LONDON of CHAMBER
COMMERCE AND INDUSTRY

CONNECT. INFLUENCE. SUPPORT.

LONDON BUSINESSES AND BREXIT

Reactions, expectations and requirements

October 2016

FOREWORD

In the initial hours following the result of the EU Referendum on 24 June, London Chamber of Commerce and Industry (LCCI) made clear our view that the Mayor of London should have a seat at the table as the UK Government set about negotiating Britain's future relationships with the EU and wider world. As London is the engine of the UK economy this is a necessity. As the only English region to vote to 'remain' it is essential.

Throughout the summer LCCI hosted a series of roundtables with our members and commissioned ComRes to poll wider business leader opinion to gauge the mood of the capital's broad business community. This paper is the first publication from LCCI on Brexit. With protracted negotiations expected, LCCI will periodically index business views going forward.

Reassuringly, the initial indications are that London's businesses are not panicking but are taking a pragmatic and level-headed approach to Brexit. They are very much focused on what needs to be done, now, to ensure that the whole country prospers, rather than falters, in the years ahead.

Businesses want policymakers to act decisively, to be bold and bring forward innovative measures that will maintain the 'pull' factors that make London an attractive location to set-up and succeed. For the capital, this means three principal things: immediately addressing a delayed domestic agenda focused on strategic infrastructure needs alongside more devolution; secondly, signalling a positive approach towards the EU based on cooperation while looking to maximise new trade opportunities with the wider world. However, by far the issue of most concern that emerged from our summer soundings was around workforce certainty – continued access to skilled workers and with that, the position of EU nationals currently employed within London firms.

The perceived potential threat to talent recruitment and retention is a pressing matter that ministers should take note of. No-one is in any doubt that the Brexit negotiations the UK government face will be testing and many hope that the Prime Minster can find a way to manage various competing demands and agendas towards a satisfactory end. For now, it is broadly business as usual across our capital as we all monitor developments. However, in the mid to longer-term business cannot maximise potential and grow successfully in the absence of certainty.

Prime Minister May and her Ministers, as well as Mayor Khan and his deputies, will face challenges in the months ahead as talks with the EU intensify. Both need to avail of opportunities in the coming days and weeks that could, in time, help turn Brexit into opportunity for London and the wider UK.

Colin Stanbridge, LCCI Chief Executive

OVERVIEW

Following the Referendum result LCCI, along with the capital's other main business groups, met with some of Mayor Khan's team to discuss priorities for the capital going forward. LCCI undertook to probe the views of London businesses about their expectations and requirements arising from the UK's vote to leave the EU.

LCCI hosted roundtables with London business leaders from a wide range of industry sectors and company sizes attending to discuss immediate reactions and highlight potential impacts. The meetings focused on priorities for negotiations, maintaining the 'normal' business of government and how to maintain the UK's global reach.

LCCI commissioned polling agency ComRes to survey London business leaders about Brexit. ComRes interviewed 504 business decision-makers between August 3 and 31 2016. Data was weighted to be representative of all London businesses by company size and broad industry sector. *Any polling data reproduced should be fully referenced.*

ComRes is a member of the British Polling Council and abides by its rules. Data tables are available at www.comresglobal.com

For further information on this report, please contact

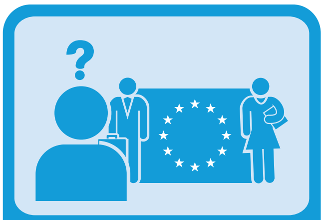
London Chamber of Commerce and Industry
E: research@londonchamber.co.uk
T: +44 (0)20 7248 4444
W: londonchamber.co.uk/research

Sean McKee
Director of Policy and Public Affairs
E: smckee@londonchamber.co.uk
T: +44 (0)20 7203 1882

Rob Griggs
Head of Public Affairs Team
E: rgriggs@londonchamber.co.uk
T: +44 (0)20 7203 1895

Thomas Wagemaakers
Policy Research Officer
E: twagemaakers@londonchamber.co.uk
T: +44 (0)20 7203 1925

CURB UNCERTAINTY AND MAXIMISE OPPORTUNITY



24% of London businesses (excluding sole traders) face uncertainty about the current immigration status of their EU employees

Nearly three months after the referendum, it remains 'business as usual' for many. Roundtable participants were continuing to recruit, several cited improved business performance in the months following the result and others pointed to the beneficial impact of the more competitive, post-referendum exchange rate. One exporter confirmed that *"the pound devaluation has been very good because we've been in dollars and euro so it's gone straight on our bottom line. We haven't reduced our prices so it's been very beneficial"*. A participant from the banking sector said *"we're not tailing back on any of our development or expansion plans. It's very much business as usual. We're employing in and around the Greater London area circa 50 people a week and that's going to continue for the foreseeable future until we hit where we need to be"*.

Some examples then of the resilience of the London economy; however, they should not give cause for complacency. 'Business as usual' reflects, in part, a longer term uncertainty in the business environment over the past 18 months with the lead-up to the UK General Election in May 2015 followed by anticipation of the EU Referendum this year. Post-referendum, this 'uncertain' trend continues and businesses have had to manage their way through these periods.

Roundtable participants cited several indicators of negative impacts following the referendum result, including an apparent unwillingness of banks to lend to businesses and a 'softening' in the residential and commercial property markets, albeit one that had started prior to the referendum result. 57% of business leaders faced uncertainty about the future value of the pound. Other factors that were causing uncertainty to London businesses included rules for trading with EU countries (29%) and whether compliance with EU directives and regulations in the UK legal system will be enforced (22%).

24% of business leaders (excluding sole traders) said the current immigration status of their EU employees is causing uncertainty for their business. This concern was reflected at the roundtables with participants calling on Government to provide *"certainty as to how EU employees are affected"*, with another member adding: *"we are very reliant on being able to attract and hang on some of the best talent in Europe. It has been easy for them to come here and enjoy it, and now they are concerned. We now face some real difficulties to keep our staff happy"*. Another participant from the construction sector said *"new workers are secondary. We need to retain those who we already have"*.

Uncertainty about the future regulatory environment was also cited as a concern, with one roundtable participant highlighting the need to ensure ongoing regulatory compatibility with the EU: *"The key thing is the portability of regulation. There are many common regulations. And we need certainty that we can carry on selling into Europe certain manufactured products. We need to make sure standards are met and don't diverge too much from the EU ones, for different types of products and production lines"*. Another added *"if we have multiple (product) standards, it slows us down"*.

In the short term, there is a clear need for accurate information about the implications of Brexit for London businesses. To help satisfy that need, LCCI is considering setting-up a help desk to provide members with information on the practical aspects of doing business in the new environment. This will be informed by the pace and nature of the negotiations that the UK government will engage in from next spring.

The Government could provide an element of reassurance to business in the area of EU regulations. Clarity on whether, post Brexit, it will be a priority to amend or repeal EU-related UK legislation or let it remain on the statute book would help future business planning which has prolonged timelines.

The Mayor of London could look to minimise insecurity for London businesses by liaising with LCCI and the other main business groups about a Brexit 'help desk' resource to offer advice and information.

MAINTAIN LONDON AS A GREAT PLACE TO DO BUSINESS

44% of businesses expect the vote to leave the EU will have a negative impact on overall business costs

Roundtable participants had mixed views around the initial impact of the UK's decision to leave the EU, with some bullish about their prospects but others more circumspect given the lack of clarity about what any future relationship with the EU and wider world will look like.

Many London businesses believed that until a new relationship is agreed with the EU, the vote to leave may have a negative impact on business costs (44%), access to labour from EU countries (37%), cashflow levels (36%), and overall business competitiveness (34%). As one roundtable participant put it, *"as contractors we find out instantly what companies are doing. And we are now finding that people are holding back"*.

It may take years for the UK to negotiate a new deal with the EU. In the meantime, London businesses believe it is vital that Brexit negotiations do not distract from pressing domestic issues including the capital's chronic housing undersupply, skills deficit, transport capacity crunch and business rates revaluation, the latter of which risks driving smaller businesses out of central London as rateable values spike.

Addressing these issues is more important than ever, given the uncertainties caused by a pending Brexit and the need, in the words of one roundtable participant, to 'turbo-charge' the economy in the short term. This feeling was borne out by polling, with a large portion of London business leaders saying that before the UK starts formal Brexit talks with the EU, increased investment in London's housing (44%) and transport infrastructure (40%) and making decisions on major infrastructure projects, such as a new airport runway (44%) would be very important.

Roundtable participants emphasised the benefits of transformative projects such as High Speed 2 and Crossrail 2 (the latter recently advocated by the National Infrastructure Commission), and highlighted the potential benefits of further investment in London's broadband infrastructure and new fixed river crossings in East London.

One roundtable participant, hoping to see the government secure a substantial inward investment to boost the economy in the autumn, called on political leaders to set out, in short order, *"some clarity about domestic policy, about growing your economy [otherwise] international businesses may start to go elsewhere".*

Another added, *"I would hope that the government would announce some major infrastructure projects such as housing, road building, maybe go ahead with HS2 properly and maybe development of Heathrow, Gatwick or whatever, so that people have got something to focus on while these negotiations go on. The uncertainty for business is not going to end when we announce Article 50".*

The Autumn Statement and the Budget provide set platforms for Ministers to provide clarity and a sense of direction to help London businesses navigate through the post-referendum period.

The Government should use set-piece opportunities in the political calendar to commit to investing or progressing strategic London infrastructure projects such as Crossrail 2, Airport runways and river crossings.

The Mayor of London should work with London business groups to assess the potential impacts of Business Rates on the capital's firms across differing boroughs and across various sectors.

ENHANCE AND EXPAND DEVOLUTION TO LONDON

56% of London businesses say increased devolution will be important for London's economy

As the UK looks to make its way in the world outside the EU, there will be an economic burden that will fall most heavily on London - as a net contributor to the public purse and the main engine of the national economy.

London already provides a substantial underpinning of the wider UK economy. For example, the procurement and supply chains of major public and private infrastructure generate contracts and employment in every UK region.

A London that remains resilient and competitive will be critical in the post-Brexit future. To meet the challenges facing the capital as its population surges towards ten million by 2030, businesses agree the capital needs to secure greater control over its finances.

56% of London business leaders said that until formal talks to leave the EU start, increased devolution of tax and spending powers to London would be important for the economy. Most roundtable participants agreed, some asking for tax raising powers to be reviewed.

> *"I think that the vote of London to stay within Europe, compared to the rest of the UK, does point to more devolution of power to London."*
> Anthony Impey, Founder and CEO, Optimity

The 2013 London Finance Commission recommended increasing London's control of its local tax revenue from 7% to around 13%. Hardly revolutionary given that equivalent global cities such as New York or Tokyo control 50% and 70% of local tax revenues respectively, but enough to begin making a noticeable difference in how the Mayor could seek to enhance and progress essential infrastructure, whether housing, transport or digital. As the London Finance Commission noted, the proposal would be fiscally neutral – so it is about London having more control over finance, not getting more.

LCCI called for an update of the London Finance Commission's final report. As the second iteration of the London Finance Commission and other projects looking at London's devolutionary arrangements progress, Whitehall could examine what learnings could be applied to other city regions across England.

The Government should use the Autumn Statement to reinforce London's economic potential and devolve additional policy competencies - including finance, transport and skills - to City Hall.

The Mayor of London should use the publication of the final report of the reconvened London Finance Commission to engage and persuade London business to support enhanced devolution to the capital.

PROVIDE LONDON WITH A FLEXIBLE IMMIGRATION SYSTEM

31% of business say minimising restrictions on access to EU labour should be a high priority

With its large and growing economy London has long faced a skills gap. Immigration has, for decades, often provided businesses with a ready pool of workers that they need. However, the outcome of the EU referendum result, and the apparent nature of the leave vote, has put the issue of immigration firmly in the public and media spotlight – and with that questions about the future status of EU nationals currently working in the UK as well as immigration rules post-Brexit. Continuing access to skilled workers has been identified as a clear priority by London's businesses who cite it as vital to their – and London's - economic success.

Roundtable participants said that without the EU nationals currently within the London workforce, the capital would slowly grind to a halt. Concerns about securing the status of their own existing EU employees were summed up by one roundtable participant, a property developer, who said *"product and development costs increase year on year. Restricting EU workers will drive costs higher".* One participant was particularly concerned about the future consequences of limiting access to talent: *"There is a real risk that if London does not do something radical around its policy on work talent, actually stripping away that foundation, it will have very long term impacts on all our businesses".*

> *"We are very reliant on being able to attract and hang on some of the best talent in Europe. About 45% of our staff, our engineers come from other parts of the world, about half of those from Europe. They are now concerned, and we face some real difficulties to keep our staff happy. It has been easy for them to come here, and enjoy it and they are now worried."*
> **David Dryden, Chairman and Partner, Cundall**

A significant proportion of businesses (31%) consider minimising restrictions on access to labour from the EU as a high priority in the renegotiations that Prime Minister May will soon commence. 47% of London business leaders believed more flexible immigration rules on workers coming from outside the EU should be a medium or high priority going forward. One member said of their experience, *"when I travel, and I've been on overseas trade missions with the Chamber, the classic thing I hear is that to get a work visa to come to the UK is a damn difficult job, it's not easy".*

While consensus existed amongst roundtable participants that the capital needs access to overseas workers, migration is only half the picture. There was a clear recognition that in the longer term, more must also be done to invest in domestic skills. As one attendee surmised, *"Brexit should force the UK to become better trained and more robust in the medium to long term in order to remain competitive".*

Immigration poses two immediate challenges for the Mayor of London Sadiq Khan to wrestle with. First, how to practically treat the 1 million EU nationals already here - what will their legal status be? Second, how to realistically plan to process future migrant workers that London will certainly need at least in the short to medium term – what form of entry could they have? The government will face these same challenges at a national level, but Prime minister May and her ministers will be conscious that London was the only English region to vote to remain and has differing needs on labour and skills than other regions.

As a member of former Mayor Boris Johnson's London Business Advisory Council (LBAC), LCCI advocated consideration of a dedicated 'London Visa' facilitated through revised Home Office third-party sponsorship rules and coordinated by the Mayor's Office and LBAC to help established sector specific firms to identify and recruit vital non-EEA workers.

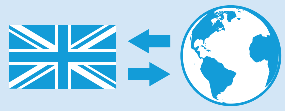
In the post-referendum landscape any move by the government to usher in any uniform reduction of immigrant workers across the UK must be tempered by those concerned with maintaining the capital as an attractive and great place to do business in future years.

The Mayor of London should examine the potential of a new 'Capital Work Visa' – granting 'indefinite leave to remain' – to provide reassurance to current EU national employees and their London employers.

The Government should consider a 'Targeted Employment Area' designation for the London Region within the UK Visas and Immigration system to better manage London's significant skills and labour requirements.

The Mayor of London should explore how a new 'Capital Work Permits' system – with realistic duration – could provide access for future migrant workers and meet London employers' need for skilled workers.

BOOST THE UK'S INTERNATIONAL TRADE POSITION



66% of businesses say unilaterally dropping tariffs should be a medium or high priority

International trade has long been a critical component of Britain's economic well-being. LCCI has facilitated this through trade missions since 1881. Now more than ever, there is a pressing need to encourage and support British businesses to engage in international commerce and help build a strong and prosperous UK economy.

Following the referendum, many London businesses are now looking at opportunities to increase trade with other parts of the world. At least two in five London business leaders considered potential trade deals with the USA (54%), China (48%) or India (41%) a high or essential priority for the UK. In addition, 66% of London businesses supported the more far-going proposal to unilaterally have no tariffs for all imports (37% say it should be a high or essential priority, 29% a medium priority).

"While there is much debate on the UK's potential new relationships with the EU, it is absolutely imperative that the UK does not neglect the wonderful opportunity to optimise and re-enforce relationships with the rest of the world – where half of our trade is done. There is much low hanging fruit to be gathered in developing trade agreements with emerging markets and other global trading powers alike. It will be in these new relationships – when our EU caps and restrictions have been lifted – that the UK has the potential to see real 'upside' economic benefits".
Tom Hamnett, Case Team Leader, Wilson Perumal & Company

The roundtables focused on what can practically be done to better support businesses to trade with the world. Participants agreed that in light of impending Brexit it is important to look at the 'UK Plc operating model'; as one member put it, to identify where there are opportunities to maximise trade with the rest of the world where *"our EU membership might have held this back",* with economic centres like Australia, North America and India.

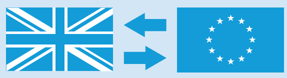
There was appreciation of private sector trade missions that include practical advice, and local knowledge, on how to enter a new market. There was agreement that targeted support via supported trade missions into markets with potential would make a difference to UK exporters, particularly smaller businesses. Participants also supported the idea of a sovereign-backed export credit guarantee system for smaller firms, to help provide confidence.

Roundtable participants questioned what expertise Government was able to bring, in the short term, to help UK businesses export into new and developing markets. They suggested Government should take heed of business expertise and emphasised the value of commercially experienced or focused UK Ambassadors. As one participant explained, *"we just don't want civil servants to negotiate for us. There needs to be a dialogue between business and civil servants, or business people involved in negotiations".*

London businesses are positive about the opportunities to enhance trade with the rest of the world. 'Quick wins', targeting new markets with good potential, would help provide momentum and confidence: *"If we can target opportunities we'll see the dial turn up much more quickly".*

A cross-Whitehall national strategy for exports growth could coordinate relevant departmental policies and outline the role that businesses and private providers could play in an integrated effort to target support to greater numbers of UK firms, particularly SMEs, looking at overseas markets.

SECURE A POSITIVE TRADE DEAL WITH THE EU



38% of business rank minimising tariffs with the EU as their single highest priority

Asked about their priorities in negotiating Britain's future relationship with the EU, 38% of businesses ranked minimising direct tariffs on trade with the EU as their single highest priority. 46% of London businesses said minimising non-tariff barriers was a high priority. As one roundtable participant put it *"my biggest worry is an EU tariff"*.

At the roundtables the importance of minimising barriers was widely raised. One member said: *"whenever you create non-tariff barriers, like customs, you are putting in delays to getting goods to market, and you are adding a cost. There is no doubt that would be damaging"*. For some, in the short-term the more competitive pound offset immediate concerns about the impact of a tariff.

Clearly, any new EU deal with any barriers will be limiting for London business. That was reflected by 34% of business leaders saying the 'Norwegian model', including full access to the single market, free movement of people and accepting the majority of EU laws, would be best for Britain's future relationship with the EU.

A further 34% thought that the 'Canadian model' would be the best basis for the UK-EU relationship: i.e. a free trade deal covering some but not all areas of trade, but without the free movement of people. [1]

It was held as essential that overseas investors continue to see the UK as a gateway to Europe: *"we've always sold the UK as if you come to London, you have access to Europe and that has been a big selling point. We mustn't lose sight of that selling point and we ought to try and preserve it as much as we can"*.

Businesses in the UK and across the EU will want to continue to trade and do business. Governments must look to reduce bureaucracy, minimise cost and limit barriers to future trade – so that both can prosper.

Government should initiate and maintain a dialogue with London business to understand the potential barriers to future EU trade and single market access limitations that could prove detrimental to the UK economy if not fully assessed before the forthcoming Brexit negotiations next year

[1] As opposed to the 'Swiss model', 'Turkish model', or relying on World Trade Organisation rules.