

ITEM NO. 5

GM LOCAL ENTERPRISE PARTNERSHIP BOARD

Subject: Refreshing the GM Strategic Approach

Date: 14 July 2016

Report of: Interim Mayor Tony Lloyd, Cllr Richard Leese, Portfolio Holder for Economic Strategy and Sir Howard Bernstein, Head of Paid Service

PURPOSE OF REPORT

This report provides an overview of a number of strategically significant workstreams currently underway to support the delivery of Greater Manchester's growth and reform ambitions and suggests that, in light of this work, and in response to the changing context in which Greater Manchester is operating, particularly as a result of the outcome of the referendum on Britain's membership of the European Union, it is now timely to develop a refreshed and revised economic strategy for Greater Manchester.

That revised strategy will reassess the issues and opportunities that Greater Manchester needs to address to ensure that all parts of the conurbation can play a strong and positive economic role in supporting future growth and maximising the ability of residents to share the benefits of that growth.

The report also highlights the work of the RSA Inclusive Growth Commission, and the importance of a GM submission to the Commission's open call for evidence to ensure that the full range of issues of relevance to Greater Manchester are considered by the Commission.

RECOMMENDATIONS

The GM LEP is asked to:

- endorse the proposal to revisit and refresh the Greater Manchester Strategy, in the light of the changing context in which Greater Manchester operates, and to reflect the wide ranging work underway to deliver our Growth and Reform objectives, including the development of the GMSF and the associated Investment Strategy;
- endorse the proposal that the GM LEP, working with the Business Leadership Council, provide strategic oversight and direction to work currently underway to develop bespoke packages of support and specialised services to support businesses through the period of uncertainty caused by the outcome of the referendum;
- endorse the proposal to develop a Greater Manchester submission to the call for evidence issued by the RSA Inclusive Growth Commission to ensure that the full range of issues of relevance to GM are considered by the Commission; and
- request that officers prepare a further report for consideration by LEP members at their next meeting that provides further detail on the issues set out in this note and the emerging evidence base under development to support the refresh of the Greater Manchester Strategy.

1. BACKGROUND AND INTRODUCTION

- 1.1 The first Greater Manchester Strategy (GMS) was produced in 2009, in response to the Manchester Independent Economic Review, and subsequently refreshed and repositioned in 2013 to better reflect more challenging global economic conditions and the importance of the public service reform agenda to the achievement Greater Manchester's strategic ambitions.
- 1.2 The GMS, built on the twin pillars of Growth and Reform, has set the strategic framework for policy development across Greater Manchester. A number of more detailed strategies and plans sit below the GMS and set out the work underway to deliver our strategic priorities. Such strategies and plans include the Growth and Reform Plan, the Skills and Employment Strategy, the Internationalisation Strategy, the Climate Change Strategy and the Local Transport Plan, amongst others.
- 1.3 The GMS has also helped to place Greater Manchester at the forefront of the national debate on devolution. Our priorities around growth and reform are widely recognised to be distinctive, evidenced and wholly appropriate for the long term success of the area and have formed the basis of extensive negotiations to establish a 'place-based' partnership with Government, securing significant influence or control over a greater share of public spending in GM. The Greater Manchester devolution settlement, built on four devolution deals since November 2014, alongside the Memorandum of Understanding that devolved £6bn of health and social care spending to Greater Manchester from 1 April 2016, represents a ground breaking transfer of power from central Government to local areas.
- 1.4 However, the context in which we are operating has changed significantly since the GMS was last refreshed in 2013, and, in light of the result of the referendum on Britain's membership of the EU, will change further over the coming weeks, months and years.
- 1.5 It is now timely to revisit and once again refresh Greater Manchester's strategic approach, reassessing the issues and opportunities that our strategy needs to address, and re-examining the interventions required to drive growth and reform across the conurbation.

2. MOVING THE GM AGENDA FORWARD

- 2.1 Our vision is to establish Greater Manchester as one of the world's leading regions, driving sustainable growth across a thriving North of England. It will be ever more connected, productive, innovative and creative, known for the excellent quality of life enjoyed by our residents who are able to contribute to and benefit from the prosperity that growth brings.
- 2.2 There are a number of significant workstreams currently underway to support the delivery of our growth and reform ambitions including, amongst others:
 - the development of the **Greater Manchester Spatial Framework** to enable an informed, integrated approach to spatial planning across the city region, based on a clear understanding of the role of places and the connections between them;

- the continuing development of the **Greater Manchester Investment Strategy**, which supports the implementation of the GM Strategy through investment to create and safeguard jobs primarily through loans to support recycling to maximise the impact of investment over several funding cycles;
- the development of **Transport 2040**, a new long-term transport strategy for Greater Manchester that will deliver world class connections that will support long-term sustainable economic growth and access to opportunities for all;
- the establishment from April 2017 of Greater Manchester as a pilot area for **100% retention of business rates** income, including the transfer of additional functions to GM within the business rates system;
- the development of **Locality Plans** that will set out how a transformed, integrated health and social care system will be delivered in each of the ten GM localities, in line with the **GM Strategic Plan**;
- the implementation of the requirements of the GMCA associated with the outcomes of the **Area Based Review**, a review of post-16 education across the country to ensure that a skills offer is in place to meet economic and educational needs;
- the reform of the way that all **services for children** are delivered, with an initial focus on integrating preventative services for children and young people.

2.5 Greater Manchester’s “**Deep Dive**” study, led by New Economy, with independent quality assurance provided by Deloitte and Ekosgen, will be a key source of evidence for Greater Manchester as we revisit and refresh our approach. The study has analysed economic issues and opportunities across the GM to better understand how all parts of the conurbation can have a strong and positive economic function to support future growth and to maximise the ability of all residents to share in its benefits. With input from all ten GM local authorities the work has provided an understanding of the spatial implications of, and barriers to, growth by comprehensively analysing demand and supply side factors. Phase 2 of the work, which is due to report initial findings in August, takes this analysis to the lowest spatial scale possible to develop our understanding of the implications of these factors at a local level.

2.6 The **Northern Powerhouse Independent Economic Review** has provided an examination of the factors driving the North’s economic performance to identify pan-Northern and globally-distinctive strengths with the potential to transform the economic prospects of the North and has assessed the scale, nature and causes of the North’s performance gap, distinctive sectoral strengths and capabilities at the level of the North and future growth prospects for the North. Government and the Northern Core Cities have committed to “NPH Phase 2”, working together to deliver an Economic Strategy for the Northern Powerhouse, setting out how we will tackle key challenges across skills and employment, enterprise, innovation, trade and investment and housing to drive increases in the productivity of the North and the UK as a whole.

2.7 In addition it should also be noted that Stephanie Flanders has recently been appointed to chair an independent RSA **Inclusive Growth Commission**, examining how the state needs to change (both centrally and locally) to enable different parts of the country fully to realise the potential of devolution. A key focus will be geographical

inclusion: making sure that the benefits of the place-based approach to growth are widely shared. The Commission has issued an open call for evidence in relation to three research themes of:

- more inclusive, productive labour markets;
- dynamic resilient places;
- creating system change.

2.8 Funded through contributions from the LGA, UK Core Cities and other third parties, the independent Commission is the successor to the RSA City Growth Commission, chaired by Lord O'Neill of Gatley, which was the driving force behind city and sub regional devolution deals and plans to present a robust, authoritative and compelling case for change and devise new, ambitious measures and mechanisms for how this change can happen. As such, it is critical that local government, Core Cities and key partners collaborate to submit evidenced proposals in relation to the three key Commission research themes to influence and shape the Commission's recommendations. It is proposed to develop a Greater Manchester submission to the open call for evidence to ensure that the full range of issues of relevance to Greater Manchester are considered by the Commission.

3. THE IMPLICATIONS OF BREXIT

3.1 In the immediate aftermath of the referendum there is considerable uncertainty regarding both the process leading up to withdrawal and the impact that withdrawal will have on the UK economy.

3.2 It will be some time before the position becomes clear, particularly as the formal process for triggering withdrawal is not likely to happen at least until after a new Prime Minister is selected on 9 September. A possible General Election could mean that the triggering of Article 50 could be delayed further into next year. Political uncertainty is compounded further by calls for a second Scottish independence referendum to protect Scotland's position within the EU and the potential of a leadership contest in the Labour party.

3.3 Beyond 9 September there is the likelihood of an emergency Budget in advance or as part of the 2016 Autumn Statement. This will be the point at which the new Government signals whether it will be promoting any changes in fiscal or economic management strategies, and whether it remains committed to re-balancing the national economy and to the Northern Powerhouse. The initial focus of the current Government has been on demonstrating that Britain remains "open for business", with the Chancellor announcing a five-point plan to support the economy, including a cut in Corporation Tax, a push for inward investment from China, ensuring support for bank lending, redoubling efforts to invest in the Northern powerhouse and maintaining the UK's fiscal credibility. Government has indicated that it is awaiting the publication of official forecasts in advance of the Autumn Statement before considering additional tax rises or spending cuts.

3.4 A platform for negotiating our future relationship with the European Union has yet to be established but it is likely that there will be a protracted period of transition. The precise implications for access to markets and for labour movement and availability will depend on the terms of withdrawal that the British government is able to negotiate.

- 3.5 The impact on cities will depend in part on their economic make-up. Those UK cities reliant on the production of physical goods (such as cars) are likely to become less competitive if tariffs and quotas are imposed on goods for export into the EU, although the impact of such tariffs and quotas may be mitigated by a depreciation in Sterling. Restrictions on the free movement of people could have a negative impact on those cities with strengths in Research and Development and in Intellectual Property, as the ability to attract and retain highly trained talent is critical to success, although those cities that have already established global strengths in such sectors should remain strong. Restrictions on hiring EU citizens may also be likely to have a negative impact on cities with a significant service sector, although the decision to leave the EU may improve the attractiveness of UK cities to some financial institutions as the UK would not be subject to Solvency II, EU legislation that the sector has fought hard against which codifies and harmonises EU insurance regulations, primarily concerning the amount of capital that EU insurance companies must hold to reduce the risk of insolvency.
- 3.6 Brexit will also significantly affect the higher education sector, and as such will have a disproportionate impact on those cities with a strong university presence such as Manchester. The decision to leave the EU will affect European students who study at UK universities and exercise significant spending power within the cities in which they live; it may affect the ability of UK universities to attract European researchers and students to contribute to universities' research and development strengths, and it will affect the EU funding currently available to UK academic institutions.
- 3.7 Whilst the medium and long-term impact of Britain's withdrawal from the EU is difficult to assess at this stage, there are some immediate implications that require urgent work over the coming weeks to understand. It is clear that access to ERDF and ESF funding will end and that continued access to transnational funding will depend on the terms that Britain negotiates with Europe. There will be significant confusion and disruption amongst supported parties as a result of withdrawal at the mid-point of the current programme, and it is unlikely that funds will be available to draw down in full. It is also clear that Britain's decision to leave the European Union is already having a negative impact on investor and business confidence and we need to understand as a matter of urgency how this fall in confidence will affect behaviour in the short to medium term.
- 3.8 Government has a clear role to play in building economic stability and establishing a climate of confidence at both national and international level. Central to any strategy for creating a stable economic environment will be re-stating and reinforcing support for long-standing commitments that are of fundamental importance to the long-term success of the economy, including investment in critical infrastructure such as HS2 and the Northern Hub and investment to support globally-leading areas of excellence such as advanced materials and health research.
- 3.9 However, local leaders also have a critical role to play in building market confidence and this briefing note identifies the work required over the coming weeks to ensure that Greater Manchester is in a position to mitigate the worst impacts of withdrawal.
- 3.10 The issues highlighted indicate the fundamental importance of places outside London and the South East having a seat at the table in overseeing the framework for withdrawal, and once this is established for overseeing the detailed negotiations. The UK Core Cities Network has already made this requirement known.

European Funding

- 3.11 Greater Manchester currently receives funding from the European Regional Development Fund (ERDF) and European Social Fund (ESF) as well as from Transnational Funds. GM's indicative allocation over the 2014-2020 period was £176m of ERDF and £145m of ESF. This funding has to be matched with a minimum of 50% 'non-EU' funding creating a programme of nearly £650m. EU funding is also often used to lever in additional public and private sector funding.
- 3.12 To date only £19m of ERDF funding has been contracted (including £5m to the Graphene Engineering and Innovation Centre) together with a further £17m of ESF funding due to significant delays in the UK Government and EU agreeing the Operational Programmes. A significant proportion of GM's EU funding was due to be contracted under two Financial Instruments – the Evergreen 2 fund (£60m plus £10m of grant) and the Northern Powerhouse Investment Fund (£32m). A further £8m of ESF funding was due to be contracted to support the current Working Well expansion, with the potential of c. £20m to follow in 2018-2020 to support the Work & Health Programme.
- 3.13 CLG and DWP have both now stated verbally that existing EU funding contracts will be honoured, that they will progress further applications as normal, but at this stage they will not be signing any new EU funding contracts. Although this does not leave GMCA with any existing liabilities that cannot be covered, it does have implications for significant elements of Greater Manchester's strategy.
- 3.14 In the immediate term it calls into question the size of the Working Well expansion and, for the 2018-2020 period, the availability of further funding for the Work & Health Programme. ESF funding for significant volumes of general training/employment support which are currently in the process of being commissioned are also in doubt. GM officers are currently working directly with DWP officials to understand the implications of this in more detail.
- 3.15 The withdrawal of European funding will also have significant implications for the availability of funding through Financial Instruments and further funding for Growth Hub services for the 2018-2020 period and beyond. These issues are explored in further detail below.

Universities

- 3.16 The UK is a net beneficiary of European research funding and GM universities are reliant on the Horizon transnational programme, with an allocation of over £165 million to support world-class science and innovation and to promote collaboration amongst the public and private sectors in driving that innovation. Any ongoing access to transnational research funding is likely to be contingent on the UK's willingness to sign up to the free movement of people. GM universities have also benefitted from capital investment, including £5 million of ERDF funding to support GEIC, as highlighted above.
- 3.17 In the short-term there will be no change in the right to remain of current EU students, no change in the right to remain or employment status for EU nationals currently employed by universities, no change to the fee status of EU students, and no change to existing EU-funded grants or collaborative projects with other EU institutions. However, it is impossible to predict the precise consequences of Brexit on the higher education sector until the terms of withdrawal become clear. The President and Vice-Chancellor of the University of Manchester has convened a small group of senior University colleagues to consider expert advice and explore all likely consequences in further detail.

Investment

- 3.18 Urgent work is required to understand the potential implications of Brexit on the investment appetite of institutional investors and banks, and the GM Core Investment Team is liaising closely with private equity houses and banks to develop our intelligence in this regard. However early conversations and analysis already suggest that investors are nervous at this point, particularly those in the North American markets. Such investors have and are due to bring substantial investment to GM and it is critical that GM acts quickly to offer reassurance and demonstrate that we are 'open for business'.
- 3.19 A clear way to provide that reassurance is to invest our own funding in key developments, giving those investors the confidence to continue with their plans, especially in relation to commercial property developments.
- 3.20 However, as highlighted above it is now possible that we will not be able to access the ERDF funding required to launch the Evergreen 2 Fund as planned. Even if EU funding were available until 2018 this may not give sufficient time to create and implement a meaningful fund. It is also possible that the Northern Powerhouse Investment Fund, supported by the British Business Bank will be in the same position.
- 3.21 It is imperative that Greater Manchester is able to respond to increasing demand for 'pari passu' or part-funded debt if we are to shore up confidence in the investment market, and continue to drive business growth and diversification through this difficult period. Further details of the proposals currently under development to enable GM to respond to this demand will be considered under Part B of the agenda, due to the commercially sensitive nature of the information.

Driving Productivity

- 3.22 It is also clear that there is huge uncertainty and varying degrees of concern amongst Greater Manchester's existing business community. MGC is liaising closely with companies located within GM, including large companies and SMEs as well as inward investors, to understand those concerns and to provide information, reassurance and support in the immediate term. A summary of the activity underway is attached at Annex B. A business led 'sounding board' will be established to enable Greater Manchester to understand the impact of Brexit on GM firms, and to understand how behaviours are changing in the light of the referendum result. It is suggested that the GM Local Enterprise Partnership and Business Leadership Council should play a critical role in helping to shape GM's response to such analysis.
- 3.23 Initial intelligence suggests that it is likely that, in the immediate term, many businesses are waiting to see how the political process of withdrawal unfolds and what terms are agreed in the negotiations. There are indications that businesses are taking decisions to pause or hold investment/hiring actions whilst the immediate situation stabilises. Of particular interest will be intentions and actions of overseas investors and focus will be given to engaging with these companies. It is critical that GM is able to provide support and advice during the challenging and uncertain times ahead. The ability to support businesses to drive productivity and innovate becomes more important than ever.

- 3.24 Based on the intelligence gathered and analysis produced through engagement with businesses as outlined above, bespoke packages of support and specialised resources will be developed to ensure that GM business remain confident enough to continue to invest and diversify. Further details of the proposals currently under development will be considered under Part B of the agenda, due to the commercially sensitive nature of the information.

Housing

- 3.25 As part of the process for developing the GM Spatial Framework Greater Manchester is due to confirm its “preferred growth option” in a report to the GMCA at the end of July, including an “objectively assessed” requirement for new housing provision, based on a robust analysis of population projections, migration levels and household formation rates. Further work has been commissioned from Oxford Economics to understand the potential impact that withdrawal from the European Union will have on our population projections. Initial analysis has demonstrated that the GM population is still expected to increase broadly in line with the Accelerated Growth Scenario, one of the “strategic growth options” that the GMSF consulted on at the end of 2015.
- 3.26 Whilst the precise level of growth that we should be planning for has yet to be determined, current projections indicate that a significant uplift in the provision of new housing will be required if we are to meet housing requirements over the coming decades. However, initial intelligence indicates that share values amongst housing developers have fallen by 40-45% since the announcement of the referendum result. Housing completion rates had recently reached 5-6,000 units per annum, from a low of 3-4,000 units per annum, but development rates will almost certainly decline again in light of the economic uncertainty we are facing. Urgent work is now required to examine options to maximise levels of housing development and investment.

Social Inclusion

- 3.27 It is clear that Britain’s exit from the EU will have significant social as well as economic implications. Again, it is too early to understand the likely impact in any detail but initial analysis of voting patterns across the country show that there are correlations between specific characteristics and voters’ propensity to vote Leave, as demonstrated by the Lord Ashcroft report issued shortly after the referendum¹. Urban city centres such as Manchester voted to remain in the EU but the degree of support for Remain decreases almost in direct proportion with the distance from the centre. This voting pattern correlates with the socio-demographic profile of city residents spatially, with educational attainment and earnings declining as the distance from the city centre widens. More than two thirds of those in receipt of state pensions voted Leave, as did two thirds of council and housing association tenants. The referendum has exposed significant divisions in opinion across age groups, socio-economic classes, education levels and other classifications.
- 3.28 In this context the work of the RSA’s Inclusive Growth Commission, as outlined in paragraph 2.7 above, will become even more important. A clear plan of work will be developed to ensure that Greater Manchester’s understanding of these issues, and the evidence and analysis that we submit to the Commission, is as strong as possible.
- 2.29 Given the importance of the issues under consideration, especially in the aftermath of the referendum, we will also be urging the Commission to bring forward an interim analysis in September, in advance of the final report due in March 2017.

4. REFRESHING THE GM STRATEGIC APPROACH

- 4.1 In light of the changing context in which Greater Manchester is operating, particularly in the light of Brexit, and to reflect the wide ranging programme of work underway, it is now timely to bring our analysis together to develop a refreshed and revised economic strategy for Greater Manchester. The strategy must build on our growth and reform objectives, with a continued focus on growth and job creation and reforming the way that public services are delivered, but must also include greater emphasis on inclusivity and on ensuring that all parts of Greater Manchester can play a strong and positive economic role in supporting future growth and maximising the ability of residents to share the benefits of that growth.
- 4.2 A further report will be prepared for consideration by LEP members at their next meeting that provides further detail on the issues set out in this note and the emerging evidence base under development to support the refresh of the Greater Manchester Strategy.

ⁱ Lord Ashcroft Polls, 2016, 'EU Referendum 'How Did You Vote' Poll', <http://lordashcroftpolls.com/wp-content/uploads/2016/06/How-th-UK-voted-Full-tables-1.pdf>