

The background of the cover features a blurred image of a laptop with a red keyboard and a teal screen. Overlaid on this are several large, semi-transparent circles in purple, yellow, orange, and pink. The title 'Escaping the City?' is written in a large, white, sans-serif font on the left side.

# Escaping the City?

How COVID-19 might  
affect the UK's economic  
geography

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**nesta**

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# Escaping the City?

How COVID-19 might affect the UK's economic geography

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# Chapter 1:

## Introduction

**The COVID-19 pandemic has prompted an abrupt and profound shift in UK working patterns. Between January and April 2020, the proportion of the UK labour force working exclusively from home increased eightfold, from 5.7 per cent to 43.1 per cent.<sup>1</sup> Eight months on, in January 2021, 32 per cent of the workforce were still working remotely.<sup>2</sup>**

In the course of a single year, COVID-19 had transformed an economy in which the vast majority of jobs were tied to a particular location into one in which, for a significant minority of the labour force, work had been almost entirely decoupled from place.

As with all the knock-on effects of COVID-19, there has been no shortage of speculation about what this temporary decoupling of work and place could mean: whether and to what extent it might persist after the pandemic, and what changes it might bring about to our economy and way of life.

Over the past few months, hopes and anxieties about a remote working future have abounded. Commentators on this shift have been quick to voice concerns about ramped-up employer surveillance,<sup>3</sup> declining work-life balance, the rise of exploitative crowd-working platforms<sup>4</sup> and a growing financial gulf between home workers and the rest.<sup>5</sup> At the same time, there has also been a clear sense of excitement at the possibilities opened up by such a dramatic change in working patterns. Worries about 'digital piecework' and the hollowing out of city centres have contrasted with visions of healthier, more sustainable lifestyles enabled by a move away from the supposed tyranny of the office.<sup>6</sup>

From the perspective of the UK, a country whose politics has become increasingly defined by stark geographical inequalities, some of the most pertinent questions concern the potential impact of remote working on particular places.

Might remote working carry with it the prospect of a much needed regional rebalancing,

weakening the agglomeration effects that have enabled London and the South East to acquire such a disproportionate share of the UK's wealth and talent? Might it get around the problem that the country is divided into areas with affordable housing and areas with decent jobs, with little overlap between the two?

The purpose of this report is to consider such questions in more detail, using scenario mapping methodology to set out and explore four possible ways our involuntary experiment with remote work might change the UK's labour market and economic geography. Drawing on these scenarios, it asks which of these, if any, might be conducive to a healthy rebalancing away from London and the South East.

With a vaccination programme underway, the UK seems to be edging towards the end of the most severe effects of the COVID-19 crisis. But while the worst of the pandemic may soon be over, some impacts of our year-long experiment with remote working may prove permanent.

This report begins by contextualising the UK's economic geography prior to the COVID-19 crisis; it then examines the scenario mapping methodology used to think about the future, and describes the way these scenarios were developed. The body of the report is devoted to the scenarios themselves, with four futures of remote work assembled and discussed. We conclude with some lessons for policymakers which draw from observations from each of the scenarios, and highlight further elements which require examination in more detail.

## Chapter 2:

# The economic geography of the UK before COVID-19

Prior to the outbreak of the COVID-19 pandemic, the UK was a country of stark inequalities on two mutually exclusive but overlapping measures. There was a substantial gap of material wealth, quality of life and life chances between the country's richest and poorest individuals.<sup>7</sup> This was compounded by a clear spatial inequality in which, on a wide variety of metrics, some regions were doing a lot better than others. As the economist Philip McCann put it, the UK was *"one of the most interregionally unequal countries in the industrialized world."*<sup>8, 9</sup>

Interregional inequality has been associated with significant cultural and political shifts: the outcome of the referendum on leaving the EU, the discourse around the so-called 'metropolitan elite' and urban/rural and North/South divides, the move from Labour to Conservative in numerous parliamentary seats in the North of England, as well as the emergence of the 'levelling up' agenda from Boris Johnson's government following its election in December 2019.

The examination of Britain's economic geography begins here to illustrate the far-reaching effects of the phenomena described in what follows.

### Locating wealth and poverty in the UK

Statistics from the Office for National Statistics (ONS) offer a useful starting point. Published monthly, the final release of statistics before the COVID-19 pandemic began to impact the UK economy covers three months to the end of February 2020. At their extremes, the statistics show an employment rate of 80.1 per cent in the South East versus 72.5 per cent for the North East and Northern Ireland.

By contrast, the North East had the highest unemployment rate ("people without a job who have been actively seeking work within the last four weeks and are available to start work within the next two weeks") of 5 per cent, compared to just 3 per cent in the South East.<sup>10</sup>

As a measure of economic performance, gross value added (GVA) may be interpreted as a crude measure of job quality, both in terms of each job's contribution to the UK economy as well as its likely remuneration. Provisional ONS statistics<sup>11</sup> at NUTS1 level for 2018 show a GVA of £50,547 for London against £20,554 in the North East. Indeed, the gap is so wide between London and the rest of the UK that the second place region, the South East, has a GVA of £30,356 while all others are in the low to mid £20 thousands.

## Spatiality of jobs and job creation

Research by the Centre for Cities demonstrates a spatial bias in overall employment. Using statistics from 2011, they show that, in England and Wales, 59 per cent of jobs are located in cities – in spite of the fact those cities make up only 12 per cent of the countries' landmass.<sup>12</sup>

Moreover, many of those jobs are found in particular cities. Not unexpectedly, London houses over 5 million jobs, nearly one in five of the UK total. Other major cities have similar spikes: Manchester and Birmingham have over 1 million jobs each. That intensely urban workforce, Serwicka argues, is indicative of a knowledge-based economy which has profited from the benefits of agglomeration. The agglomeration of the creative industries in London and the South East, where 43 per cent of the creative economy workforce is based, exemplifies this point.<sup>13</sup>

Other examples illustrate this urban bias too. Research from Nesta<sup>14</sup> demonstrates that high-growth firms, which are particularly prolific job creators, are found predominantly in London and South East England. Moreover, those located beyond that area are most likely to be found in cities.<sup>15</sup> Similarly, research on entrepreneurship and self-employment demonstrates that self-employment as an entrepreneurial activity is more likely to be found in urban areas, while in rural areas self-employment is more frequently an option of last resort chosen in response to a lack of better alternatives.<sup>16</sup>

It is of course important to note that these concentrations of wealth conceal some important details. Using London as an illustration, the high cost of housing reduces the relative wealth of its residents, albeit still leaving 27 per cent of the city's localities in the richest 10 per cent of areas in England and Wales.<sup>17</sup> More importantly, though, while the story is often one of wealth, people in both relative and absolute poverty are found in the city too: after housing costs, 28 per cent of the capital's residents are trapped in relative poverty.<sup>18</sup>

## Left behind places

The terminology of 'left behind places' refers to more than simply less well-off areas. The term gained popularity through analysis of the UK's vote to leave the European Union, as a way of understanding those who felt both economically and culturally alienated from the mainstream political scene in the UK.<sup>19</sup>

Local Trust's research moves beyond the term's place in the Brexit debate and looks more deeply at the sources of alienation and scepticism with government. They assert that an absence of social infrastructure compounds economic problems:

"[A] lack of places to meet (whether community centres, pubs or village halls); the absence of an engaged and active community; and poor connectivity to the wider economy – physical and digital – make a significant difference to social and economic outcomes for deprived communities. Deprived areas which lack these assets have higher rates of unemployment, ill health and child poverty than other deprived areas."<sup>20</sup>



## Places doing well

By contrast, 'places doing well' are associated with a functioning social and economic infrastructure which affords their inhabitants belonging and a strong sense of place.<sup>21</sup> In mainstream conversation, this may be referred to as quality of life and is variously measured, for instance by banks such as Halifax<sup>22</sup> or newspapers like the *Sunday Times*,<sup>23</sup> in assessments of local and national property markets. While quality of life and other measures of a good place to live differ between different social groups, in general places doing well tend to be those with access to employment as well as a high quality built environment, shops and services, and social and cultural facilities.<sup>24</sup>

Another measure of a place doing well is its resilience to economic disruption. Using data from 2008 to 2009, Neil Lee found that the economic effects of the recession were less profound and long-lasting in places with high skilled residents, who were able to find new work in innovative industries as the economy picked up. In places where lower skilled people lost work, the effects could endure as new work was harder to come by. This entrenches disparities between places.<sup>25</sup>

## Places, people, work and mobility

One approach which aims to reduce the disparities between places is to direct investment in innovation in those places where economies are currently lagging behind.<sup>26</sup> Other researchers<sup>27</sup> support this view, but also argue that work should be done to make lagging regions more attractive to skilled workers who might wish to migrate to them.

This point is an important one with reference to this research. Looking at the migration of skilled workers around the UK, the Centre for Cities found<sup>28</sup> that London has typically been more attractive to new graduates than other UK cities. This is not because of expected salaries immediately after graduation, which tend to be fairly similar across the UK, but because the capital offers potential for career progression and salary growth in the longer term. As degree holders get older many do move away from cities, but tend to go to places within commuting distance of their previous home city rather than to a different region.<sup>29</sup>

In sum, people's decisions about where they lived prior to COVID-19 was a function of what they could afford and what was most desirable for their professional and social lives. Through working from home orders designed to reduce disease transmission, the pandemic may have disrupted the professional element of this calculation by demonstrating that some workers may be more footloose than they had been thought to be.<sup>30, 31</sup>

Yet as observers noted in the weeks after the pandemic took hold, this footlooseness is not evenly spread amongst the population. Jobs more amenable to working from home have tended to be those held by older, better educated and more senior staff and as such tend to be more highly paid positions.<sup>32</sup> Moreover, the distribution of occupations that could be done from home differs across the country, from nearly 60 per cent in London to less than 40 per cent in the North East.<sup>33</sup>

# Chapter 3:

# Methodology

## Introducing scenario mapping

This project uses the technique of 'scenario mapping' to explore the implications of the rise of remote working in the UK, a tool used by corporations and policymakers to understand and prepare for an uncertain future. Rather than attempting to provide a single vision of how the future might look, it produces several different future worlds that could come about, based on different combinations of hard to predict external factors.<sup>34</sup>

Scenario mapping is therefore an ideal tool to better understand the potential implications of the rise of remote working, where some of the big determinants of change (such as prolonged necessity of social distancing and the behaviour of firms) are unclear, and could interact to produce several different outcomes. In this chapter the scenario mapping technique is set out, after which the specifics of the scenarios developed in this report are explained.

### Step one: Identify two 'axes of uncertainty' relevant to the topic in hand

Scenario mapping starts with the identification of two 'critical uncertainties' – factors that are both:

1. **Capable of significantly affecting the future of the topic in question; and**
2. **Uncertain.**

For instance, if the scenario mapping exercise were aimed at exploring the future of work, one of the critical uncertainties identified might be 'the level of technological progress in AI, robotics and autonomous systems'. The extent of this progress is highly likely to be a key determinant of the nature of work in the future, but is also a

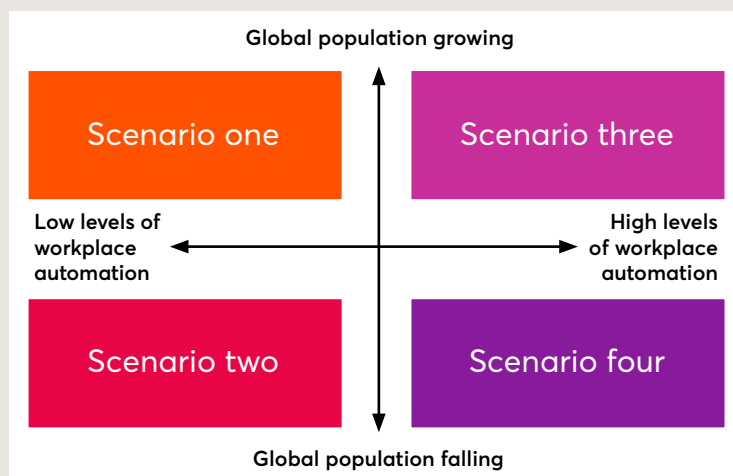
factor around which there is a high degree of uncertainty – there is no consensus about the extent to which AI, robotics and autonomous systems will be viable replacements for human labour in the future.<sup>35</sup>

Each of the two critical uncertainties is used to derive a corresponding axis of uncertainty, which distinguishes between two mutually exclusive states of affairs. For instance, 'the level of workplace automation' would produce an axis with 'low levels of workplace automation' on one end, and 'high levels of workplace automation' on the other.



## Step two: Use the axes of uncertainty to plot out four possible futures

Once identified, the two axes of uncertainty are then used to plot out a two-by-two grid. This provides a way to visualize four possible futures that could come about given the two critical uncertainties. In the example grid below, scenario two is one in which the global population is growing and in which there are high levels of workplace automation. Scenario three, by contrast, is one in which there are low levels of automation and the global population is falling.



## Step three: Explore what the four possible futures might look like with regards to the topic in question

There are (at least) two ways of using a scenario mapping exercise to inform policy thinking and development.

### 1. Identifying 'future proof' policies

The first way of using scenario mapping involves identifying challenges and opportunities shared across all four of the described scenarios. By doing this it becomes possible to identify policies or actions that would be worthwhile and viable in all of the four futures, regardless of the differences between them.

This method is often appropriate when the axes of uncertainty chosen are ones over which government or decision-makers have little to no direct control – and, therefore, where each of the resulting scenarios is one that could come about regardless of what the government does.

### 2. Identifying actions or policies that make particular scenarios more or less likely

The second way of using scenario mapping involves examining each of the described scenarios and making a judgement about which are most and least desirable – either intrinsically or given stated priorities. The next

step is to work backwards to establish what decisions or controllable factors might make the realisation of desirable scenarios more likely and undesirable scenarios less likely.

This method can be useful when there is a clear distinction between good and bad scenarios, and where at least some factors are within the control of present day decision-makers.

### 3. Stress testing specific kinds of policy

A variation on the second technique is to use the scenarios to more concertedly test out the potential implications of specific policy decisions or directions.

This method assigns one factor that government can't directly control to one of the axes of uncertainty, and one factor that government can control to the other. This enables the policy or decision-maker to explore the difference that a particular government intervention might make in a manner that takes account of another important uncertainty. Like the second, this method is most useful when it is possible to differentiate between resulting scenarios in terms of their desirability.

## Our approach

### How might remote working contribute to economic growth outside of London and the South East?

The central aim of this project is to explore the circumstances in which the rise of remote working might contribute to a change in the UK's economic geography – and specifically to a rebalancing of wealth and opportunity away from London and the South East. An important first step here is to articulate the means by which the increased incidence of remote working could improve the economic fortunes of places outside of London and the South East.

Perhaps one of the most economically impactful changes that could be enabled by the rise of remote working would be the breaking of London's de facto monopoly on the high paid knowledge work described in Chapter 2. There are (at least) three broad ways by which the rise of remote working could produce such an outcome.

1. **Companies move:** Remote working enables more companies specialising in high skilled knowledge work to set up shop outside of London and the South East or to move to other parts of the country.<sup>36</sup>
2. **Jobs move:** Remote working enables knowledge workers living outside of London and the South East to apply for high paid jobs previously out of their geographical reach.
3. **Workers move:** Remote working enables high paid knowledge workers in London move to other parts of the country, taking their spending power with them.

For each of these possibilities, however, there are also limitations. Although it is quite credible that the rise of remote working could cause some companies to move their headquarters out of London, making high paid knowledge jobs available to people for whom they would previously have been geographically inaccessible, there is reason to doubt both the extent and the economic impact such changes might actually bring about in the short to medium-term.

By relying more heavily on remote working, companies may be able to move their offices out of London. But the economic impact on the places they move is unlikely to be as significant as that provided by a non-remote working company. While relocating firms will likely need to hire some staff locally and will use local supply chains, offices for companies that have 'gone remote' are likely to be relatively small. More critically, the presence of a remote working firm would not necessarily bring with it an influx of affluent knowledge workers, as they would be the ones working remotely.

Meanwhile, while the increased incidence of remote working would enable people outside of London and the South East to apply for high paid knowledge jobs previously out of their geographical reach, there is reason to suppose that only a small proportion would likely be successful, with the UK's geographical skills distribution a product (and mirror) of the geography of the UK's labour market. As the majority of high paid knowledge jobs are currently based in London, the majority of workers with the skills and experience to land such jobs are also currently in London. The parts of the country that could most benefit from the sudden availability of high skilled knowledge jobs may not have an untapped reservoir of skilled workers capable of getting such jobs.

In the longer term, this may not prove such a limiting factor. One demographic amongst which the UK's uneven geographical skills distribution is less pronounced is recent graduates. Given this, the availability of remote high skilled knowledge jobs could encourage recent graduates who might have otherwise felt compelled to move to London to remain in their university towns or move to smaller, more affordable cities. However, this effect may take some time to materialise and would be contingent on graduates feeling it was unnecessary to move into London as their careers progressed.

Finally, and in contrast to these two factors, the movement of current high paid knowledge workers out of London and the South East could well come about as a result of the rise of remote working. In particular, it is credible that many of this group would jump at the opportunity to escape the prohibitively expensive London property market, achieve a slower pace of life or return to the areas where they grew up if this were compatible with their careers. There is already a fair degree of anecdotal evidence of high paid knowledge workers considering moving out of London and the South East as a result of the increased incidence and acceptance of remote working. Moreover, such a group of high skilled knowledge workers could well have a significant positive economic impact on the places to which they move, spending their higher wages in the local economy and, over time, contributing to knowledge spillover effects.

The importance of the movement of skilled workers for regional economic development deserves emphasis. The economist Ricardo Hausman has argued that the influx of skilled workers is one of the most important prerequisites for the economic development of places – and that, without this kind of influx, it can be very difficult to create high-skilled employment in a local population.<sup>37</sup> On Hausman's assessment, migration is one of the few ways of overcoming the chicken and egg problem faced by places with relatively few skilled workers and relatively few firms that would employ and train them.

Given this, rather than concentrating on the movement of companies or the theoretical availability of jobs outside of the capital, this project will focus on how external, uncertain factors might affect the movement of workers. We will start our analysis by looking at the movement of current high paid knowledge workers, exploring the circumstances in which they might decide to move out of London and in which this phenomenon might have positive impacts on the UK's regional economic inequality. In addition, we will also consider how changes might affect other parts of the workforce, such as lower paid knowledge workers and non-knowledge workers.

## Axis one: A fast versus a slow return to 'normal'

While it is looking increasingly likely that an effective vaccine for COVID-19 will, eventually, make a return to normal working patterns viable in the UK, the first major source of uncertainty concerns how quickly a vaccine might make this possible. (There is also the question of whether a return to normal pattern comes about, even if it is made possible.)

Taking into account the UK's deals and developments in delays to production, analytics company Airfinity suggests that the UK will have achieved herd immunity by vaccinating 75 per cent of the population by the 14 July 2021.<sup>38</sup> **However, there are still several factors that could delay the rollout of a COVID-19 vaccine in the UK, the goal of achieving herd immunity or the viability of lifting lockdown restrictions.**

### Supply and distribution

At the time of writing, vaccine rollout is occurring at pace with the government now aiming to offer the vaccine to everyone over the age of 50 and all adults in at-risk groups – amounting to 32 million people – by May. However, there are several factors beyond the control of ministers that could thwart this ambition. Delays in distribution to date have been down to limits to the supply of vaccines along with difficulties in setting up and staffing vaccination sites. While not looking particularly likely at the time of publication, the reemergence of supply issues could significantly affect the time it takes for the UK to achieve a sufficient level of vaccine coverage to allow an easing of lockdown restrictions.

### Vaccine uptake

Overall levels of vaccine hesitancy in the UK are relatively low (82 per cent of people in the UK would be likely or very likely to have a COVID-19 vaccination<sup>39</sup> compared to a global average of just over 70 per cent<sup>40</sup>). There are, however, growing concerns about rates of high levels

of vaccine hesitancy amongst certain groups. Despite having been hit especially hard by the first wave of COVID-19, Black and ethnic minority communities have shown particularly high levels of vaccine hesitancy, in many cases related to long standing low levels of trust in healthcare organisations. Notably, survey data suggests that 72 per cent of Black Britons are unlikely or very unlikely to be vaccinated.<sup>41</sup> A failure to tackle misinformation and concerns about COVID-19 vaccination could undermine attempts to reach sufficiently high vaccine coverage, as well as leaving sections of the population particularly exposed, making it difficult to ease lockdown restrictions.<sup>42</sup>

### Virus mutation

Mutations of the COVID-19 virus could also delay an easing of lockdown restrictions. While there is no evidence to suggest that the UK COVID-19 variant is likely to be more resistant to the current crop of vaccines, some vaccines have been found to be less effective against the South Africa variant.<sup>43</sup> Moreover, experts have cautioned that we should be prepared for many more variants to emerge over 2021. Should new variants evade natural or vaccine-induced immune responses, vaccines can be modified. However, as this process can take up to nine months, the emergence of a vaccine-resistant mutant strain of COVID-19 could put the UK's efforts to return to normality back to square one.

The UK's strategy of extending the time between the first and second doses of the vaccines is intended to extend protection to a greater number of people faster. However, critics of the approach have raised concerns about a poor understanding of the level of protection conferred by a single dose. They have also voiced worries that, by partially boosting the immune system, a single dose of the vaccine could create opportunities for the virus to mutate and become more vaccine resistant.<sup>44</sup>

A world in which a sufficiently high level of vaccine coverage is achieved in a matter of months could look very different, in terms of long-term working patterns, to a world in which achieving this level of coverage takes over a year. The speed at which a vaccine enables working life to return to normal stands to have important knock-on effects for the shape of the UK labour market and the extent to which remote working continues to be a major part of it.

If the UK is able to achieve a sufficient level of vaccine coverage within the next few months, then many firms may be able to return to something resembling pre-COVID-19 normality. Firms will be able to justify holding onto expensive, vacant office spaces, deferring investment into better remote working systems and holding onto furloughed support staff (in addition to regular labour hoarding). Likewise, many knowledge workers who might have been considering moving to cheaper parts of the country or making other long-term decisions based on having a better life in lockdown may decide to defer these decisions.

By contrast, if it becomes apparent that a return to normal (or something close to it) may be a matter of years rather than months, then many firms and workers won't be able to hold off making changes. Smaller and more cash-strapped firms will struggle to justify holding onto expensive offices, holding off advertising jobs to far larger remote pools of candidates and investing in remote working systems and equipment for existing staff. As a result of this, when COVID-19 does finally cease to be a threat, many businesses and workers will have already made difficult-to-reverse adjustments to their working patterns and operating locations; the effects of these changes are likely to be long lasting. Moreover, the longer social distancing restrictions remain in place, the more likely it is that employee behaviours become embedded. While firms might wish for employees to return to offices full time, many might come to prefer working from home and put pressure on employers to maintain the practice, even when it is no longer obligatory.

## Axis two: Firms or workers capture the financial benefits of remote working

A second major source of uncertainty concerns how firms might respond to the rise of remote working. Remote working reduces many of the costs associated with office-based knowledge work; most significantly, a shift to remote working can reduce (or completely eliminate) the costs of renting or maintaining office space, the costs associated with requiring employees to live in or close to expensive urban centres, and the costs of commuting.

A significant question is whether these cost savings will primarily be captured by firms themselves or by their workers. There are two ways that firms could attempt to capture the

financial benefits of a shift towards remote working (at the expense of workers).

The first of these would be for firms to reap the savings from not having to provide office space without passing on any of this saving to workers in the form of support for home working or in higher salaries. Here, firms would essentially be shifting the cost of providing working space from themselves onto their workers.

The second, and likely the more significant, way in which firms might attempt to capture the financial benefits of a transition to remote working would be by varying employees'

pay according to their location, with workers choosing to move to cheaper parts of the country paid less than those doing equivalent work from more expensive places. While this practice would enable firms to lower their workforce costs without lowering the living standards of their employees, it would amount to firms capturing financial benefits that would have otherwise gone to those workers moving to cheaper parts of the country.

Critically, when it comes to firms employing remote workers, both the widespread adoption of location sensitive wage setting and moves towards a far more location blind approach to wages are credible.

### **How and why location sensitive wage setting might take off**

One form of location-based salary variation relatively common in the UK is the London weighting, whereby firms pay London-based workers an extra 'allowance' on top of their base salary to account for the increased living costs of the capital.

While specific location-based allowances such as the London weighting currently represent the most widespread form of salary variation in the UK, it could be that firms keen on capturing the financial rewards of a transition to remote working might prefer other, more granular mechanisms.

A major problem with location weightings is their inability to reflect differences in the cost of living between locations outside of the weighted area. For instance, a firm making use of the London weighting will end up paying a worker in London more than a worker based in Stoke, but pay the worker in Stoke the same as a worker in Cambridge. Given the substantial difference in

the cost of living between Stoke and Cambridge, the parity of pay between these two places represents a deadweight loss for the firm. Using the London weighting, firms whose workers are spread across multiple different regions of the country risk paying workers in cheaper areas more than they need to, and risk paying workers in more expensive areas too little to be competitive.

The natural solution to this problem is for firms to move towards a far more granular system of location-based wage setting, where all salaries are set according to the cost of living in the worker's specific location.

In terms of remote workers' incentives, this change would constitute a significant departure from the status quo. The prospect of losing out on a London weighting is not enough to deter many people from moving to a cheaper part of the country. By contrast, moving to a system that more accurately based your salary on the cost of living would likely have this effect.

For firms hoping to capture the benefits of a transition to remote working, the deterrent effect – whereby employees refuse to leave London because they won't see an improvement in real earnings – could make it better to stick with the London weighting. By allowing newly remote workers to capture some of the benefits of leaving London, firms may ensure that remote workers actually do leave, thereby enabling some lowering of salary costs.

It is worth noting, however, that despite such trade-offs granular practices for location-based wage setting are not unheard of. In the US, the emergence of 'cost of living adjustments' for remote workers, whereby salaries are pegged to the standards of local labour markets, has stirred controversy. In a case that many worried would set a precedent for Silicon Valley firms, Facebook



announced in the spring of 2020 that it would begin to offer the option for remote working, but that those based in parts of the US with lower costs of living than the company's main office in Menlo Park, California, would receive correspondingly lower salaries.<sup>45</sup>

### **How and why location blind wage setting might take off**

It is also quite plausible that the increased prevalence of remote working leads to firms moving away from location-based salary setting entirely, instead paying the same wage to remote workers regardless of where they are based.

One reason that firms might take this approach is simply because they find themselves unable to justify the idea of paying different salaries to two workers doing the same job in different locations – particularly to those working in cheaper parts of the country.

Another is that workers who have historically benefited from the London weighting who have transitioned to working remotely (or have the option of doing so) may struggle to defend their continued receipt of it. London weighting exists to compensate workers required to live in an expensive location for the costs involved with doing so. Once living in London ceases to be a requirement but rather a choice on the part of the worker, the weighting is harder to demand.

Again, the incentives of remote workers would look significantly different to those in the status quo – though perhaps not as different as between the status quo and a world of perfectly location sensitive wage setting. Explicitly location insensitive salary policies could lead to an averaging out of wages for workers living in different places, with those in more expensive regions receiving less in real terms and those in cheaper regions receiving more. In a UK context, the pull of a better standard of living outside of London and the South East would be

accompanied by the 'push' of lower real salaries in the capital.

### **Uncertain factors**

This points to the following possibilities with regards to how firms respond to the rise of remote working though wage setting practices:

- 1. Location sensitive wage setting becomes more granular than the London weighting:**
  - a. With wages pegged to the cost of living in the specific location of employees. Firms would capture all of the financial benefits of a worker moving to a cheaper location.
  - b. With wages pegged to the cost of living in the specific location of employees, but with adjustments to ensure that workers moving to cheaper parts of the country still experience a modest increase in real earnings. Firms would capture some, but not all, of the benefits of a worker moving to a cheaper location.
- 2. Location sensitive wage setting continues in the form of the London weighting (and other city-specific weightings).** Firms would capture some, but not all of the benefits of their workers moving to cheaper locations.
- 3. Location sensitive wage setting is abandoned, with salaries for the same remote working jobs the same across the country.**
  - a. Salaries level up, with the wages paid to workers in cheaper parts of the country rising to the level paid to those in London.
  - b. Salaries are set relative to a national average. This would lead to lower remote working salaries in London, but slightly higher remote salaries in most other parts of the country. Remote workers are able to capture all of the benefits of moving to a cheaper location.

There are multiple factors that will determine whether firms adopt location sensitive or insensitive wage setting for remote workers.

- **Worker organising and union activity could create pressure in either direction:** workers based in more expensive parts of the country (and unions representing them) might fight hard to preserve the London weighting, and might prefer policies promising higher wages for those in more expensive regions. Equally, the spectacle of workers in different parts of the country receiving different levels of pay for identical work may prove difficult to justify, creating pressure for location insensitive salary setting for remote workers.
- **The state of the economy** could also affect the incentives of firms and the bargaining power of workers. For instance, especially dire economic circumstances could prompt firms with significant numbers of London-based remote workers to adopt location insensitive salary setting, paying remote workers according to a national average. While such moves would be unpopular (amounting to a pay cut for London-based knowledge workers), firms might reason that employees aren't in a position to refuse the new terms.

In a slightly more buoyant economy, the same firms might reason that the best way of capturing the savings of remote work would be adopting (or holding onto) partially

location sensitive price setting policies. Such an approach would create enough incentive for London-based workers to move to cheaper locations – and enable the firm to pay them lower salaries.

- **Precedents set by large companies** will be particularly important, providing smaller firms with cover for any potential changes to their practices.

Given the number of different ways in which firms might respond to the rise of remote working, our second axis of uncertainty therefore isolates the two most extreme responses. On one end of this axis, firms by and large attempt to capture the benefits of a shift to remote working for themselves, for instance by pegging remote workers' salaries to local living costs, as described in 1a, and having workers saddle the costs of home working.

On the other end of the axis, firms choose (or find themselves compelled to) adopt practices that enable workers to reap some of the potential benefits of remote working. In such circumstances, salaries for remote workers are set according to a national average, as described in 3b, enabling remote workers to take advantage of lower costs of living outside of London and the South East. Likewise, it is common practice for remote workers to receive support to ensure their home working set ups are adequate.

## Structuring and interrogating our scenarios

We are interested primarily in how our four scenarios are differentiated in terms of the incentives of high paid knowledge workers currently based in London and the South East. As a result of this, we have chosen to structure our scenarios around different kinds of workers, exploring how each of them might respond to the rise of remote working given different background conditions. In each scenario, we start by considering the effects on knowledge workers, before examining what the knock-on effects might be for other parts of the workforce.

We have divided the labour market up into four categories, according to the manner in which the increased prevalence of remote working might affect them.

- **Knowledge/white collar workers** – the main group theoretically able to work remotely. These are split into:
  - High skilled knowledge workers
  - Low skilled knowledge workers.
- **Non-knowledge workers** – here used as a shorthand for those unable to work remotely. This group is divided up according to the extent to which they may be affected by the rise of remote work:
  - Hospitality workers, a large proportion of whose jobs will have involved providing services to white collar workers and require physical proximity to white collar workers
  - Blue collar workers, whose jobs do not require physical proximity to white collar workers.

In the following chapter we work through each of the four scenarios. To make the potential differences between each as vivid as possible, we have attempted to follow the consequences of the drivers of uncertainty to their furthest local conclusions. As such, they represent caricatures of the worlds that might emerge as a result of the rise of remote working – useful for illustrating some of the risks and opportunities presented, but by no means fully nuanced or comprehensive in scope. While the time periods of our scenarios are less important than the different directions of travel explored in them, each scenario describes a possible UK roughly five to ten years from now.

## Chapter 4:

# The four futures of remote work

### Firms capture benefits of remote working

Scenario one:

#### An imperfect rebalancing

Middle class knowledge workers swap London for smaller, less dense towns and cities

- High paid knowledge workers leave London for affluent towns and smaller cities
- Truly deprived regions of the country benefit only modestly
- Low paid knowledge workers stay in London, but struggle on lower pay

Scenario three:

#### The Docklands clearances

Companies send all but the C-Suite home

- High paid knowledge workers continue to work in central London, but spend less time and money there than before
- Low paid knowledge work in London dries up, but is more readily available elsewhere; low paid knowledge workers leave London

Return to normal takes years

Return to normal takes months

Scenario two:

#### The return of the suburbs

Middle class knowledge workers hole up in affluent suburbs

- High paid knowledge workers retreat to the suburbs, hollowing out the centre of the city
- Low paid knowledge workers leave London to compete in the remote job market

Scenario four:

#### The same old inequalities

Few knowledge workers leave London, by choice or by compulsion

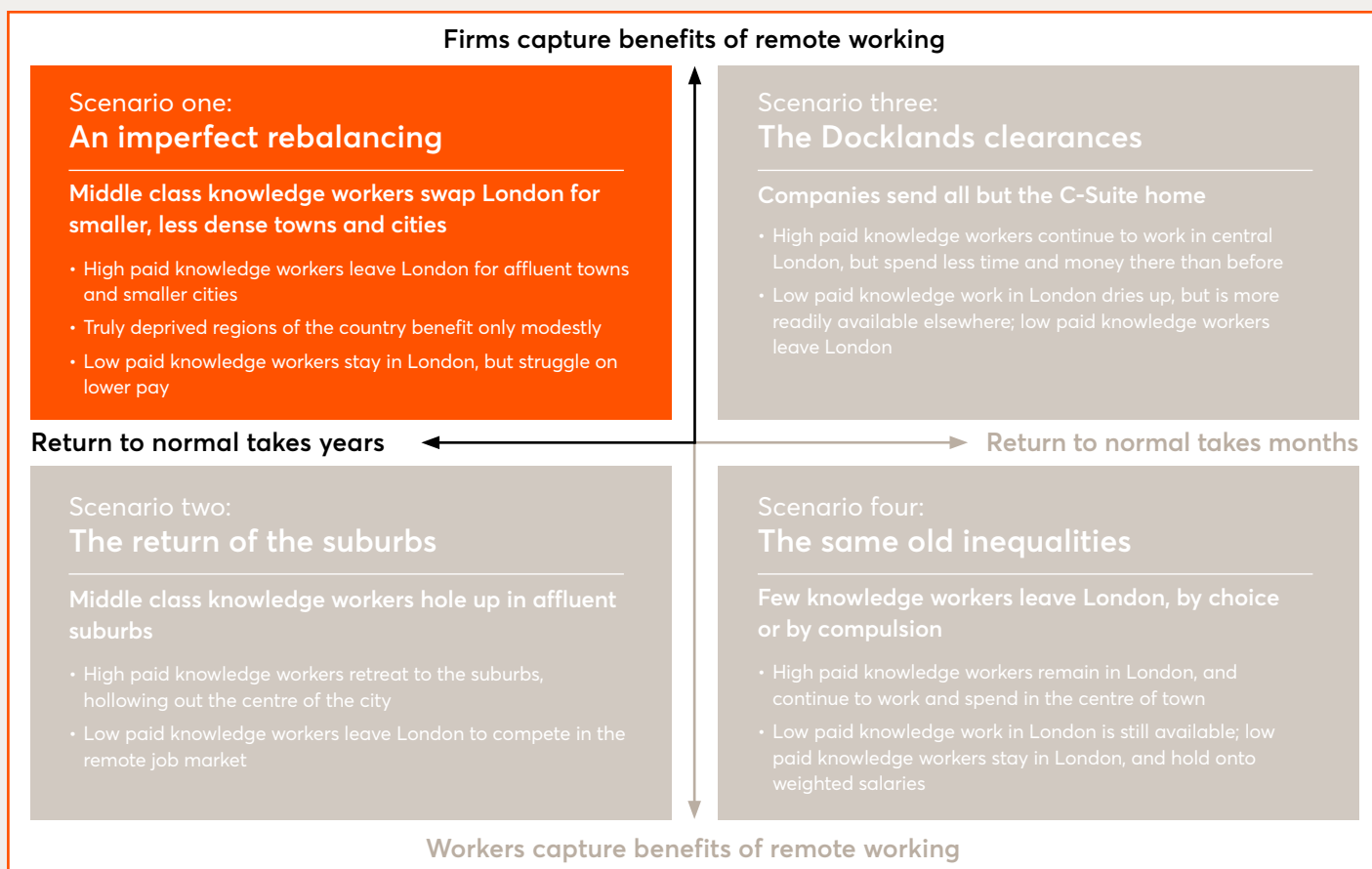
- High paid knowledge workers remain in London, and continue to work and spend in the centre of town
- Low paid knowledge work in London is still available; low paid knowledge workers stay in London, and hold onto weighted salaries

### Workers capture benefits of remote working

## Scenario one: An imperfect rebalancing

Affluent towns and smaller cities in the regions benefit from an exodus of high paid knowledge workers from London and the South East. With fewer affluent workers and worse real terms salaries for knowledge workers, London – and

especially its poor – loses out. While this constitutes the beginnings of a slow, painful rebalancing away from London, few of the UK's most deprived areas benefit substantially.



### Features of this scenario

- A return to pre-pandemic ways of living is taking years, with some social distancing measures are still in place.
- Many firms in the knowledge economy have gotten rid of their offices and many jobs have gone permanently remote.
- Workers have predominantly captured the benefits of remote working – firms have

refrained from paying people living in cheaper places less for the same work, meaning that those in cheaper places are able to benefit from higher real wages. However, the principle of equal pay for equal work has led to a gradual averaging out of remote salaries, rather than all being brought up to the level of the highest.

## High skilled knowledge workers leave London and the South East

Rather than attempt to adjust remote workers' salaries according to the cost of living in different regions, the majority of firms have opted for location insensitive wage policies, setting wages for remote jobs according to a UK average. Consequently, salaries for remote jobs have served as a significant economic leveler, rising in real terms in some cheaper, poorer parts of the country, and falling in real terms in affluent regions – and particularly in London and the South East.

As a result of this policy, a significant minority of high skilled, high paid knowledge workers have opted to move out of London and the South East to make their wages go further. This phenomenon has been particularly prominent amongst young couples looking to start a family and unable to afford property in London, and amongst those approaching the end of their careers, looking for a slower pace of life but not yet ready or able to retire.

Significantly, because so many firms employing high skilled knowledge workers have gotten rid of their offices, knowledge workers leaving London haven't felt limited to places with good transport connections to London and the South East. Rather, the main infrastructural limit is broadband access.

For many smaller towns and cities, a recent influx of well paid, younger workers has provided a significant economic boost – though worries about priced out locals and gentrification persist. Many towns have channeled significant resources in attracting these high paid knowledge workers. The knowledge worker diaspora has been unevenly distributed so far, however, with small university towns and cities having so far proven far better able to attract new residents. The most successful places are those which were already thriving, and where quality of life was already relatively high and deprivation low.

For London, the effects of this are less positive. Increasingly, there is talk about a hollowing out of London's economic middle, with only the

precarious, working poor and the super rich remaining in the city.

## Some low skilled knowledge workers have left London and the South East, with those remaining paid lower salaries

Because salaries for low paid, remote knowledge jobs are now the same regardless of where the employee works, low and semi-skilled workers are able to move out of London and benefit from improved real incomes. On the flip side of this, however, it has become increasingly difficult for low paid knowledge workers to hold on in London, given the salaries they can expect no longer reflect the higher cost of living in the capital. Because it is easier to struggle by on lower wages than it is to deal with an inability to get work, fewer low skilled, remote knowledge workers have opted to leave London than in Scenario Two, though many people with fewer roots in the city do choose to do so.

## Hospitality workers in London have suffered, but those in smaller cities and towns have fared better

The hospitality industry focused around central London has suffered in much the same way that it has in Scenario Two. Within London, many of the high-paid knowledge workers who haven't opted to leave the city completely have moved out to the suburbs, meaning that London-based hospitality workers have been faced with the problem of fewer jobs in harder to reach locations – a problem compounded by the continuing requirement for some elements of social distancing.

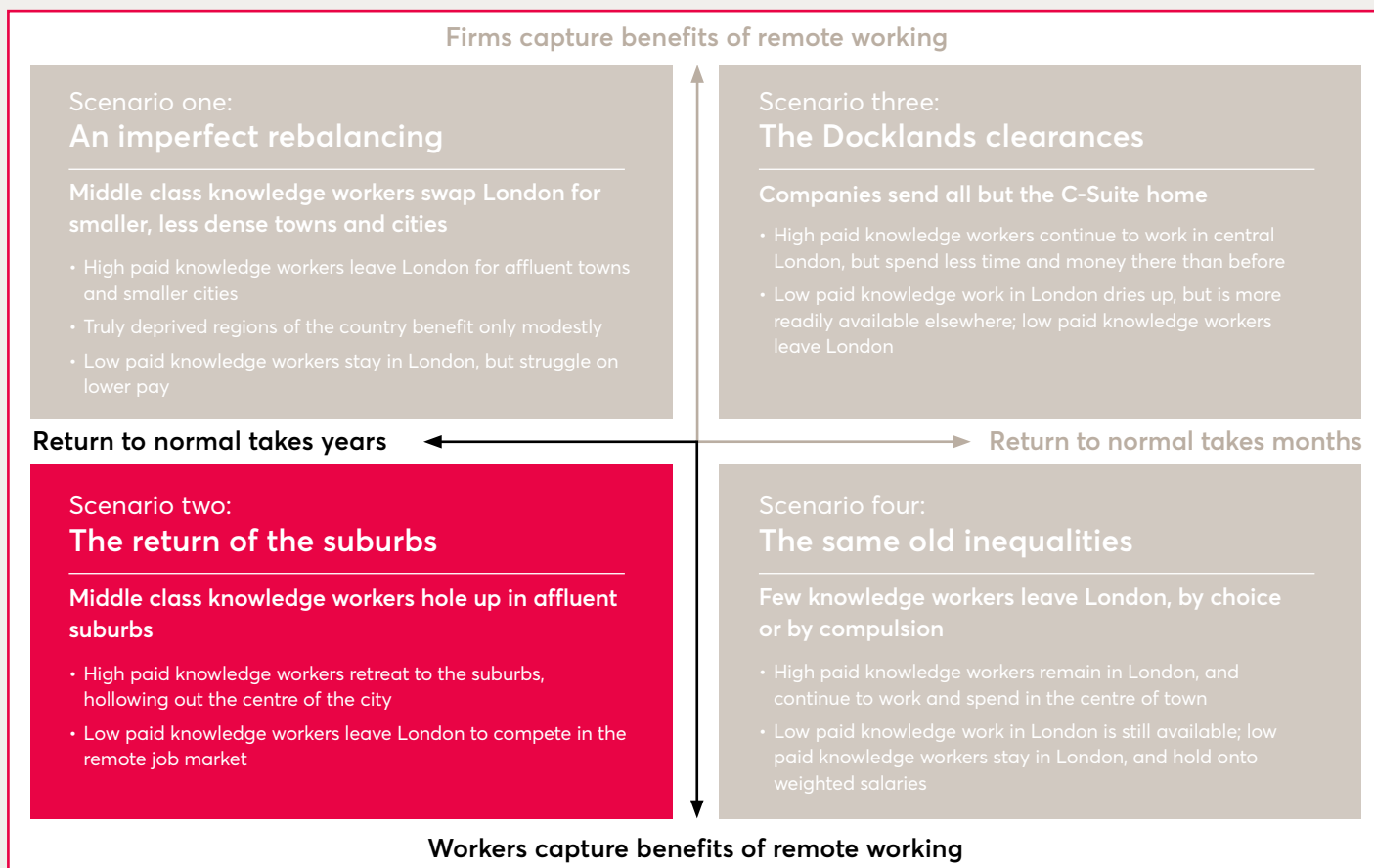
However, the fate of hospitality workers has not been as dire in smaller cities, where the hospitality industry has benefited from an influx of affluent knowledge workers with money to spend. Crucially, the smaller size of other British cities has meant that well-off knowledge workers have proven less reluctant to head into city centres for leisure and shopping, bucking the trend towards suburbanisation seen in London.



## Scenario two: The return of the suburbs

London has retained its appeal for the well off, who have moved to the suburbs but have not left the capital, with the result that high wages have largely failed to escape the city's gravitational

pull. At the same time, London's capacity to support lower paid workers (both knowledge and hospitality) has diminished.



### Features of this scenario

- A return to pre-pandemic ways of living is taking years, with some social distancing measures still in place.
- Many firms in the knowledge economy have gotten rid of their offices and many jobs have

gone permanently remote. This is more common in smaller companies than in larger ones.

- Firms have predominantly captured the benefits of remote working, with location-based salary setting the norm.

### High skilled knowledge workers have remained in London and the South East

Following early precedents set by larger firms, it has become standard practice for employers to adjust wages for remote workers according to the cost of living in the place they happen to live. Most remote jobs are now advertised with a salary range, with the higher bands reserved for those in more expensive parts of the country.

As a result of this practice, while high skilled knowledge workers are still working remotely as a result of the pandemic, relatively few have taken this as an opportunity to move out of London and the South East. Instead, most decided not to forgo the amenities of London and the social networks they have developed there, given that the economic benefits of moving elsewhere stand to be captured in large part by their employers. Those that have moved as a result of a transition to remote working tend to have gone to London's suburbs, or other expensive but less dense parts of the country, typically also in the South East, in order to maintain the South East weighting to their salary while gaining access to larger properties with gardens that make home working more comfortable.

Absolved of the responsibility of regularly heading into the office, the affluent knowledge workers who have remained in London spend far less time and money in the centre of the city – and far more of these things in their local areas.

### Low skilled knowledge workers in London find it increasingly difficult to get work

Since the transition to remote working, low skilled knowledge workers living in the capital have found it increasingly difficult to find and hold onto jobs. The main reason for this is that, due to firms' practice of varying salaries for remote workers according to cost of living, London-based knowledge workers are now far more expensive to employ than equivalent workers in cheaper parts of the country. While high skilled knowledge workers are in a position to demand a London uplift because they are in relatively short supply, those with fewer skills are more numerous and thus do not have such bargaining power.

Low skilled knowledge workers based in London have therefore found themselves under increasing pressure either to find employment in other sectors or else move out of London, where they might be better able to compete for remote knowledge work.

While many workers in this group have decided to tough it out in London rather than break with familial and social ties in the city, London has lost the attraction it had for younger workers in the period before the pandemic. Many recent graduates now opt to stay in their university towns after graduation rather than moving or returning to London, with a better availability of low skilled knowledge work to tide them over while searching for graduate-level employment. Young people who did not go to university are even more likely than before to stay in the regions in which they were born.

### Low skilled knowledge workers outside of London have more job opportunities overall, though the benefits of this are not evenly felt

Outside of London and the South East, the rise of remote working has led to the increased availability of low skilled knowledge work. Many low skilled knowledge jobs previously performed in offices in London have now gone remote. Due to the practice of pegging salaries for remote work to the local cost of living, remote workers based in cheaper parts of the country have proven far better able to land low skilled knowledge jobs.

The increased availability of this kind of work has provided a welcome boon to parts of the country suffering with long-term underemployment and unemployment, though poor broadband connections and digital literacy have dampened the effects somewhat.

However, the transition to remote working has also led to a far more fluid, precarious job market for low paid knowledge workers outside of London and the South East. One notable effect is that, rather than clustering around specific sites, the distribution of low skilled knowledge work is now far more homogenous.

While places with very few sources of employment have benefited from this, areas that once hosted large knowledge employers (such as call centres) can no longer rely on these institutions to serve as anchors for local employment. This emerging dynamic has prompted fears of what commentators have taken to calling 'economic entropy', whereby labour opportunities are evenly divided between regions, with few places enjoying sufficiently pronounced clustering and agglomeration effects to spur economic growth.

### Hospitality workers have had a hard time adapting to the changed habits of consumers

For those working in hospitality, the changed habits and movements of white collar workers have proved challenging, leading to fewer jobs in harder to reach places.

Within cities, where the majority of hospitality jobs were clustered, the reduced number of white collar workers spending time and money in the centre of town has prompted many retail, food and drink, and entertainment businesses to shut down or else relocate to the suburbs, following their old customer base. Continued social distancing restrictions have also restricted the overall amount of work available in hospitality.

The hospitality jobs emerging in suburbs have proven imperfect substitutes for those in city centres. In contrast to city centres, which tend to have universally good transport connections, affluent suburbs tend to be far harder to access by public transport from other residential districts – and are expensive to move closer to. The kinds of hospitality jobs in demand within suburbs are also different, with significantly more opportunities delivering food and services to people's homes than in waiting and sales assistant roles. As a consequence, many experienced hospitality workers have struggled to adapt to the dramatically different demands, working patterns and entry requirements of the jobs now on offer.

## Scenario three The Docklands clearances

**For almost all, this is a particularly bad scenario. Having discovered the apparent ease by which knowledge workers transferred to remote working, firms are keen to continue the practice while keeping the benefits within the business. As such, wages fall across all skill levels while employees either struggle to maintain a foothold in London or sever the connection, breaking ties with family and friends.**

While workers outside of London can theoretically benefit from the greater availability

of remote knowledge jobs, remote jobs have increasingly been broken down into discrete tasks, making work less satisfying and increasing precarity. These workers also worry that their jobs may be lost altogether as overseas staff command substantially lower salaries still.

The overall lowering of pay and conditions continues a longstanding trend of the hollowing out of the middle class. It is felt in discretionary spending across the economy, with hospitality being just one of many canaries in the coalmine.

### Firms capture benefits of remote working

Scenario one:

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Scenario three:

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**Companies send all but the C-Suite home**

- High paid knowledge workers continue to work in central London, but spend less time and money there than before
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Return to normal takes years

Return to normal takes months

Scenario two:

#### The return of the suburbs

Middle class knowledge workers hole up in affluent suburbs

- High paid knowledge workers retreat to the suburbs, hollowing out the centre of the city
- Low paid knowledge workers leave London to compete in the remote job market

Scenario four:

#### The same old inequalities

Few knowledge workers leave London, by choice or by compulsion

- High paid knowledge workers remain in London, and continue to work and spend in the centre of town
- Low paid knowledge work in London is still available; low paid knowledge workers stay in London, and hold onto weighted salaries

### Workers capture benefits of remote working

#### Features of this scenario

- A return to pre-pandemic conditions emerged speedily, and there is now very limited to no requirement for social distancing.
- Pre-pandemic working conditions are possible again, though the experience of the pandemic has made remote working far more commonplace.
- Firms capture the benefits of remote working, and in some sectors are keen to do so. This

typically involves firms pegging the salaries of remote workers to regional costs of living, and refusing to compensate workers for the costs of home working. This is a particular challenge for lower paid knowledge workers, with negative effects on their experience of work and their career development as well as long term risks to the sustainability of their employment.

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## Most high skilled knowledge workers use the office less, but have still remained in London and the South East

An effective public health response meant a return to in-person working was hypothetically possible very quickly. However, firms saw the cost saving possibilities that remote working offered them and as a result decided to eschew office working for much of their staff. The key exception were elite workers like CEOs, executive teams, and high skilled workers for whom face-to-face interaction was deemed essential. Those in the highest status categories could demand office space and were given it.

For high skilled workers lower down the pecking order, things are not so good. Cost savings for firms make full time office access a thing of the past. Instead, jobs are remote by default and employers make provision for all staff to work from home. Further savings are derived by paying staff working from cheaper parts of the country less than their colleagues in London.

Because having access to the office does confer important, desirable advantages for employees, many firms do make limited office space available. However, while it's framed as a perk

for those who choose to use it, regular presence in the office has become de facto obligatory for employees who want to progress and do well at work. The result is that many high skilled workers have found themselves obliged to stay in London or the South East to attend the office from time to time, but also have to pay for a home in which they can comfortably work most days a week. This has led to rapid gentrification of the few relatively affordable areas of London left, putting a strain on the city's poorer inhabitants.

For most high skilled workers, leaving London has proven almost impossible as in-person meetings are scheduled with little advance notice. While suburban living is more viable, moves further afield have meant workers are increasingly at the mercy of high walk-up train fares, which have more than eaten into any savings on property prices.

The exception to this, as in Scenario 4, are high skilled workers who are able to comfortably transition to fully remote working. For these people, their scarce skills in fields like coding mean they still command comfortable salaries that make London affordable, while moving to other cities, albeit those with an already high quality of life, becomes desirable.

## Low skilled knowledge workers in London have struggled to hold on in the capital, with many moving elsewhere

While high skilled workers have fared badly in this scenario, lower skilled ones have done even worse. As in Scenario 4, the vast majority of low skilled knowledge jobs where physical proximity to colleagues confers few economic or practical advantages have gone fully remote.

In direct contrast to Scenario 4, however, this trend has also extended to lower skilled knowledge workers in jobs supporting higher skilled colleagues, for whom the arguments for remaining in the office are stronger. Because salaries for remote workers are location sensitive, in London the savings to be gained by choosing a fully remote worker (based in a cheap part of the country) over an office-based worker (paid a

salary with London weighting) are by and large seen to outweigh the benefits of having workers present in the office.

There are notable exceptions to this trend. In particular, elite executive teams still place a high value on having their support workers physically present. Overall, however, the vast majority of low skilled knowledge jobs supporting higher skilled colleagues are now done fully remotely. The extent and the ruthlessness of London firms' drive to eject all but their most valuable employees from their offices has led to it having been referred to as 'the Docklands clearances' – a reference to the Highland Clearances of the 18th and 19th centuries, in which Scottish landowners evicted large numbers of peasants from their land to make way for sheep, which were far more profitable.

### **Low skilled knowledge workers outside of London have more jobs to choose from, but these are typically low paid and insecure**

Many of the low skilled knowledge jobs previously done by Londoners have gone to other parts of the country. For low skilled workers not based in London but living elsewhere in the UK, this has conferred some benefits, although they are not as generous as hoped. Work which was previously unavailable due to geographic restrictions has opened up to workers across the country.

However, with wages tied entirely to skill and not to location, there has been a rapid race to the bottom in pay for many of these roles. Employment is now more available in places which had once been work deserts, but many find such working lonely and resent being tied to their homes.

This distant working makes company progression very difficult, particularly in the transition to new roles where new skills are needed. The consequence is the creation of a remote proletariat. By contrast, those with privilege such as a family home in London or help with housing

costs are able to set up home in London and find creative ways to access on site or office networks that help their career.

On the other hand, fully remote workers are acutely aware of the precarity of their position. Having demonstrated that their work may be conducted remotely, they now face new challenges from offshoring companies. South Africa, with its compatible time zone and high level of English fluency, is becoming a growing site for offshoring.

### **Some hospitality workers do alright, but where salaries drop elsewhere in the labour market, hospitality workers suffer the consequences**

For hospitality workers, the arrival of the COVID-19 vaccine couldn't have come soon enough. The ending of restrictions allowed a resumption of mothballed businesses, an increase in footfall for those able to remain open, and for employees a resumption of work in the sector. Central London hospitality did better than expected. Though there were far fewer people in the office every day, they were either wealthy elite workers or for those for whom going to the office felt more like an event, and who were more likely to end a working day with dinner or drinks.

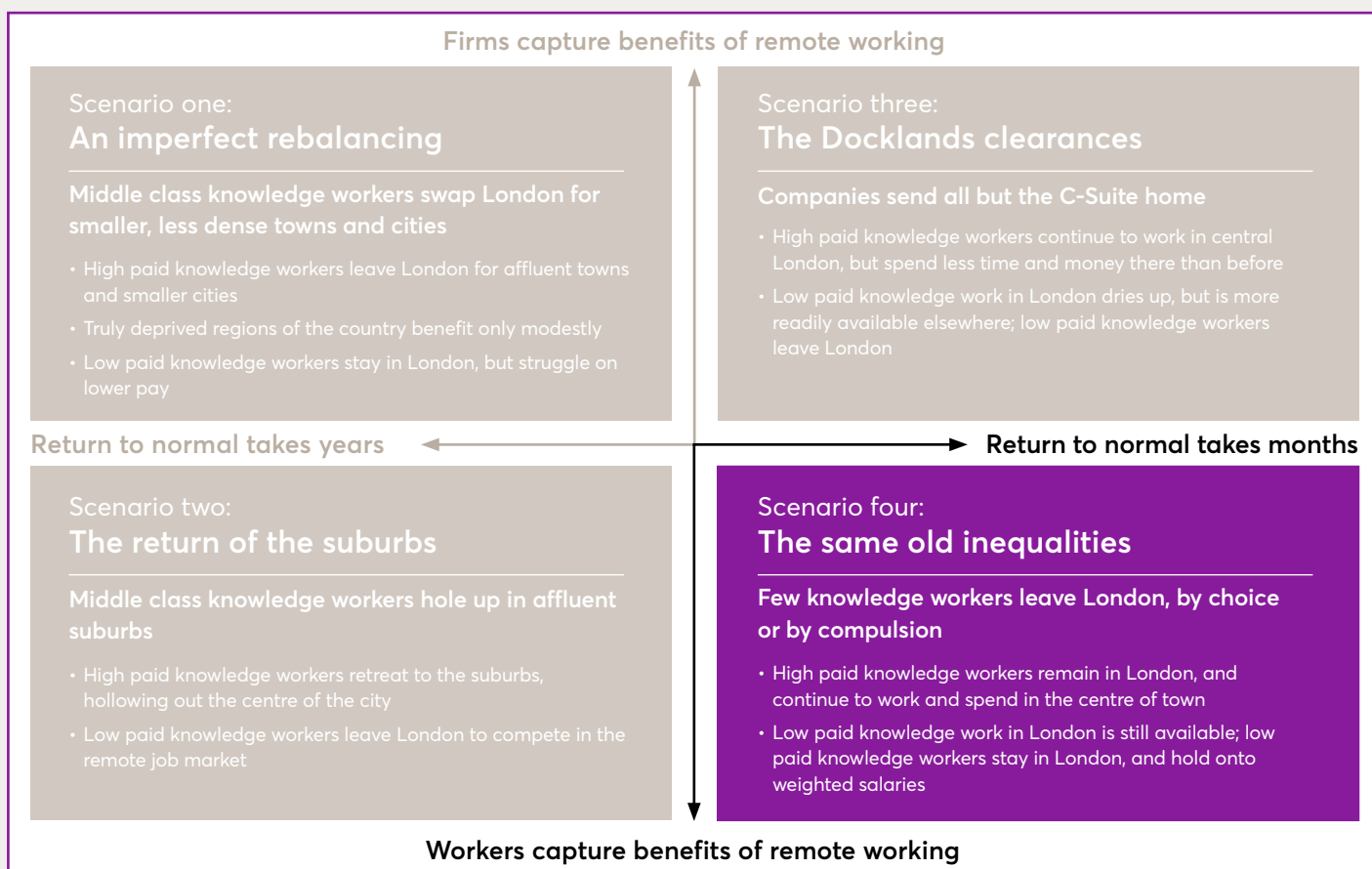
The increased availability of low skilled work around the UK likely had a marginal effect on the hospitality industry, but its effect was so thinly spread as to be unmeasurable. By contrast, non-luxury hospitality in London suffered. High skilled workers found themselves with lower salaries while paying more for living space to accommodate a home office for their work, and low skilled workers saw wages decrease due to competition from lower cost locations. Discretionary spending like hospitality was one of the first things to suffer, particularly as people had developed new socialising habits during the pandemic, such as meeting in parks or gathering to take exercise together. Some hospitality workers pivoted and created markets in these new areas.



## Scenario four: The same old inequalities

Despite positive outcomes from some high skilled knowledge workers, this scenario doesn't lead to much in the way of geographical rebalancing. Though work can be decoupled from place, employers and employees in high skilled sectors find the benefits of frequent

access to the company hub outweigh the costs in almost all cases. For individual workers in low skilled sectors, the increase in remote working does increase the availability of low skilled knowledge jobs around the UK, but the consequences aren't uniformly positive.



### Features of this scenario

- A return to pre-pandemic conditions emerged speedily and there is now very limited to no requirement for social distancing.
- Normal working conditions are possible, but the pandemic has made remote working more commonplace in some industries, sectors and grades of work. However, it hasn't led to a generalised exodus from the capital.
- Firms have refrained from varying salaries for remote workers according to their locations, meaning that workers are able to capture the financial benefits of remote working if they choose to do so but suffer some of its consequences too.

## Most high skilled knowledge workers have a blend of remote and office based work

Because offices reopened quickly, London was able to retain its reputation as a hub for high paid knowledge work. Employers continue to count on the benefits of agglomeration to their bottom lines, meaning the city retains its pull for high skilled workers from around the UK and indeed across the world. The cost of living remains high, but for employers compensating in relation to this cost is a price worth paying. Employees still enjoy living full time in London for the social and cultural benefits the city confers.

However, the experience of the COVID-19 pandemic did demonstrate the potential of remote working. Offices are no longer locations for the more mundane elements of daily work and, particularly for those who are the most highly skilled, the workplace becomes a hub for group activities and events. High skilled employees take advantage of this flexibility in different ways.

Some high skilled workers, particularly those later in their careers who consequently have already assembled a reputation and strong professional network, have elected to work fully remotely. They know they are foregoing some of the office buzz – something those earlier in their career can't miss out on – but the opportunity to move out of the city, profit from house price growth over their lifetime, and begin a transition towards retirement is too good to pass up. A couple of days per month on site is often still required, so these people move to affluent parts of the rural South East where quality of life is high and access to London is still easy.

Furthermore, many high skilled workers prize their autonomy and a degree of home working facilitates this. Many London-based employees work from home at least a couple of days a week. For most this confers little financial benefit beyond reducing their public transport spending, but it does offer many quality of life benefits. The working holiday becomes more common, as employees extend time away from home by including a short period of working or even spend weeks or months elsewhere while continuing to work as normal.

That said, some high skilled workers do become fully remote. This is true particularly for those in technically more advanced sectors like software development where employees are more comfortable with solely screen-based interactions with colleagues. It is also true for freelancers, numbers of whom are increasing due to wider changes in workplace relations as companies no longer feel like a face-to-face meeting is essential to contract for services. For these workers, relocating to lower cost locations is both possible and widespread.

Given that the majority of high paid knowledge jobs retain some requirement to be in the office, London salaries for high skilled knowledge workers are still higher than UK averages to take into account the cost of living in the city. By and large, while high skilled workers gain lifestyle benefits from a blended approach to work, the necessity to be in commuting distance from the office means it has little effect on the distribution of skilled work and associated salaries around the UK. The growth of remote working in some sectors tells a potential story of future growth in remote working, but we're not there yet.

### **Some low skilled knowledge workers blend home and office, while others work entirely from home**

The effect of the UK's forced experiment with remote working on low skilled knowledge workers has not been uniform.

Some lower skilled knowledge jobs support higher skilled colleagues, or are jobs that transition directly into higher skilled work. In these cases, proximity to colleagues is still regarded as important, with permanent remote working both difficult for employers and undesirable for employees.

This was particularly significant for low skilled knowledge workers in London, many of whom fall into this category. Crucially, because salaries for remote workers are paid according to a national average, the savings to be gained from making these kinds of jobs fully remote are seen by most London-based employers as relatively modest, relative to benefits of physical proximity.

Given this, most London-based firms have opted to allow this class of low skilled knowledge workers to follow the office-based blended approach of their highly skilled colleagues. As a consequence, these workers have been able to hold onto their London weighted salaries.

By contrast, for the many lower skilled knowledge jobs that derive little benefit from physical proximity, fully remote working models have become far more common following the

experience of the COVID-19 pandemic. One example of this is with call centres, which have chosen to forgo office space and instead make demonstrable access to a suitable home working environment an essential criteria in recruitment.

This has principally been to the benefit of people working in cheaper parts of the country, for whom these jobs are relatively well paid due to the practice of location insensitive wage setting. Relatively few Londoners have taken up these jobs.

### **Hospitality workers have seen a recovery of employment as the pandemic subsides, but the work is still low paid**

The months of disruption have left their mark, with some hospitality venues closing permanently and a more developed market for home-based, hospitality-like experiences like takeaway and home cinema. However, for the workers themselves, the ending of COVID-19 restrictions has been a boon for hospitality, allowing a relatively fast return to the pre-pandemic conditions as new venues and experiences emerge to fill gaps and, particularly at the outset, fulfil pent up demand.

Hospitality workers, like low skilled workers, find themselves anchored as before near to their higher skilled and more highly paid colleagues. Hospitality continues to be a relatively low paid industry for most.

## Chapter 5:

# Lessons for policymakers

**Having examined the four scenarios, this final chapter sets out the emerging lessons for policymakers. The aim here is not to make prescriptive policy recommendations, but rather to identify how elements from the scenarios could play out in the future and what kinds of tactics might be needed to ensure they play out well for both business and the public.**

One striking feature of the four scenarios set out above is that none of them presents an especially appealing vision of a remote working future. While some, such as Scenario 2, promise greater levels of regional economic redistribution than others, none of the four see significant amounts of wealth and opportunity flow to the most deprived regions of the country. There are scenarios in which London (and especially inner London) loses out relative to other parts of the country, but none in which those 'left behind' areas most in need of an economic uplift gain substantially.

The undesirability of the four scenarios determines how they might best be used to inform policy development and government decision-making. Rather than trying to understand the decisions and policies that would help make some of these scenarios more likely than others, it is far more useful to consider the problems and opportunities common to each. Doing so enables the identification of policy interventions that will be worthwhile, regardless of which scenario comes about.

Across the four scenarios we have explored, several problems, risks and opportunities are shared by all.

### **1. Opportunities presented by remote work will be contingent on broadband connections, access to computers, and digital literacy.**

A feature common to each of the above scenarios is the greater theoretical availability of low skilled knowledge work in parts of the country suffering from long-term under and unemployment. The de facto ability of people living in economically deprived regions to undertake remote work will be dependent on the availability (and affordability) of fast, stable broadband connections, access to computers, and decent levels of digital literacy.

The government may want to look into how to expedite the rollout of superfast broadband connections to all regions of the UK, and consider subsidising broadband access for the most economically deprived households. Likewise, prospective remote workers should not be expected to provide their own IT equipment such as mobile phones or laptops. Instead, firms recruiting remote workers should be encouraged, or required by law, to provide such equipment, just as they would for on-site workers.

## **2. Protecting the wellbeing and rights of remote workers – especially low skilled remote workers – will become increasingly important.**

Another common feature of the above scenarios concerns the risk of remote and partially remote workers finding themselves isolated, confined to poor working surroundings, and subject to unreasonable and restrictive expectations from their employers. Government should work with firms and trade unions to codify a clear set of rights for remote and partially remote workers, including but not limited to provision for home working spaces and freedom from employer monitoring where this violates the privacy or autonomy of workers.

For remote and partially remote workers, firms should not be allowed to require proximity to the office unless there is a clear need for the work in question to be in the office regularly or at short notice. For partially remote workers, there should be greater clarity on when presence in the office is required and restrictions on how often workers can be summoned into the office on short notice.

## **3. Economic shocks to London's low paid knowledge workers could be ameliorated and slowed by a higher national minimum wage.**

Low skilled workers based in London and the South East fare badly in each of the scenarios described above: in the two scenarios in which salaries for remote workers don't vary according to location (Scenario 2 and Scenario 3), low skilled workers in expensive regions will be in danger of a real terms pay cut. In the best case scenario, this will amount to UK-wide salaries for remote work being set according to a national average, amounting to a moderate pay cut for workers in London and the South East and a pay rise for workers in many other regions. In the worst case, it will involve UK-wide wages falling to meet the wages paid in the cheapest parts of the country, amounting to a more severe pay cut for workers in London and the South East and pay continuity for those in the cheapest parts of the UK.

Likewise, in the scenarios in which firms vary remote salaries according to the location of their workers (Scenario 1 and Scenario 3), there is a risk that low skilled workers living in more expensive parts of the country find themselves unable to compete with their counterparts in cheaper areas.

All other factors remaining equal, raising the minimum wage could help to ameliorate both of these problems, slowing their effects: should firms set a uniform rate for all remote workers, regardless of location, a higher national minimum wage could help to dampen the loss in income experienced by workers in more expensive locations. Equally, should the norm be for salaries for remote workers to be location sensitive, a higher national minimum wage would lessen the cost difference between hiring low skilled remote workers from expensive and cheaper parts of the country. This would help low skilled remote workers in London and the South East remain competitive.

**4. Those currently working in hospitality will need support to cope with ongoing restrictions, muted demand and changing consumer habits.**

A common feature of each scenario is the challenging environment faced by hospitality workers, who, depending on the scenario in question, will have to cope with falling demand for in-person services, the constraints of continued social distancing requirements, and a more dispersed, harder-to-reach consumer base. Given this, government needs to consider how best to support hospitality workers, many of whose jobs will be threatened by changing consumption patterns.

In particular, it will be worth noting that the types of hospitality work that may become abundant in the future may be a poor fit for many current hospitality workers; for example, many of those working in retail or the restaurant industry may be unable to take up delivery jobs. Support for transition will therefore need to be sensitive to the skills and nature of the work, rather than seeing jobs in the same industry as equivalent.

**5. In small towns and cities, the presence of large companies may become less important for local employment and prosperity.**

In all four scenarios, many firms employing low skilled knowledge workers are prompted to transition to remote working by default. This could well have profoundly disruptive consequences for towns and smaller cities where such firms currently employ large numbers of people, and serve as significant contributors to local prosperity. A shift towards remote working would sever the connection between the presence of a knowledge business in a particular area, and subsequently the availability of jobs.

This change may necessitate a shift in local economic strategies, with it becoming important for local areas to attract non-knowledge businesses and economic institutions to set up shop and remain in their areas. Likewise, local economic policy may begin to invest more energy in making regions appealing to workers, rather than to the companies that employ them.



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