (Gidley, 2011; Ruhs, 2012; MRN, 2010). However, **successive London Mayors** of both political persuasions starting from Ken Livingstone (Labour) through to Boris Johnson (Conservative) to Sadiq Khan (Labour, current Mayor) **have shown both a keen interest in, and strong concern for, migration in London**. Such interest has been exemplified, over time, in the development of number of migration related London-focused regional initiatives. For example, **London Enriched**, the Mayor's Integration Strategy for London which sets out the priorities for refugee and migrant integration in the capital, was first launched in 2009 and then updated in 2013 (Gidley, 2011; Ruhs, 2012).

The **formation of 12 regional strategic migration partnerships** – funded by the Home Office and tasked with designing strategies and action plans for improved integration of and coordination of service provision to migrants – is also another manifestation of this greater trend towards regionalised initiatives and solutions (MRN, 2010). For example, the Home Office funds the Greater London Authority (GLA) to lead the **London Strategic Migration Partnership (LSMP)** – a cross-sector partnership chaired by the Deputy Mayor for Education and Culture **tasked with maintaining a strategic overview of the state of migration in London** (Gidley, 2011).¹¹ LSMP provides a strategic leadership, advisory, coordination and development function for migration and integration in London. Leading the Partnership enables the GLA to gather better intelligence about migration in London, improve coordination among strategic partners, influence immigration policy and take migration into account in delivering the Mayor's responsibilities and priorities. From the Box below it is clear that **attracting and retaining students and highly-skilled workers in knowledge economy sectors in London is one of the LSMP's key objectives**.

Box 3.1: London Strategic Migration Partnership (LSMP)'s Objectives for 2015/16

- Deliver effective pan-London stakeholder engagement for UKVI and GLA on immigration
- Provide opportunity for strategic insight to the challenges for migrants and refugees in the Capital
- Develop strategic leadership across London for the integration priorities of the Asylum, Migration and Integration Fund (AMIF)
- Support creative and cultural sectors to work with international talent in London
- Support UKVI engagement with its business customers
- Support the growth of spin-outs and micro SMEs, particularly in life science and technology but with wider transfer across the knowledge economy, by enabling the recruitment and retention of international talent.
- Identify visa policy and operational issues through consultation with London business and education providers to strengthen London's competitiveness.
- Ensure tourist and other short-term visitor opportunities maximise the global position of London to the UK's economy

Source: Mayor of London, London Assembly, (2015). DD1345 Home Office Grant Agreement for London Strategic Migration Partnership, (accessed on 29/6/2017)

London's Mayor has also set up the **Migrant and Refugee Advisory Panel (MRAP)** which is a group of migrants, refugees and asylum seekers which advises the Mayor and works with the LSMP and other organisations on issues and challenges facing refugee and migrant

¹¹ <https://www.london.gov.uk/what-we-do/communities/migrants-and-refugees/encouraging-integration>

communities in London. It is worth adding here that, compared to other UK regions, more power is devolved to London. The elected mayor controls the Greater London Authority and the Greater London Assembly (GLA) and is responsible for a budget of £17bn.

Both the literature reviewed and the stakeholders interviewed expressed concern about the UK's existing migration policies and, crucially, their likely evolution post-Brexit (in terms of encompassing EU migrants and becoming even more restrictive). As has been argued, 'the basic principles of accountability, transparency and targeted action that underpin effective governance structures have been too frequently absent from the UK immigration system' (Robinson, 2013).

4 Policy features affecting performance in relation to the knowledge economy and high skilled migration flows

As reported in previous sections, **the high level of migration of young, skilled EU migrants – both over time and as a result of the recent crisis – is a crucial and positive contributor to London’s economy.** Until the June 2016 Brexit referendum, the UK had become a prime destination of European workers (Government for London Office, 2011 cited in Mulholland and Ryan, 2013). This followed **the UK government’s decision in 2004 to open its labour market to mobile workers from CEE.** Immigrants arriving in the mid-2000s (particularly from the new EU Member States in CEE) tended to be younger and better educated than natives. The Accession State Worker Registration Scheme was a measure implemented in order to restrict incoming workers from A8 countries. Bulgaria and Romania joined the EU in 2007 but did not become subject to Worker Registration Schemes and were allowed to work in the UK, if they met the requirements of a particular visa category.

Romanian and Bulgarian migrants were allowed to apply to the work permit scheme or to the Highly Skilled Migrant Programme. Those restrictions were lifted at the end of 2013. While all EU migrants are currently allowed to enter the UK under the free movement of labour rules, those from the rest of the world must meet visa requirements which are set out by the Home Office. Box 4.1: below shows the **UK’s points-based system aimed at non-EEA migrants**, which was introduced in phases between March 2008 and March 2009. It includes a number of tiers, each of which comprises several different visa categories (and some sub-categories), with varied associated conditions and eligibility requirements (Gower, 2016; Sumption, 2017; Robinson, 2013; Institute of Government, 2017):

Box 4.1: The UK’s Points-based system

- **Tier 1 (for highly-skilled workers)** was the first tier to be launched, in March 2008. It relates to 'high-value migrants', including entrepreneurs, investors, graduate entrepreneurs and the small number of people who come under the 'exceptional talent' visa in science, humanities, engineering, medicine, digital technology or the arts;
- **Tier 2 (for sponsored skilled workers, i.e. workers with a job offer from a UK-based employer)** was launched in November 2008 and was aimed at general skilled workers; ministers of religion; sportspeople; and intra-company transfers (split into 4 sub-categories);
- **Tier 3 (for low-skilled workers filling specific temporary labour shortages)** was also introduced in 2008. It was designed to replace schemes such as the Seasonal Agricultural Workers Scheme (SAWS) and the Sectors Based Scheme (SBS) but was never used. As a result, in 2013, the government announced its intention to wind it down;
- **Tier 4 (for students for students aged over 16 who wish to study in the UK)** was the last to be launched in March 2009. With some exceptions, one is restricted to maximum five years of study on courses at degree level and above. Over time, the eligibility requirements and associated conditions have become increasingly more stringent for this type of visa (see below);
- **Tier 5 (for special categories of temporary migrant workers)** was launched in November 2008. For example, Youth mobility scheme visas whereby one is allowed to work in most jobs in the UK for up to two years are available to young people aged 18-30 from countries with which the UK has reciprocal agreements.¹² There are also five Tier 5 sub-categories for classes of temporary worker (with job offer/sponsor) such as creative workers, sportspeople and participants in government-approved exchange schemes.

¹² Relevant countries: Australia; Canada; Japan; Monaco; New Zealand; Hong Kong; Republic of Korea; and Taiwan

With the issue of migration becoming increasingly controversial and even toxic within the UK's political, media and public debate, **a number of changes towards more restrictive migration policies have been introduced since 2010** (Robinson, 2013; Gower, 2016).¹³ For example, in April 2011, in an effort to reduce the level of migration from outside the EEA – since at the time, the UK's EU membership precluded limits on EU migrants – the government introduced an annual limit on the number of non-EEA migrants for different visa categories or Tiers (Sumption, 2017; Robinson, 2013; Gower, 2016).¹⁴

In relation to skilled migration, it has **restricted eligibility for skilled worker visas (Tier 2 General) to 'graduate level' jobs and**, with some exceptions, **increased the minimum salary requirement** (currently £30,000 per year or the 'appropriate rate' for the job offered – whichever is higher (Sumption, 2017; Gower, 2016). Likewise, in December 2010, the then Coalition government announced a cap of 21,700 on the number of skilled workers allowed into the UK from outside the EEA.¹⁵

Moreover, in April 2012, it closed the Tier 1 (Post-Study Work) visa option, which allowed non-EEA graduates to gain work experience in the UK and was highly valued by international graduates (Robinson, 2013; Gower, 2016). This has now been replaced by some new – more narrowly focussed – visa options for international graduates: Tier 1 (Graduate Entrepreneur); Tier 1 (Exceptional Talent) and Tier 4 (General - Doctorate extension scheme) (Gower, 2016).

The visa regime is applied to all migrants, including students. For this reason, universities trying to attract international students to London face different challenges. In particular, over the last 10 years the visa regime has become much more onerous. The standard of proof for colleges is now very high, i.e. they have to prove that they are offering genuine, high quality educational courses, while the students have to prove that they are genuine students who wish to study a particular course and, crucially, that they have enough financial resources not only to pay the fees but also to live in London.

While before April 2012 a post-study work scheme allowed non-EU students who graduated in the UK to stay on and work for two years to acquire work experience – highly valued by these students/graduates – **in 2012, the UK government introduced a change limiting the availability of post-study work visas (Tier 4 visas).** Post-study work opportunities are now available for new applicants under a new category (Tier 2). As a result of this change, there has been **a marked decrease in the number of both Indian students and people moving**

¹³ That said, there has been some loosening of the eligibility criteria and associated conditions for Tier 1 (Investor) and Tier 1 (Entrepreneur) visas (Gower, 2016). As has been noted 'entrepreneurs and investors can come to work in the UK without an employee contract if they meet a separate set of requirements, including raising sufficient capital for a business venture or investment' (Sumption, 2017)

¹⁴ One reason given by the Coalition Government for the closure of Tier 1 (General) visa sub-category was the fact that Home Office sampling indicated that 'a sizeable proportion' (29%) of non-EEA migrants on such visas were working in unskilled employment (Gower, 2016)

¹⁵ <http://www.bbc.co.uk/news/uk-politics-11816979>

from study visas to work visas in the UK (and London) – most of whom are typically highly skilled.¹⁶ Data show that the new restrictive (student) visa regime seems to be particularly resented by Indian students as well as by certain sectors such as the ICT sector, while competitors such as America and Australia have increased the student numbers they attract (London First and PwC, 2015). As a possible solution, London First suggested to classify student as a temporary visitor rather than a migrant:

'We should follow the lead of other countries such as Canada and Australia and stop classifying students as immigrants'. (Stakeholder)

Since the referendum of the 23th of June 2016, London, similarly to the rest of the UK, **is facing a period of high political instability and uncertainty** – exacerbated by the current minority government that resulted from the inconclusive June 2017 elections. On 29th March 2017, the Government officially triggered Article 50, starting the official process of the UK leaving the European Union. Prime Minister Theresa May in her letter suggested that the terms of a future relationship – in terms of both economic and security cooperation – between the EU and the UK could and should be agreed alongside the terms of the country's withdrawal from the EU. **While is clear that the UK is set to leave the EU by March 2019, what remains unclear is the actual form of Brexit deal and the visa regimes that the Government will apply to EU migrants after the UK's exit.** Because London has such a high share of the EU population, the future direction of the UK's migration policy that will, post-Brexit, also encompass EU nationals, will have a huge effect on the capital.

As mentioned in the previous sections, **London is comparatively more reliant on EU workers across all sectors than other regions in the UK** (London Assembly Economic Committee, 2017). However, **certain sectors rely more than others on highly-skilled EU workers.** For the **health care sector**, for example, which **is highly reliant on highly-skilled EU and non-EU migrants**, the post-Brexit, immigration system should reflect the rising demand for and limited supply of doctors and nurses among the UK-born workforce.

'Our experience at the moment is that the two immigration systems we deal with, the EU one works well – free movement of labour and the various things regulated laying on top of that – but the non-EU system doesn't work well. It's convoluted, complicated and makes a false assumption that you can measure economic worth and economic contribution by salary. The more you earn, the more points you get on your visa. Well, a nurse in London earns 33 to 34 thousand points – that's well below the cut-off point for permanent residence and it's well below what it would take in practice for you to get a Tier 2 visa. So what we've had to do is find a workaround with the shortage occupations list to make sure they're at the front of the queue to get Tier 2 work permits, rather than what we were finding a few years ago when they were at the back of the queue'. (Stakeholder)

London's diversity and openness constitute part of the city's main brand. The slogan 'the world in one city' has been used to win the 2012 Olympic games and recently, following the result of the EU referendum, **London's Mayor Sadiq Khan launched the campaign**

¹⁶ <https://www.theguardian.com/education/2017/jan/04/anxious-international-students-turn-away-from-uk>

#LondonIsOpen to show that London is still aiming to remain open for business, welcoming diversity. The Mayor has used social media and other types of publicity to reassure EU citizens not only already living in London but also willing to come to London from the rest of Europe. The message is clear: the capital is open for and welcoming to business, tourism and studying. However, besides the Mayor's efforts, skilled workers and students may choose other cities with a reputation for openness, if London fails to maintain its reputation for diversity and openness. In addition, as has been argued especially following the Brexit vote, considering the cost of living in London, particularly housing – and, to some extent, transport – the attractiveness of the city to highly skilled migrants is at risk.

For example, one of the highly-skilled EU migrants interviewed for this case study moved to London when he finished his PhD. Exploring his migratory experience he stated that London offers a unique cluster of job opportunities; however, it is not an easy city to live.

'London is a difficult city; it is great in terms of job opportunities but not for the quality of life. The richness of London relies on migrants' willingness to work in low paid jobs or start again their career from zero. The real problem is that while you can easily find an entry level job, then the competition is really high because you are competing with the entire world'.
(Highly-skilled EU migrant working in Education).

Often highly-qualified migrants start to work in low skilled jobs, which are typically used as a stepping stone towards more highly-skilled employment commensurate with their qualifications. This, in turn, means that they tend to change jobs and occupy higher-skilled job roles after they settle down, acquire some UK-based work experience and become familiar with the functioning of the UK's labour market and employer recruitment practices. For example, one of the highly-skilled migrants interviewed said that when she first moved from Paris to London, she worked as a supervisor in Starbucks where she found that:

'I was earning so little I couldn't really afford to travel in London. I was earning so little I wasn't eligible for any taxes or anything – I was living out of leftovers from Starbucks and overtime and all that – but... it was only a little time, it was only 6 months'.
(Highly-skilled EU migrant working in Finance)

Using her networks, she then managed to secure a job in a financial tech company as a customer relationships manager where she was able to use her linguistics skills and earn a good salary. As a result, she now feels that her labour market situation and employment status are much more stable and secure.

As far as the **knowledge economy** is concerned, this **is considered at both national and regional levels as a major driver for creating a more balanced economy, generating jobs and driving economic growth** (Bilfinger and GVA, 2015). As a result, the UK government's approach is to support the growth of existing knowledge economy and/or high tech clusters as well as the wider promotion of technology, creative and knowledge intensive businesses (GLA, 2015). In London, the focus of many policies currently in place is on supporting the knowledge economy and fostering conditions for its further growth. In particular, the GLA, Mayor's office and individual boroughs are pursuing such policies.

The **East London Fringe Opportunity Area Planning Framework (OAPF)**, for example, is a specific planning policy aiming at safeguarding the locations surrounding the **Tech City digital cluster** and allowing its continued growth. The development plan includes economic and regeneration based strategies (GLA, 2015). Over the years, many sectors and specialisms associated with the knowledge economy have clustered in several parts of central London. Since the 1970s digital businesses have been setting up in inner East London and, in particular, in the City Fringe. Policy drivers play a significant role in shaping how clusters develop and grow, creating and maintaining the favourable conditions for businesses.

The **Tech City initiative** was launched and the Tech City Investment Organisation (TCIO) was formed **in 2010** in order to help grow London's emerging technology start-up industry, initially around a hub the Old Street area of East London and then further afield (LLDC, 2015). While policies such as the Olympic Park policy and a degree of state intervention – relatively limited within the UK's Anglo-Saxon laissez-faire economic system – are crucial to attract sectors, activities and employment related to the knowledge economy, in areas such as Tech City, **the main aim of policy intervention has been to protect the already well-established highly-skilled economic activities** (GLA, 2015).

Another example of a knowledge cluster is the **London Knowledge Quarter** which was launched **in 2014** and brings together over 75 large and small cultural, research, scientific, business and academic institutions, based around Euston and King's Cross, within a one-mile radius. In 2017, the Knowledge Quarter launched the Knowledge Bank, an online platform aimed at connecting Knowledge Quarter partners and allowing staff to share skills and expertise (Knowledge Quarter, 2016). In general, **local authorities, universities and hospitals play an important role in supporting innovation and growth of new businesses**. Innovation hubs and incubators are locations where the existing cluster can be used to drive further innovation by helping to stimulate and support new businesses (Bilfinger and GVA, 2015). Imperial College Incubator is an example of an incubator space providing start-ups with access to 24,000 sq. ft. of lab and office space in central London.

More recently, **in January 2017**, Prime Minister Theresa May launched proposals for a modern **Industrial Strategy** which were summarised in a Green Paper and which, *inter alia*, seeks to encourage new 'sector deals' and investment in research and development. The aim is to support the industries of the future where the UK has a strong competitive advantage – from electric vehicles to biotech and quantum technologies (HM Government, 2017). In February 2017, the then Business Secretary announced £15 million government backing for 125 innovative research and development projects across the UK, including London.¹⁷ Indeed, this is expected to represent a significant funding boost for London and the South East – which will

¹⁷ <https://www.gov.uk/government/news/business-secretary-announces-industrial-strategy-investment-in-science-research-and-innovation>

receive £492 million in funding – through the **Local Growth Fund**, enabling Local Enterprise Partnerships to help create jobs, support businesses and encourage growth.

5 Testing the evidence: main results achieved and shortcomings

London is one of the most attractive European cities for highly-skilled migrants. As highlighted by both the literature and ongoing lively political, economic, media and public debates as well as the interviewed stakeholders, the attractiveness of the UK's capital could change as a result of Brexit. **The skills- and employment-related implications of Brexit will depend on the actual nature of the final Brexit agreement, including notably the limits on freedom of movement.** There are various options in relation to migration policies vis-à-vis EU nationals, each of which will have different implications in relations to labour and/or skills shortages. For example, if the UK opts for a scheme similar to the current visa scheme for non-EU migrants, the impact of reduced EU migration will mostly be felt in sectors where migrants tend to concentrate - at the bottom of the job ladder, e.g. low-tech manufacturing jobs, hotels and restaurants, construction, etc. and its top, e.g. higher education, finance, healthcare (Petrongolo, 2016a and 2016b).

The Brexit negotiations started only recently; however **the result of the referendum introduced a period of significant business uncertainty which, in some sectors**, notably the finance sector, **resulted in a hiring freeze** (IPPR, 2016; Petrongolo, 2016a and 2016b). For example, there was an uncharacteristic downturn in job postings in the finance sector between May/June and July/August 2016 – particularly in the Greater London region (IPPR, 2016; Petrongolo, 2016a and 2016b). In anticipation of Brexit and potential loss of 'passporting' rights, **several banks are preparing for all eventualities, planning to relocate their workforce to other cities.** Lloyd's of London announced plans to create a subsidiary in Belgium – although for now fewer than 100 people are expected to work there.¹⁸

Meanwhile, reports suggest that the Lloyds Banking Group would similarly set up a subsidiary in Berlin to retain an EU presence. JP Morgan confirmed the need to be ready for a situation where there is not a deal over 'passporting' rights and is in the process of buying a landmark office building in Dublin. Deutsche Bank said that almost half of its UK workforce could move to Frankfurt, while HSBC is planning to relocate up to 1,000 employees to Paris.¹⁹ However, the City of London Corporation, recently, argued that there could be other ways to access the EU market besides opening EU subsidiaries. This includes setting up joint UK and EU regulatory bodies and agreeing to common standards (London's Economy Today Issue 176).

According to the CEO of NHS Employers, **the downward trend of EU migrants applying for or working in the NHS since the referendum result is worrying** – there are fewer EU nurses

¹⁸ <https://www.theguardian.com/business/2017/mar/29/lloyds-of-london-will-move-jobs-to-new-brussels-office>

¹⁹ <https://www.theguardian.com/business/2017/may/15/jp-morgan-landmark-office-dublin-brexit>

applying and recruited to the NHS. At the same time, employers are also more reluctant to go out to Spain, Portugal or Ireland to proactively recruit EU migrants because they do not have an answer when EU candidates ask them, whether they will be able to stay in the UK post-Brexit, if they decide to take up a job there.

This uncertainty is affecting the markets and, consequently, the UK's currency has been losing power against the Euro and the Dollar. Because sterling is so weak – it has been devalued by 15% against the Dollar and around 13% against the Euro since the referendum – it is not as attractive for EU migrants to come and work in the UK as it was a few years ago. This has, in turn, already resulted in a **drop in the inflow of EU migrants, especially those from CEE and those working as seasonal workers in the UK's agricultural sector.**²⁰

Apart from the relative value of the currency, as far as EU migrants themselves are concerned, their willingness to move to and stay in London is affected by a number of other factors, including **the current uncertainty about their post-Brexit rights and status in the UK and the real or perceived hostility they experience in their interactions with the domestic population** as well as the **highly-charged debate around migration that is currently going on in the UK.** A spike in anti-EU migrant episodes together with increasingly manifest anti-migrant attitudes have been reported all around the UK and in London as a result of the Brexit vote. One of the stakeholders interviewed said that employers report that their current EU staff are increasingly expressing feelings of doubt and fear about their future in the UK. This is also reflected in a growing number of published academic studies and media articles as well as employer and staff surveys.

'No matter what part of the workforce you're in, there's a tone – real or perceived – about the UK, which risks making us appear less welcoming to people coming and working here, and we have had vast numbers of our staff receiving really poor and unacceptable interactions with members of the public. For whatever reason, Brexit has given them licence to say things out loud that people stopped saying out loud in this country decades ago. Unfortunately, our staff have been on the receiving end of that xenophobic, racist abuse'. (Stakeholder)

One of our highly-skilled EU interviewees stated that in her office there were a lot of colleagues that fell out over Brexit – they had real arguments and people have not spoken to each other since June 2016 with colleagues being so shocked that they cannot interact with each other now, even civilly.

'It was a lot of tension it was like...I can't believe we live in a country with... people that would do that. In my office you've got a lot of people who... think getting out of the EU will save all their issues and not thinking about the impact, not thinking this might impact their own job... they still don't get it'. (Highly skilled EU migrant working in Finance)

The feelings of EU migrants living and working in London have changed as a result of the Brexit vote and the totally altered atmosphere that ensued; this change is likely to affect downwards the mobility trend of EU migrants towards the UK. Thinking about the

²⁰ <http://www.independent.co.uk/news/business/news/brexit-latest-news-uk-businesses-recruitment-crisis-polish-workers-return-home-immigration-eu-a7596956.html>

future, all highly-skilled EU migrants interviewed stated that, if freedom of movement is not maintained and EU citizens need a visa, London would probably lose its attractiveness as a top destination.

'The result of the referendum affected me but not that much, in the sense that I am happy to relocate as soon as I find another opportunity elsewhere. I am thinking that I should check for job opportunity elsewhere more actively because London is losing appeal'.

(Highly-skilled EU migrant working in Education)

'If with my skills and experience I am not allowed to stay here, I will relocate elsewhere'.

(Highly-skilled EU migrant working in Economic Research)

Brexit is likely to affect not only EU students and their wiliness to move to London but also non-EU students. For example, Chinese students see Brexit as making the UK's HE market less attractive to EU students and, as a result, less competitive for places. This may make it easier for them to secure a place at a prestigious university. Nevertheless, others such as American students think that Brexit will adversely affect London's diversity and multiculturalism and, as such, make it a less desirable student destination.

'When I came for study I thought that this was an embracing country where lots of people of different culture live in harmony and mix together. I am worried that this could change'.

(Highly-skilled EU migrant working in Economic Research)

Brexit is already affecting the attitudes of EU workers. The CIPD's Autumn 2016 Labour Market Outlook stated that 23% of surveyed employers stated that EU nationals were considering leaving their organisation as a result of Brexit. Not surprisingly, more than one in ten (11%) employers stated that they expect the proportion of EU nationals in their workforce to decrease (CIPD, 2016). A more recent (2017) employer survey – the latest Labour Market Outlook (LMO) from the CIPD and the Adecco Group – also found that more than a quarter (27%) of employers have seen evidence that suggests **EU nationals in their organisations are considering leaving the company, or the UK**, in 2017 (CIPD and Adecco Group, 2017).

This trend is expected to encompass all sectors, both private and public. For example, as a survey conducted by YouGov for the University and College Union (UCU) found, over two thirds (76%) of academics who are EU nationals stated they were more likely to consider leaving the UK's HE with about a third (29%) saying that they already knew of academics leaving the UK. Apart from comprising a significant proportion of academic staff in the UK's HE, EU academics are equally important in the core subject areas deemed critical for the UK's economic future with 'areas like physics (26%), chemical engineering (25%), biosciences (22%), chemistry (21%) and IT (20%) being all heavily reliant on European talent' (Talbot, 2017). According to the latest employer survey, **43% of education employers and 49% of healthcare employers said they believe EU staff were considering leaving their organisation and/or the UK in 2017** (CIPD and Adecco Group, 2017).

As Table 5.1 shows, **there has already been a 7% fall in the number of EU students applying to the UK's HEIs** (UCAS, 2017). As has been stressed, 'this is the first decrease in

applications from EU students to study in the UK after almost a decade of unbroken growth and will inevitably be blamed on last year's vote to leave the EU' (Weale and Barr, 2017).

Table 5.1: University Applicants by Domicile Group

| Domicile group of applicant | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------------|---------|---------|---------|---------|---------|
| UK | 474,310 | 489,940 | 497,550 | 495,940 | 469,490 |
| EU (excluding UK) | 37,990 | 39,780 | 42,720 | 45,220 | 42,070 |
| Non EU | 46,510 | 50,290 | 52,020 | 52,560 | 52,630 |
| All domiciles | 558,820 | 580,000 | 592,290 | 593,720 | 564,190 |

Source: UCAS (2017) January Deadline Analysis: Domicile - Applicants by Domicile at the 15 January Deadline, <https://www.ucas.com/file/92596/download?token=yIEPaGPN>

Even more worryingly, according to some estimates, up to 31,000 EU students could be deterred from coming to the UK if, post Brexit, the Home Office makes European students pay the same (higher) university fees as non-EU nationals (HEPI, 2017). This would represent a 57% fall in the number of EU students in the UK with obvious negative implications for its HEIs and their income streams as well as the UK as a whole, since it is estimated that such a drop could cost the economy £2 billion a year (HEPI, 2017). Linked to this is **a very grave concern shared among academics and their respective HEIs about lack of or limited access to major EU research funding sources such as Horizon 2020**, against a backdrop of reduced national funding for research. For example, responding to a large survey of UK academics, 44% reported that 'they know of academics who have lost access to research funding as a direct result of Brexit' (Talbot, 2017).

6 Conclusions and lessons learned for Cohesion Policy

Following the Brexit vote, there has been a plethora of studies, analyses and forecasts, including extensive economic modelling and scenario-building exercises, about the economic and employment implications of the UK's leaving the EU. In all cases, **the verdict is that the UK economy will take a hit, although views about its severity, depth, extent and duration vary**. Since London employs by far the largest number of highly-skilled EU migrants, it will be disproportionately (and adversely) affected, albeit to varying degrees, under each of these scenarios. Indeed, **Brexit and its implications for free movement of labour is likely to have a substantial adverse impact on London and its future as a leading knowledge economy, high-tech and financial services hub and a prime destination of highly-qualified EU migrants**.

Given the fact that, post-Brexit, two of London's key ambitions for the next 20 years are to remain both a global hub and a creative and innovative engine of the UK's economy, the adverse implications of reduced highly-skilled EU migration for London are obvious (London First and the London Enterprise Panel, 2015; London First and PwC, 2017). As mentioned earlier, **Brexit is expected to exacerbate skills and labour shortages in a number of sectors which employ both highly- and low-skilled workers (as well as medium-skilled ones) and which are vital for London's economic prosperity**. For example, **the future of the City of London as one of the leading global financial centres may be put in jeopardy**, especially if the Brexit deal does not guarantee 'passporting rights' and free or easy access to EU (and global) talent. Moreover, it is unclear whether London outside the EU will remain the single most important location for foreign direct investment (FDI) in the UK and in fact across the whole of Europe (The CityUK/Oliver Wyman, 2016; TheCityUK, 2017).

The City of London and its financial services sector aside, a whole range of other sectors – also of critical importance to the London's economy and prosperity – will also experience severe skills and labour shortages post-Brexit. These include not only sectors such as retail, hospitality and construction which typically employ low- and/or semi-skilled EU migrants, but also sectors such as the NHS, education, academia/research, high tech/ICT, business and professional services sectors (as well as the financial services sector) which employ large numbers of highly-skilled EU nationals. Significantly, **certain sectors such as academia already register a certain 'flight' of EU academics as well as a drop in EU students**. Moreover, **skills shortages have already started to worsen in a number of sectors such as agriculture, construction, nursing and social care due to shortage of EU migrants**.

As the Brexit negotiations proceed in the current climate of high uncertainty – including uncertainty about the future rights and status of EU nationals living and working in the UK – and a relatively hostile climate towards migrants – who are commonly depicted in some parts of the media and featured in certain political, public and media debates as putting a strain on public services and housing, being a drain on resources and even as being welfare tourists –

the current trend of a much slower rate of EU migrant inflows to the UK (and London) is likely to intensify and even be reversed. Such a development **will be inimical for London not only in terms of its economic prosperity, but also its highly valued openness, diversity and vibrancy.** In a way, one can argue that the cost of Brexit may be too high, if the UK 'regains' control over its borders, but in the process, compromises or even loses some of its core values of openness, tolerance and fair-mindedness.

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List of people interviewed

List of people interviewed for the London case study

| Name | Position | Organisation | Date of Interview |
|--------------------|---|---|-------------------|
| Lalage Clay | Head of Education | London & Partners (Mayor of London's official promotional agency) | 8/5/2017 |
| Danny Mortimer | CEO | NHS Employers | 10/5/2017 |
| Mark Hilton | Director of Education and Employment | London First | 16/5/2017 |
| Seamus Nevin | Head of Employment and Skills Policy | Institute of Directors (IoD) | 16/5/2017 |
| Dr Daniele Sartori | Researcher/highly skilled EU migrant from Italy | Kingston University | 16/5/2017 |

| | | | |
|------------------|--|--|------------|
| Ana Rincon-Aznar | Senior Research Fellow at NIESR - highly skilled EU migrant from Spain | National Institute Of Economic and Social Research (NIESR) | 17/5/2017 |
| Alix D. | Customer Relationship Manager | IPC Systems | 25/05/2017 |
| Gerwyn Davies | Labour Market Adviser | Chartered Institute of Personnel and Development (CIPD) | 31/5/2017 |
| Dr Paresh Shah | Research Manager | London Higher | 30/05/2017 |
| Jane Glanville | CEO | London Higher | 30/05/2017 |
| Nik Marangozov | Investment Banker - highly skilled EU migrant from Germany | Morgan Stanley | 29/6/2017 |

Annex

Table A.1 shows that, as a result of the crisis, there was a sharp increase in the allocation of national insurance numbers (NINo) – part of the UK's social security system – for EU migrants from Southern Europe (Eurofound, 2014).

Table A.1: UK NINo Allocations to Greece, Italy, Portugal and Spain, 2012–2013 (Thousands)

| | 2012 | 2013 | Difference | % Change on Previous Years |
|----------|-------------|-------------|-------------------|-----------------------------------|
| Greece | 7.42 | 9.89 | 2.47 | 33% |
| Italy | 26.61 | 44.11 | 17.50 | 66% |
| Portugal | 20.44 | 30.12 | 9.68 | 47% |
| Spain | 38.08 | 51.73 | 13.65 | 36% |

Source: Eurofound (2014). Labour Migration in the EU: Recent Trends and Policies

Greater London is split into Inner London and Outer London and includes the City of London and 32 boroughs. The statutory Inner London boroughs are Camden, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Lewisham, Tower Hamlets, Wandsworth and Westminster. Outer London refers to the group of boroughs that form a ring around Inner London. The statutory Outer London boroughs are: Barking and Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Haringey, Harrow, Hillingdon, Hounslow, Kingston upon Thames, Merton, Newman, Redbridge, Richmond upon Thames, Sutton and Waltham Forest. Table A.2 shows that since 2001, with the only exception of Kensington and Chelsea, all London's boroughs have seen a population increase –a large proportion of which has been attributed to higher migration levels.

Table A.2: Population of London by Borough

| | 2001 | 2015 |
|------------------------|----------------|----------------|
| LONDON | 7,322.4 | 8,673.8 |
| Inner London | 2,859.4 | 3,472.1 |
| Camden | 202.6 | 241.0 |
| City of London | 7.4 | 8.7 |
| Hackney | 207.2 | 269.0 |
| Hammersmith and Fulham | 169.4 | 179.4 |
| Haringey | 221.3 | 272.8 |
| Islington | 179.4 | 227.6 |
| Kensington and Chelsea | 162.2 | 157.7 |
| Lambeth | 273.4 | 324.4 |
| Lewisham | 254.3 | 297.3 |
| Newham | 249.4 | 332.8 |
| Southwark | 256.7 | 308.9 |
| Tower Hamlets | 201.1 | 295.2 |
| Wandsworth | 271.7 | 314.5 |
| Westminster | 203.3 | 242.2 |
| Outer London | 4,463.0 | 5,201.7 |

| | | |
|----------------------|-------|-------|
| Barking and Dagenham | 165.7 | 201.9 |
| Barnet | 319.5 | 379.6 |
| Bexley | 218.8 | 242.1 |
| Brent | 269.6 | 324.0 |
| Bromley | 296.2 | 324.8 |
| Croydon | 335.1 | 379.0 |
| Ealing | 307.3 | 343.0 |
| Enfield | 277.3 | 328.4 |
| Greenwich | 217.5 | 274.8 |
| Harrow | 210.0 | 247.1 |
| Havering | 224.7 | 249.0 |
| Hillingdon | 245.6 | 297.7 |
| Hounslow | 216.0 | 268.7 |
| Kingston upon Thames | 149.0 | 173.5 |
| Merton | 191.1 | 204.5 |
| Redbridge | 241.9 | 296.7 |
| Richmond upon Thames | 174.3 | 194.7 |
| Sutton | 181.5 | 200.1 |
| Waltham Forest | 222.0 | 271.1 |

Source: ONS

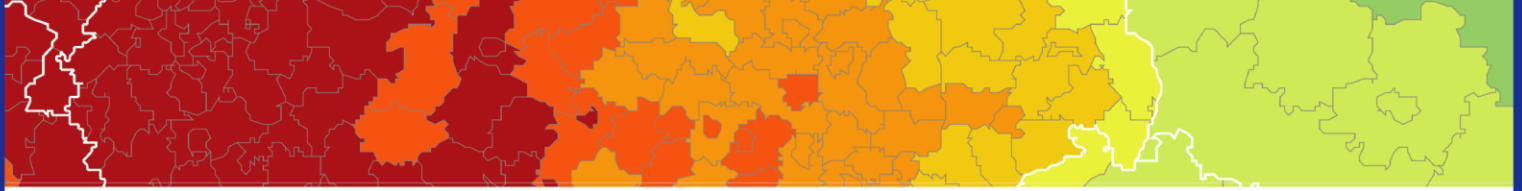
Table A.3 shows the top ten countries of origin in relation to students coming to London to study, with an indication of the actual proportion of foreign students in London in relation to the rest of the UK.

Table A.3: Students by country of origin in London and as a percentage across the UK

| Rank | Country of Origin | Number of students in London | % of country's students in London out of all country's students in the UK |
|------------------------|-------------------|------------------------------|---|
| 1 | China | 13,460 | 15% |
| 2 | United States | 6,440 | 36% |
| 3 | India | 4,790 | 23% |
| 4 | Italy | 4,375 | 43% |
| 5 | Germany | 3,875 | 26% |
| 6 | France | 3,570 | 30% |
| 7 | Hong Kong | 3,275 | 22% |
| 8 | Greece | 3,250 | 28% |
| 9 | Malaysia | 2,840 | 17% |
| 10 | Nigeria | 2,700 | 14% |
| Total in London | | 106,795 | 23% |

Source: London & Partners (2014) *The Economic Impact of London's International Students*

Note: International students in London universities by country of origin and share over the total in the UK (AY 2013-14).



ESPON 2020 – More information

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