Date: 27th January 2016

Subject: Greater Manchester and Brexit


PURPOSE OF REPORT

This report updates leaders on progress with work to understand the implications of the vote to leave the EU on Greater Manchester. It sets out a set of targeted Greater Manchester asks from the UK Government’s strategy for leaving the EU to inform the forthcoming Parliamentary debates. The latest version of the GM Brexit Monitor is also provided.

RECOMMENDATIONS:

Members are asked to:

- Note the contents of the January Greater Manchester Brexit Monitor provided in Appendix 2.
- Endorse the list of GM asks summarised in Appendix 1.
- Agree that the GMCA should write to GM MPs and Lords with a GM connection sharing these asks and delegate sign-off of these letters to the Portfolio leads for economic strategy and reform.
- Agree that the GMCA should also communicate these asks to GM businesses and business groups through the Manchester Growth Company, requesting that businesses share these asks with their MP and other business organisations ahead of the Parliamentary debates.

CONTACT OFFICERS:

Simon Nokes, Managing Director, New Economy
simon.nokes@neweconomymanchester.com
John Holden, Director of Research, New Economy
john.holden@neweconomymanchester.com
1. **INTRODUCTION**

1.1 Since the vote to leave the EU, the GMCA has been monitoring the economic and social trends and policy developments to develop an appropriate policy response. The impact of Brexit is being tracked across the following themes:

- Macro-economy trends and developments
- Key sectors and business investment
- Trade, regulation, and access to European Funding
- Property investment, housing, and planning
- Economic inclusion.

1.2 The January Brexit Monitor provides an update on the latest trends. This is included as Appendix 2. The key messages from this edition include:

- Economic indicators highlight strong growth across UK in December and the last quarter of 2016. Purchasing Managers across the UK report rises in new business, and UK manufacturing started 2017 on a strong footing, with exports growing at the fastest pace for the last two-and-a-half years. The main risk to the economy (and living standards) is now thought to be inflation from rising costs of materials, alongside rising fuel, IT, and wage costs.

- The optimism from a good Q4 2016 is reflected in research with MGC Business Growth Hub clients which highlights a notable increase in the proportion of businesses that expect their investment plans to remain the same following the EU referendum (76% in Q4 2016 compared with 70% in Q3 2016). Similarly, the findings suggest businesses are increasingly likely to expect the referendum decision not to impact on recruitment intentions (79% in Q4 2016 compared with 69% in Q3 2016).

- However, the majority of economists surveyed by the FT remain pessimistic about Brexit’s likely effect on Britain’s longer-term economic prospects. This is despite Economists coming under pressure for their short term pessimism; incorrectly predicting the ability of the UK economy to remain resilient after the referendum result.

- On the 17th January the Prime Minister made a major speech setting out her objectives for the negotiation with the EU. As anticipated, the principles outlined a ‘hard Brexit’ position, with the UK not seeking a deal that keep the UK “half in, half out” of the UK. The key messages were that the UK will leave the single market, but will push for a new “comprehensive free trade agreement” that will give “the greatest possible access” to the single market. The UK will also look to renegotiate the UK’s place in the Customs Union as elements of it prevent the UK from striking trade deals around the world. The intention is to come to a, as yet undefined, new customs union agreement with the EU. The Prime Minister also confirmed that here will be restrictions to EU migration, that the House of Commons will have a vote on
the final deal before it comes into force, and that there will be a phased implementation after the deal has been reached.

- Since the referendum result, claimant count unemployment has fallen in GM from just over 46,000 to 44,500 in GM, a 3.0% fall up to November 2016 - compared to a fall of 1.2% in the UK level. The Brexit Monitor also shows that UK households are signalling the strongest inflation expectations since 2014, and that personal debt grew at its highest level since December 2008. These factors are likely to affect both future spending and overall living standards.

2. INFLUENCING BREXIT NEGOTIATIONS

2.1 In the lead up to the UK enacting of Article 50 (which the Government has said will be by the end of March 2017), Theresa May has committed to a series of parliamentary debates on the “high level principles” around Brexit. To ensure that GM’s specific issues and priorities are not lost in the national debate, the November GMCA meeting Leaders agreed that officers – working with the relevant portfolio leads – should develop a succinct and clear paper on the main issues that Greater Manchester wants Government to respond to through the Brexit negotiations and during the process of withdrawing from the EU.

2.2 The paper setting out these asks are set out in Appendix 1 for discussion and endorsement by Leaders. Building on the high-level principles agreed at the October 2016 GMCA meeting, the asks cut across the full GM growth and reform agenda, recognising that the Government’s strategy for leaving the EU needs to be more than just a one-dimensional response to the complexities presented by the need to negotiate a new trading agreement. It needs to be multi-dimensional, reflecting the different impacts leaving the EU will have on different parts of the UK and the new opportunities that can be created by fully capitalising on the assets we have in our people, businesses and places. The asks also reflect the need to tackle social and economic exclusion, problems which have remained intractable for decades. While the asks themselves are GM specific, it should also be noted that they are also relevant for any city region in the UK and will support improved economic and social outcomes for the UK as a whole.

2.3 Subject to endorsement by leaders, it is proposed that the paper set out in Appendix 1 will now be shared with all Greater Manchester MPs and Lords with a GM connection. MPs and Lords will be formally written to from the GMCA requesting that the issues raised in the paper are considered in the Brexit debates. Through the Manchester Growth Company we will also share the asks with GM businesses and business groups to ensure these asks are widely disseminated. Subject to businesses agreement, we will ask that they lobby Government by sharing the asks with their MP and other business organisations ahead of the Parliamentary debates.

3. RECOMMENDATIONS

3.1 Members are asked to:
• Note the contents of the January Greater Manchester Brexit Monitor provided in Appendix 2.
• Endorse the list of GM asks summarised in Appendix 1.
• Agree that the GMCA should write to GM MPs and Lords with a GM connection sharing these asks and delegate sign-off of these letters to the Portfolio leads for economic strategy and reform
• Agree that the GMCA should also communicate these asks to GM businesses and business groups through the Manchester Growth Company, requesting that businesses share these asks with their MP and other business organisations ahead of the Parliamentary debates.
APPENDIX 1: GREATER MANCHESTER AND BREXIT

The decision to leave the European Union creates new opportunities and challenges opportunities for Greater Manchester. The Prime Minister has now outlined her objectives for the negotiation ahead, but the Government’s strategy for leaving the EU needs to be more than just a one-dimensional response to the complexities presented by the need to negotiate a new trading agreement. It needs to be multi-dimensional, reflecting the different impacts leaving the EU will have on different parts of the UK and the new opportunities that can be created by fully capitalising on the assets we have in our people, businesses and places.

For Greater Manchester, and the UK as a whole, the focus needs to be on raising growth and productivity, whilst improving social and economic inclusion. These are problems which have remained intractable for decades but now is the time to tackle them. A central reason why the UK’s economy punches below its weight, and does not currently work for all people and places, is because the national approach to growth has not been place-focused. Brexit provides an opportunity to create a more inclusive and prosperous UK, but only if the Government’s strategy for leaving the EU reflects the different opportunities and needs in different parts of the country.

Based on consultation with local business and civic leaders, Greater Manchester has identified 14 targeted asks to inform the UK’s strategy for leaving the EU, mitigating the challenges and seizing the opportunities Brexit presents, and delivering an economy which works for localities, city regions, the North and the UK as a whole.

**Industry and Trade: we must continue to promote growth in trade**

1. Support the continued renaissance of manufacturing in Greater Manchester by ensuring there are no new tariffs or regulatory barriers to trade in goods or manufacturing-related services.

2. Support growth in Greater Manchester’s £15.5bn financial and professional services industry by ensuring that UK regulated firms can continue to sell to EU markets through a long-term regulatory standards equivalence agreement.

3. Ensure that Greater Manchester’s digital sector continues to thrive, by:
   - Ensuring access equivalent to membership to the digital single market and agreeing equivalence on data protection legislation
   - Ensuring that UK’s public sector can invest in broadband infrastructure by repealing EU frameworks which prohibit investment in urban broadband even where there are market failures.

4. Provide a regulatory framework that facilitates growth in Greater Manchester’s leading-edge health innovation sector, by:
   - Aligning UK and EU patent protection and enforcement regimes as closely as possible, while replacing inhibitory legislation and regulatory procedures.
• Aligning UK medical approvals schemes with those of the EU so that pharmaceutical innovation and associated investment are not inhibited by having to duplicate approvals.

5. Grow Greater Manchester’s science and innovation capacity and ensure that the UK maintains its position as an attractive base for the world’s best scientists, through:

• Shifting the balance of science and innovation spending, including the National Productivity Investment Fund, to invest in globally distinctive assets and capabilities, including those identified in the GM and East Cheshire Science and Innovation Audit.

• Maintaining access to collaborative funding streams, particularly Horizon 2020 and its successors, and ensuring that UK researchers are not disadvantaged in, or excluded from, pan-European scientific collaboration.

• Easing visa restrictions for leading researchers from all parts of the world.

• Continuing to grow higher education as a key export market (worth £6bn to the UK economy) by adopting an open approach to short-term student immigration.

6. Facilitate the continued expansion of Manchester Airport – the UK’s 3rd largest – by ensuring access to the single aviation market, to ensure no loss in the UK’s connectivity to the rest of the world.

7. Trade and investment support activity should be expanded and commissioned jointly with localities to reflect the different assets and opportunities in different parts of the country. For the North this activity should reflect its assets and prime capabilities in Advanced Manufacturing, Digital, Health Innovation and Energy.

8. To show the world that the UK is still open for business, GM should be appraised as an option to host Expo 2025. Similar economic benefits would be delivered for less than 20% of the costs of the London 2012 Olympics.

Infrastructure and Place: we must continue to invest in subnational growth and regeneration

9. Develop a place-based Industrial Strategy that drives growth and living standards through the Brexit transition by taking a market-facing, asset-based approach to increase the productivity of sectors, underpinned by an integrated approach that tackles the underlying barriers to investment and enterprise. This needs to be developed and implemented through a partnership with cities where the leadership and delivery capacity exists to create places which are attractive for people to live, work and invest.

10. Maintain investment in regional development and regeneration by creating a new fund to replace the European Regional Development Fund (ERDF). Subject to appropriate monitoring and evaluation, this should be fully devolved to functional economic areas, multi-year and multi-parliament to provide assurance and stability, and targeted at the most deprived areas.

11. Ensure that the UK has access to its €3.4 billion share of European Investment Bank (EIB) capital. If the UK does not continue to participate in the EIB, the EIB ‘dividend’ should be devolved and distributed to localities.
People and Skills: we must raise the skills of the workforce

12. Ensuring that UK residents have the skills to meet employers’ needs in all sectors by:
   • Co-commissioning the entire education, skills and employment system with Greater Manchester to get more out of existing spending. This should include the full devolution of the health education budget to ensure we have the workforce to support an integrated and sustainable health and social care system.
   • Improving standards in education by establishing a GM Education and Employability Board to lead the implementation of stronger models of early years provision, a coordinated approach to spatial planning of school provision, and a commissioned approach to all-school improvement.
   • Raising aspirations and giving young people and adults the tools to make informed decisions about their own futures by aligning all current and future resources around careers education, information, advice and guidance in GM.
   • Committing to providing equivalent funding to the European Social Fund (ESF), fully devolved to Greater Manchester. The scale of the challenge means that Government should consider doubling GM’s ESF equivalent allocation to £266m up to 2020.

13. Create a fit for purpose immigration system to ensure that Greater Manchester firms can continue to get the skills their businesses need, by:
   • Putting in place transition arrangement for high and low skilled migrant workers so that current EU nationals living in the UK can remain and future EU migration is managed sustainably. Continued access to both high and low skilled migrant labour is particularly urgent for the sustainability of the health and social care system.
   • Taking an open approach, with minimum levels of bureaucracy, to high-skilled immigration for workers from anywhere in the world.

Leaving the EU: understanding the needs of cities and the North

14. Ensure that the unique opportunities and challenges facing the UK’s cities and the North of England from Brexit are adequately reflected by:
   • Before Article 50 is triggered, setting out a transparent process for how the voice of the North will be represented in the EU negotiations
   • Within 6 months of Article 50 being triggered, producing, in partnership with Core Cities, London and others, a clear, detailed and objective economic analysis of the options for forging new trading relationships. This should assess the impacts on business, productivity, and sectors and provide a spatial analysis of where the impacts will be greatest.