GMCA GREATER MANCHESTER COMBINED AUTHORITY

Brexit and Greater Manchester

Summary

- **Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth.** The refreshed Greater Manchester Strategy has set out the ambition and priorities for the city region and Greater Manchester already has a wide network of global relationships, encouraging exports and investment.

- This progress need to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused by Brexit and take advantage of any opportunities.

- **Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed.** Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed.

- There has been some assessment of the potential overall impacts of Brexit on the North West of England with virtually all assessments agreeing that those impacts are negative.

- However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios.

- **The city region's trade is more reliant on trade with the EU than other parts of the UK,** with the EU accounting for 58 per cent of goods exports from Greater Manchester firms – compared with 42 per cent for England as a whole. Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK.

- The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors could be exposed:

  i. **The potential impact of non-tariff barriers on trade** by Greater Manchester sectors, where the Government's assessment of the size of the non-tariff barriers can then be applied to goods exports by Greater Manchester sectors. This approach finds that the additional costs from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. While the impact on services is impossible to quantify from current data sources, it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

  ii. **The potential impact of tariff barriers on trade** by Greater Manchester sectors, where an illustrative 'no deal' scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation 'Most Favoured Nation' trade rules. This would lead to an average tariff rate of just under 5 per cent across all good, at a cost of up to £150m per annum for Greater Manchester exporters. Again, the impact on service exporters means that the overall impact across Greater Manchester's economy would be higher.

  iii. **The potential impact on the Greater Manchester labour market and access to skills** for employers where it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. They are Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals; Banking and Finance, where there are 14,000; Manufacturing, where there are 13,000; and Public Admin, Education, and Health, where there are 12,000.

- **There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester.** Surveys of Greater Manchester businesses, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- This analysis points to four steps necessary to manage the risks and take advantage of the opportunities from Brexit:

  i. The potential impact on Greater Manchester's labour market and supply of skills makes devolution to ensure that the city region's skills system is more responsive to the needs of employers even more vital. This will need to be a core component of the Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, and backed up by the Shared Prosperity Fund. It will need to include the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent;

  ii. A full regional analysis – jointly carried out by Greater Manchester and the Government – of the potential impacts of the Government's scenarios for the future relationship between the UK and EU has become an urgent requirement. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK;

  iii. Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed; and

  iv. The process of returning powers from the EU must not end at Westminster. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities.

1 Introduction

1.1 Devolution to Greater Manchester has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. Barriers to investment have been removed, a comprehensive system of business support has been developed, and reform of the skills system has begun. A Spatial Framework is being developed, investment is going into the transport network, employment support schemes have outperformed national equivalents, and the unique integration of health and social care is supporting the city region's workforce. Most importantly, as decisions start to be made locally, all of these areas can be joined up to deliver the ambitions and priorities of the refreshed Greater Manchester Strategy. While there is still a long way to go before the full potential of devolution is achieved, progress has been made.

1.2 The UK's exit from the EU will have significant implications for the Greater Manchester economy – risks from disrupting long-standing trading relationships, alongside the potential opportunities if new trade deals are secured. Those risks arise from both process of transition as the UK leaves the EU and from any new deal which is agreed with the EU if it creates barriers to trade and restricts access to the skills which the Greater Manchester economy needs.

1.3 Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places, and the ability to shape new trading relationships to create new opportunities for the city region's businesses, will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

1.4 The Government's own economic analysis of the impact of Brexit has shown how the regional impacts of different Brexit scenarios can vary. Under the Government's forecasts, UK GDP is forecast to be 1.5 per cent lower over 15 years if the UK remains a member of the EU's single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

1.5 The analysis in this report, assessing some of the implications of Brexit for Greater Manchester's economy, its sectors and firms, shows why that voice in negotiations is so important. It also points to the potential for further devolution of powers to city regions through the Brexit process, and the need for the Shared Prosperity Fund – the future mechanism for regional investment which currently takes place through the EU – to reinforce and not undermine the progress which has been made through the devolution process.

1.6 The next section summarises the ongoing process of monitoring the impact of Brexit which is being carried out by Greater Manchester, and some of the most recent findings. Section 3 sets out the city region's response to Brexit so far. Sections 4 and 5 summarise the approach to assessing the potential impacts on Greater Manchester's firms and sectors, and the main findings from that analysis. The final section sets out the preparations needed to support those firms and sectors through the Brexit process.

2 Monitoring the impact of Brexit

2.1 New Economy Manchester, and now the Greater Manchester Combined Authority (GMCA), have been working with businesses to monitor the impacts of Brexit since the June 2016 referendum. Monthly monitors have been produced and are published monthly.[1]

2.2 As well as monitoring the developments in the negotiations between the UK and EU, and the latest economic data, the Monitors draw on local intelligence from Greater Manchester's businesses about how they are responding. The latest findings include:

- Research with Greater Manchester Business Growth Hub clients in the 3 months to the end of January 2018 shows that 57 per cent of firms expected their investment plans to remain the same following the EU referendum result, a figure similar to recent previous 3-month periods. However, latest data revealed an increase in uncertainty, with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

- Research with Growth Company Business Growth Hub clients in the 3 months to the end of January 2018 shows that 56 per cent of firms expected their hiring plans to remain the same following the EU referendum result, but firms appeared to become increasingly uncertain about their hiring plans. Latest figures have revealed an increase in the proportion of firms who are unsure what impact Brexit would have on hiring plans, from 26 per cent in Oct-Dec 17 to 33 per cent in Nov 17-Jan 18 – a record high.

2.3 Interviews carried out by the GMCA with large employers in the city region have also identified some of their priorities for the Brexit negotiations. They have been: concerns about customs delays causing additional friction in supply chains, particularly if Rules of Origin become onerous; the potential impacts on cash flows of any changes to VAT rules; firms' ability to attract and retain talent; and the potential divergence of regulations and barriers that would cause to trade. They are also looking at opportunities from the potential reshoring of some supply chains in the UK.

2.4 This process of monitoring and ongoing dialogue with businesses and other employers has informed Greater Manchester's response to Brexit.

1 Available at www.greatermanchester-ca.gov.uk/download/meetings/id/2875/10a_brexit_monthly_monitor.

3 Greater Manchester's response to Brexit

3.1 Devolution to Greater Manchester over recent years has started to put the city region in a stronger position to raise productivity and ensure that all communities can contribute to, and benefit from, growth. This progress needs to be built on to ensure that Greater Manchester firms and labour market are able to absorb the disruption caused Brexit and take advantage of any opportunities.

3.2 Greater Manchester already has a wide network of global relationships, encouraging exports and investment. A new Internationalisation Strategy was published in July 2017 to extend and deepen trading relationships while the Business Growth Hub is increasing the number of firms who export – with associated productivity benefits. Innovations such as the GM-China Forum and the new Manchester-India Partnership mean that the city region is well-placed to benefit from new trading links with large high-growth economies.

3.3 Steps are also being taken, as set out in the Greater Manchester Strategy, to strengthen growth and reform services in the city region. These should help to mitigate the impact of Brexit, as far as possible, and ensure any opportunities are grasped. For example, where firms have traditionally filled skilled gaps through migration, they will have a stronger incentive to raise skills in the UK and the Greater Manchester skills system will need to respond. Where powers are returned from the EU, there will be opportunities for further devolution, joining up powers in functional economic areas to raise productivity. The disruption of supply chains across borders could also create opportunities for local firms.

3.4 The Local Industrial Strategy which Greater Manchester is developing in partnership with Government, businesses and other residents will therefore be a key aspect of Greater Manchester's response. This Strategy will be published in Spring 2019 and will address the Grand Challenges set out in the National Industrial Strategy: Artificial Intelligence & Data Economy; Clean Growth; Future of Mobility; and An Ageing Society.

3.5 For this response to be fully effective, it needs to be based on a proper assessment of the potential impacts of Brexit, exploring the implications for firms and sectors in Greater Manchester – and the wider North of England – of potential Brexit deals.

4 Greater Manchester's approach to assessment

4.1 Raising productivity in Greater Manchester can make the city region's economy better prepared for the transition of the UK out of the EU, and the disruption and potential shocks that may bring. However, for individual firms and sectors, the shape of the future trading relationship between the UK and EU – and the regulatory and other requirements that will bring – will be crucial for maintaining their competitiveness and growth.

4.2 While the trade-offs and compromises between different scenarios for the future UK-EU relationship are becoming clearer, the exact model which that relationship will take is still far from certain. There has been some assessment of the potential overall impacts of Brexit on the North West of England. For example, the Greater Manchester Forecasting Model, produced by Oxford Economics, in its most recent analysis (2017) forecast slower growth for the city region than the forecast carried out before the EU referendum (the 2015 forecast), with the lower growth driven by the impacts of Brexit and a wider slow-down in productivity. This was in line with other forecasters and some other regional forecasts are set out in the box.

4.3 However, this type of headline assessment does not reveal the potential impacts on firms and sectors – and the spatial implications which they drive. There has been little analysis of the potential impacts on the trading patterns and labour market of Greater Manchester from different potential scenarios. A deeper assessment of the implications of Brexit for Greater Manchester is required.

4.4 Greater Manchester has offered to work with Central Government to produce this, but no collaborative work has yet been done. Greater Manchester therefore has a responsibility to carry out that assessment and the headline findings are set out here.

4.5 Greater Manchester's firms are greatly exposed to any disruption of established trading relationships with the EU. The city region's trade is more reliant on trade with the EU than other parts of the UK, with the EU accounting for 58 per cent of goods exports from Greater Manchester firms in the latest available data – a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

4.6 Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK. Barriers to trade are likely to have a significant impact on these supply chains, and on some firms who may not be aware that they are in the supply chains for exporters given that they may be several tiers below the primary exporter. While the surveys of Greater Manchester firms and in depth interviews may pick up some of these effects, they do not give a comprehensive view.

Assessments of the Potential Regional Impacts of Brexit

Virtually all assessments of the regional economic impacts of Brexit agree that those impacts are negative. However, there is some disagreement about whether Greater Manchester and the wider North are likely to be hit harder, or less hard, than other parts of the UK.

The Government's own economic analysis forecast that UK GDP would be 1.5 per cent lower over 15 years if the UK remains a member of the EU's single market, 5 per cent lower if a free trade deal is agreed and 8 per cent lower if the UK leaves the EU without a deal and reverts to World Trade Organisation terms. But the equivalent figures are 2.5 per cent, 8 per cent and 12 per cent for the North West of England, and 3.5 per cent, 11 per cent and 16 per cent for the North East.

Research carried out by academics as part of the ESRC project on 'The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors' is consistent with the Government's analysis, finding that "it is the Midlands and the North of England which are by far the most vulnerable. They are more exposed to Brexit than any other region in Europe. The reason is that the Midlands and north of England are much more dependent on EU markets for their trade than London, the South-East or Scotland".[i] This conclusion is based on using global input-output tables to link trade to value added to bring out the link between local value-added and trade which is obscured when looking at simple measures of gross exports and imports.[ii]

The assessment carried out by Cambridge Econometrics for the Greater London Authority also found a larger impact on the rest of the UK than on London.[iii] They concluded that the impacts on employment and population would be slightly smaller in the rest of the UK, as much of the reduction in migration and population is expected to be in London. But, "the losses in GVA and productivity across all scenarios (compared to what may have happened if the UK remained in the Single Market and Customs Union) are noticeably more severe for the rest of the UK than for London, which implies that the rest of the UK will be much worse off than London following Brexit".

However, a study by the Centre for Economic Performance at the London School of Economics & Political Science, concluded that areas in London and South East would tend to see bigger negative impacts, due to larger impacts from non-tariff barriers than found in other forecasts and because looking at trade exposure ignores the willingness of individuals and firms to substitute away from foreign to domestic supply as trade-costs rise.[iv] Overall, their conclusion was that urban areas would be hardest hit, consistent with the fact that urban areas have their employment concentrated in the sectors that are predicted to be most negatively affected.

i Raquel Ortega-Argiles and Philip McCann, How Brexit will hit different UK regions and industries, February 2018.
ii Wen Chen, Bart Los, Philip McCann, Raquel Ortega-Argilés, Mark Thissen, Frank van Oort, The continental divide? Economic exposure
to Brexit in regions and countries on both sides of The Channel, October 2017.
iii Greater London Authority, Preparing for Brexit, Cambridge Econometrics, January 2018.
iv Swati Dhingra, Stephen Machin, and Henry G. Overman, The Local Economic Effects

4.7 The assessment carried out by academics as part of the ESRC project on 'The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors' has calculated the extent of regional exposures brought about by such impacts on supply chains. This split gross exports into domestic value added and foreign value added based on global input-output tables. By calculating the domestic value added in exports from UK regions to the EU, and dividing that by regional GDP, an indicator of the share of regional GDP exposed to Brexit is reached. This approach found that around a third of Greater Manchester's manufacturing output is exposed to Brexit, and 11.3 per cent of the whole Greater Manchester economy.[2]

4.8 Studies of the impact of Brexit have also tended to focus on the implications for the UK's trade with the EU, rather than the UK's trade with the rest of the world which is currently conducted through EU agreements. These markets are crucial for the city region's exporters – 11 per cent (£603m) of Greater Manchester's goods exports are to the USA and another 4 per cent (£223m) to China. According to *Financial Times* research of the EU treaty database, there are 759 separate EU bilateral agreements spanning 168 non-EU countries with potential relevance to the UK, covering trade in nuclear goods, customs, fisheries, trade, transport and regulatory co-operation in areas such as antitrust or financial services. The UK Government is hoping that better and more ambitious agreements will be agreed with countries outside the EU which will increase trade, but there is also the potential for negative impacts if the UK is not able to replicate those trade agreements that the EU currently has with other countries.

4.9 The size of those potential impacts are impossible to quantify from the data sources currently available to Greater Manchester, reinforcing the case for a full analysis with Government of the regional impact of Brexit scenarios. The Government's own analysis of Brexit impacts concluded that trade deals with non-EU countries could – in the most optimistic scenario – add 0.7 per cent to the UK's GDP in the long term. This beneficial effect only offset part of the negative impacts which the Government found resulted from the potential new trade scenarios with the EU (an overall loss of 1.6 per cent of UK GDP with an EEA-type deal; a loss of 4.8 per cent with an FTA-type deal; and a loss of 7.7 per cent with WTO rules following no deal). If the current EU trade deals with other countries were not replicated, then these negative effectives would be larger for the UK and Greater Manchester.

4.10 The analysis in this paper explores sector and firm effects further by focusing on three areas where Greater Manchester firms and sectors cold be exposed:

i. The potential impact of non-tariff barriers on trade by Greater Manchester sectors;
ii. The potential impact of tariff barriers on trade by Greater Manchester sectors; and
iii. The potential impact on the Greater Manchester labour market and access to skills for employers.

4.11 There are also likely to be implications for the movement of capital – and therefore for investment in Greater Manchester. These are impossible to quantify from available data sources, and will depend on any agreement reached between the UK and EU on financial services. However, there are some insights from the surveys of businesses carried out for Greater Manchester's Brexit Monitor. As the most recent finding, set out above, show there is increasing uncertainty with 27 per cent of firms saying they were unsure what impact Brexit would have on investment plans – the highest level since the survey was launched in July 2016.

2 Wen Chen, Bart Los, Philip McCann, Raquel Ortega-Argilés, Mark Thissen, Frank van Oort, The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel, October 2017.

4.12 The uncertainty, at this stage, around what sort of deal the UK Government is aiming to achieve, and the shape of any final agreement with the EU on the future relationship, makes the analysis of any potential impacts challenging. The assessments therefore draw on the material from the Government's own assessment which have been put into the public domain, and other studies carried out by academic institutions and think tanks. The uncertainty around these, in addition to the obvious difficulties in forecasting future events, means that there is inevitably a range of possible outcomes. But, despite these challenges, such analysis is important for assessing the possible implications for Greater Manchester of different types of deal, and for providing a sense of scale and direction of changes.

4.13 The clear conclusion is that any deal which creates barriers to trade with existing trading partners or reduces the availability of skills for firms, would have a negative impact on the Greater Manchester economy. These could be partially offset in the long-term by the development of new trading relationships. But, there would still be a difficult transition for many firms – not just those involved directly in trading with the EU, but also firms focused on domestic UK markets which are involved in the supply chains for firms involved in cross-border trade. There are also impacts on investment which are related to the uncertainty which is facing firms, whatever the future relationship between the UK and EU.

4.14 The following section sets out the findings from Greater Manchester's analysis.

5 Findings from Greater Manchester's analysis

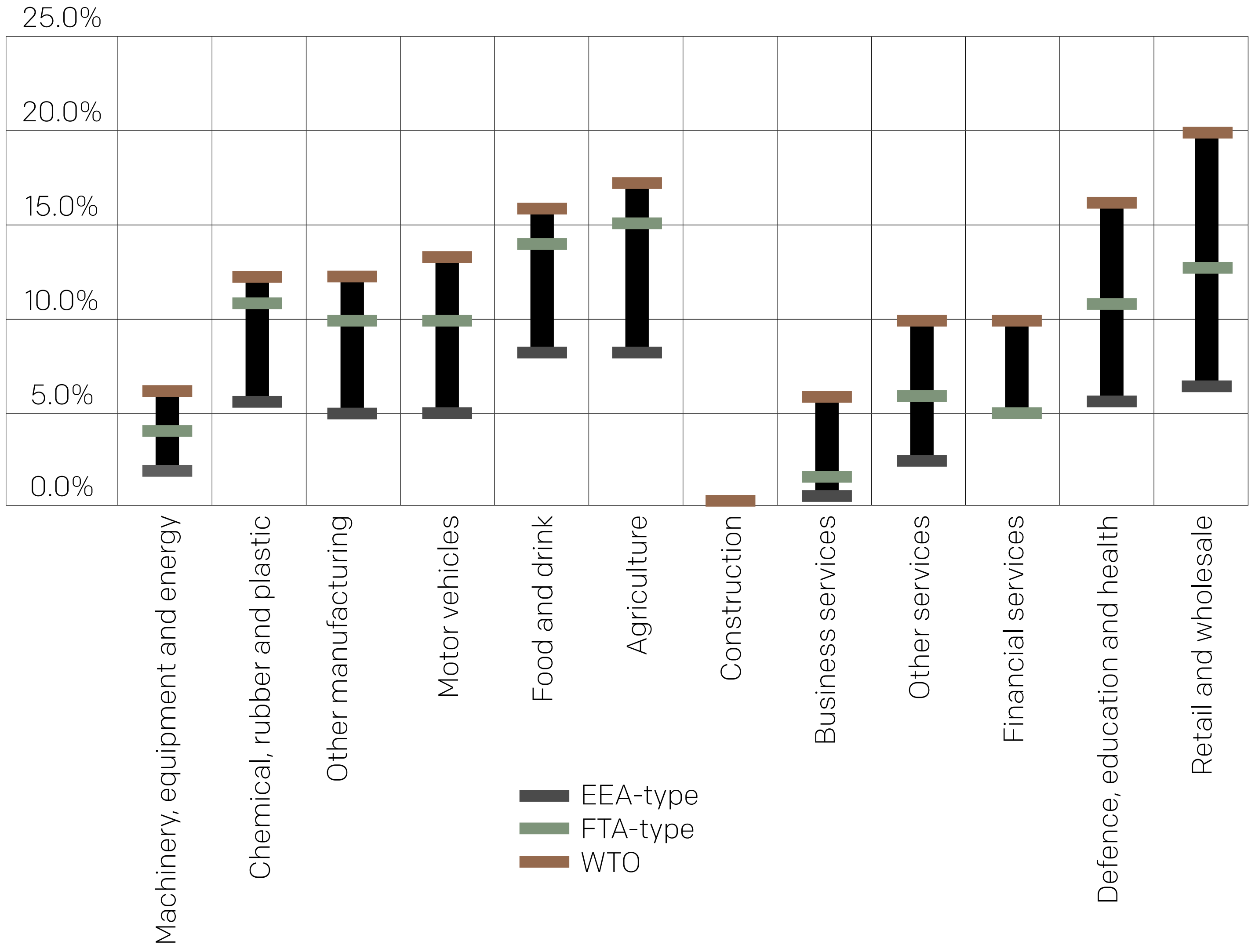
(i) <u>Non-Tariff Barriers</u>

5.1 In monitoring the potential impacts of Brexit, the GMCA has carried out a rolling survey of businesses and in depth interviews with some of Greater Manchester's larger employers – supported by the Manchester Growth Company and the Greater Manchester Chamber of Commerce. This work has found that non-tariff barriers are seen as at least as significant as tariff barriers as a risk to current trading relationships.

5.2 Commitments by the Prime Minister have provided some reassurance that the UK is likely to retain most EU regulatory standards after Brexit, and therefore reduce non-tariff barriers. However, this is obviously subject to negotiation with the EU and may well not apply across all sectors. Analysis from the Business Register and Employment Survey shows that a higher proportion of Greater Manchester's employment is in manufacturing – and particularly food and drink manufacturing and textile manufacturing – than the Great British average. The same is true of retail and business and professional services. Negative economic impacts on these sectors could therefore have a disproportionate impact on employment in Greater Manchester.

5.3 The Government's analysis of the economic implications of Brexit included an assessment of the potential impact of non-tariff barriers under different scenarios. While the final deal negotiated by the Government with the EU may differ from these scenarios, the range produced by the Government is very likely to cover the final outcome. The Government's estimates of non-tariff barrier costs, expressed as 'tariff equivalents' and reproduced from the Government's 'EU Exit Analysis Cross Whitehall Briefing, January 2018' are shown in the Chart.

Chart 1: HM Government Estimates of Non-tariff Barrier Costs as 'Tariff Equivalent'



Source: HM Government, 'EU Exit Analysis Cross Whitehall Briefing, January 2018'

5.4 The Government's assessment of the size of the non-tariff barriers can then be applied to exports by Greater Manchester sectors, to better assess the potential scale of impact for sectors in the city region. Data on exports from Greater Manchester are only available for goods and applying the Government's calculations to that data finds that the additional costs from an increase in non-tariff barriers would be £170m for a deal similar to the European Economic Area, £320m for an a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.

5.5 However, Greater Manchester also exports services, which make up over 80 per cent of the Greater Manchester economy. These include business, finance and other professional services, education, health and defence, and information and communication. For example, the strength of the higher education sector in Greater Manchester has led to it becoming a successful export sector, with a net benefit to the city region from the cohort of international students beginning courses in 2015-16 of £852m.[3]

5.6 Such services are not only exported directly to the EU, but are also provided to major exporters in other regions of the UK as part of their supply chains. Robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified, but it is clear that the actual impact for Greater Manchester firms and sectors would be significantly higher overall than the calculations for goods exports set out here.

(ii) Tariff Barriers

5.7 Avoiding non-tariff barriers is important for all sectors across Greater Manchester, but the introduction of tariffs on trade with the EU would also have a significant impact – particularly for manufacturing. Analysis of the potential impact of trade tariffs on broad sectors of the economy has therefore been carried out. The work uses an illustrative 'no deal' scenario to identify the parts of the economy more exposed to risks from the introduction of World Trade Organisation 'Most Favoured Nation' trade rules. This illustrates the impact if no trade deal is struck between EU and UK. This is not the scenario which the UK Government is aiming for, but is a possibility which the Government is preparing for and gives a sense of the scale of potential impacts.

5.8 If tariffs were introduced on goods exports to the EU in line with World Trade Organisation rules, then they would be charged at an average rate of just under 5 per cent across all goods, at a cost of up to £150m per annum for Greater Manchester exporters.

5.9 The Greater Manchester industries which would be expected to be impacted the most under the no trade deal scenario, would be:

- Miscellaneous Manufactures has a modelled tariff estimate of £45 million per annum;
- Food and Export of Live Animals has a modelled tariff estimate of £45 million per annum;
- Machinery and Transport has a modelled tariff estimate of £25 million per annum; and
- Chemicals has a modelled tariff estimate of £24 million per annum.

5.10 Again, robust data for services exports are unavailable at the Greater Manchester level, and so potential impacts on services exports cannot be quantified. However, given the importance of the service sector to the UK and Greater Manchester's economy, GMCA has identified a number of key capabilities which are exposed to Brexit: Business, financial and professional services; Creative and digital industries; and Healthcare services and life sciences manufacturing.

3 London Economics Report for the Higher Education Policy Institute and Kaplan International Pathways, The costs and benefits of international students by parliamentary constituency, January 2018.

5.11 The Prime Minister's commitment to explore with the EU the terms on which the UK could remain part of the European Medicines Agency (as well as the European Chemicals Agency and European Aviation Safety Agency) is helpful. Her aspiration that UK service providers should not be discriminated against in the EU – and vice versa – is also a good one, even if it is currently far from clear how this will be achieved. However, distancing the UK from the EU's Digital Single Market could limit opportunities for Greater Manchester's thriving digital firms.[4] And the mapping of such sector-based approaches onto Greater Manchester's capabilities reinforces the importance of assessing the place-based impacts of Brexit.

5.12 Across the service sector, the attraction and retention of talent is also a key issue.

(iii) Labour Market Impacts

5.13 Uncertainty over the UK's future immigration rules makes assessment of the labour market impacts of Brexit challenging. However, it is possible to identify the sectors which are most at risk from a reduction in access to EU workers and consequent skills shortages. Greater Manchester commissioned analysis from the Migration Observatory at Oxford University on the proportions of Greater Manchester workers who are EU nationals.[5] Applying these proportions to the latest available data from the Office for National Statistics' Labour Force Survey, the main areas of risk according to the size of the current workforce in Greater Manchester are:

- Distribution, Hotels, and Restaurants, where 26,000 workers are EU nationals;
- Banking and Finance, where 14,000 workers are EU nationals;
- Manufacturing, where 13,000 workers are EU nationals; and
- Public Admin, Education, and Health, where 12,000 workers are EU nationals.

5.14 These figures from official data sources on employment are likely to under-represent the overall potential impact on the labour market. This is because many workers may be seasonal and/or contracted through employment agencies and so will not be included in these data.

5.15 Any skills shortages brought about by Brexit would exacerbate existing challenges in Greater Manchester, where skills – and therefore productivity – are already too low. Investment to make up this gap and a more joined up local approach which could respond to the needs of local firms should already have started if this challenge is to be met in time for Brexit. The risk is that any opportunities for Greater Manchester residents to raise their pay through a tighter labour market could be missed if they are not accompanied by higher skills and productivity.

4 Speech by the Prime Minister, 2 March 2018.
5 The analysis by the Migration Observatory was based on Labour Force Survey (all quarters), using a sample based on individuals living in the relevant geography, in the labour force (aged 16-65), who are employed.

6 Preparing Greater Manchester's firms for Brexit

6.1 The analysis here clearly shows the significant impact on Greater Manchester's firms if the UK's deal with the EU creates barriers to trade – both non-tariff and tariff. Some Greater Manchester sectors are also reliant on the skills which workers from the EU bring – emphasising the importance of making the Greater Manchester skills system more responsive to local employers.

6.2 But it also shows the importance of a place-based assessment of the impacts of Brexit scenarios. The sector mix differs in every city region, meaning that the implications of a UK deal play out in different ways in different places. Greater Manchester, and the North of England as a whole, should have a voice in negotiations as our new relationship with the EU is agreed. Otherwise, crucial issues around how a new deal impacts on particular places will be missed. The sector mix and structure of the economy in Greater Manchester and the wider North is different from other parts of the UK. A deal which protects some sectors at the expense of others could therefore significantly harm Greater Manchester.

6.3 The Local Industrial Strategy, being developed by Greater Manchester in partnership with Government and others, will be crucial for addressing the risk and grasping the opportunities of Brexit. The potential impact on Greater Manchester's labour market and supply of skills makes devolution to ensure that the city region's skills system is more responsive to the needs of employers even more vital, including the alignment of funding through a post-16 strategic skills plan and the investment through local mechanisms of Apprenticeship Levy which is raised from firms in Greater Manchester but left unspent.

6.4 The Shared Prosperity Fund, which will replace the regional investment currently carried out by the EU, will need to back up that Local Industrial Strategy. That means developing the fund so that it is based on:

- Multi-year funding – providing flexibility to sequence investments to maximum local effect;
- A place-based single pot – allocated to functional economic areas, so that resources can be allocated within national themes, but prioritised to local productivity priorities and taking a joined-up approach which avoids policy silos;
- Matched funding – with UK national funding which has in the past been used to match EU Structural Funds also brought into the Shared Prosperity Fund;
- Flexible use – so that it can be used for both capital and revenue purposes, and for early intervention and preventions (e.g. school readiness) rather than just tackling problems which arise later. It could then also support innovations such as the local revolving investment funds which have been pioneered in Greater Manchester;
- Funding level – with the amount of funding available to Greater Manchester being at least the level of existing EU Structural Funds and their matched funding.

6.5 As powers are returned from the EU, it is also important that the process does not end at Westminster. A concentration of powers in this way would not only miss out on the opportunities to further devolution to drive growth and reform public services, but would be likely to lead to further disillusionment with the UK's national institutions and their inability to respond to local priorities. A full assessment is needed of which powers can be devolved to city regions following Brexit. Greater Manchester has already begun this assessment, drawing on the experience of the Scottish Government and other devolved authorities, and it would be welcome if the offer to the UK Government to be involved in this process were taken up.

Technical Annex

The latest available data for exports from Greater Manchester produced by HMRC are for 2015. The total value of exports from Greater Manchester firms was £5.5bn in that year, a 3 per cent increase from 2014, placing Greater Manchester 15th out of 38 Local Enterprise Partnerships in terms of total exports. Adjusted for working age population, however, Greater Manchester falls to 27th, with an export value per head of working age population of £3.1m, half that for the average across all LEPs (£6.7m). The EU accounted for 58 per cent of goods exports from Greater Manchester firms in 2015, little different to the 59 per cent recorded in 2014. However, the latest figures still represent a greater reliance on the EU as an export market than the average for England as a whole (42 per cent).

The USA was the largest purchaser of exports (by value) from Greater Manchester firms, with £603m (11 per cent) worth of exports heading to the USA. However, of the top ten destinations for Greater Manchester exports, eight were located within the EU, with China (£223m or 4 per cent) the only other top ten partner besides the USA outside of the EU. This underscores the importance of the EU as a trading bloc for Greater Manchester.

Table 1: Major export destinations from Greater Manchester, 2015

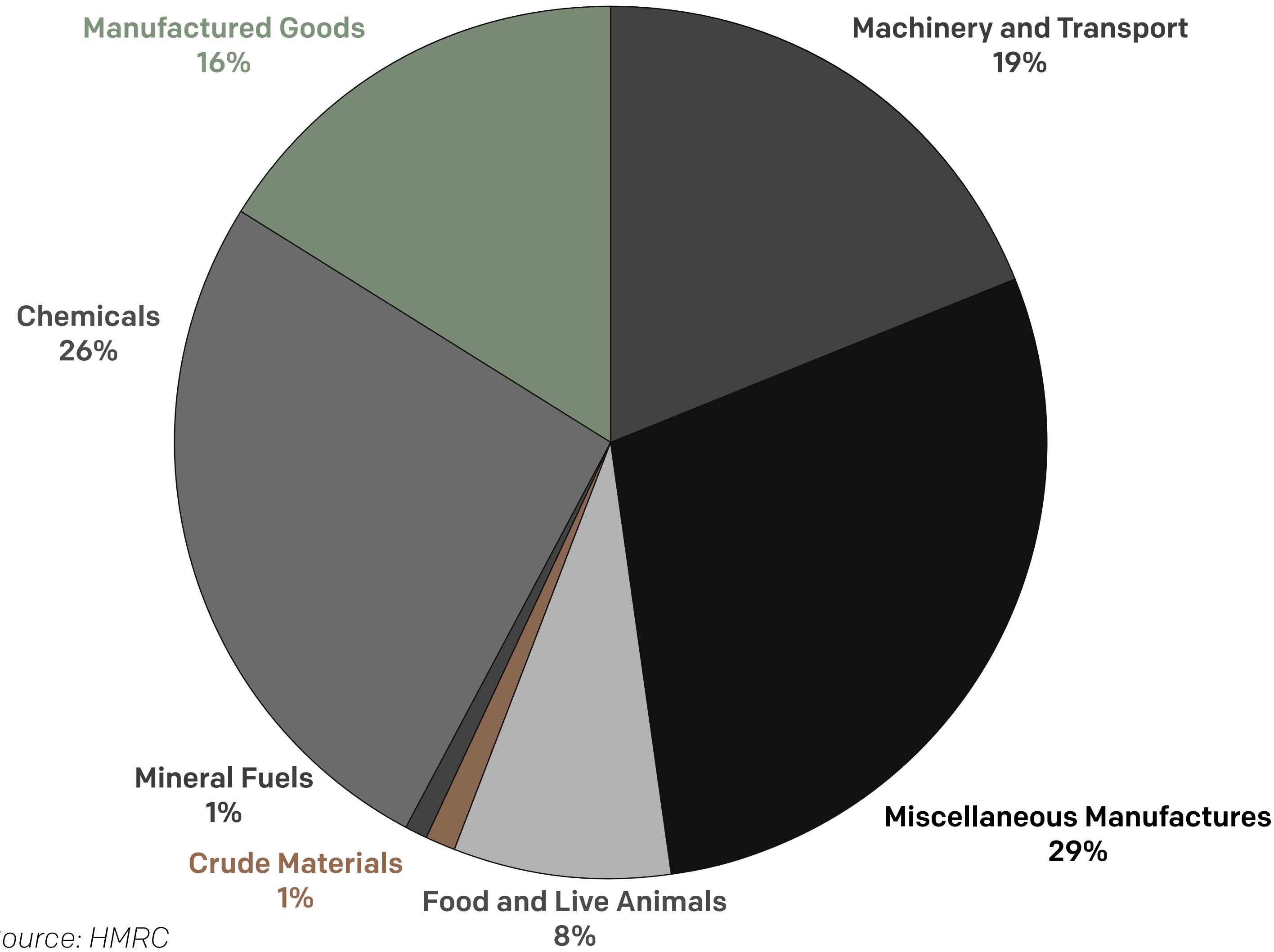
Partner Country	Export Value (£ million)	Share of total export goods
USA	603	11%
Germany	551	10%
Irish Republic	521	9%
Netherlands	411	7%
France	398	7%
Belgium	312	6%
China	223	4%
Italy	192	3%
Spain	177	3%
Poland	156	3%

Source: HMRC

HMRC provide data for the main commodities traded by Greater Manchester, as defined by UN Standard International Trade Classification. These are:

- Chemicals: £1.4bn, (25 per cent of the total value of exports);
- Machinery and Transport: £1.3bn (24 per cent);
- Other Miscellaneous Manufactures: £1.3bn (23 per cent); and
- Manufactured Goods: £0.8bn (14 per cent).

Chart 2: Exports by sector to the EU, 2015



Source: HMRC

In order to estimate the potential impact of tariffs on Greater Manchester exporters, tariffs from the World Trade Organisation schedules were applied to the data for goods exports from the city region provided by HMRC.

This approaches provides a static impact. In the event of the actual introduction of these tariffs, there would then be a dynamic effect as exports would very likely reduce as the introduction of tariffs made goods from Greater Manchester more expensive, and less competitive, in EU markets. These effects would then reduce trade flows and sales by Greater Manchester firms, and also mean that the actual amount paid in tariffs would be lower.

It is estimated that under the scenario where the UK leaves the EU with no trade deal in place, goods exports from Greater Manchester could be impacted by up to £150 million in tariffs, with an average tariff rate of just under 5 per cent. The potential impacts in individual sectors are shown in table 2.

Table 2: Estimates of Tariffs Payable by Greater Manchester Sector Under WTO Rules

Sector	Statistical Value (£ million)	Average Tariff	Tariffs Payable Estimate (£ million)
Food and Live Animals	229	19.6%	45.0
Beverages and Tobacco	-	6.4%	-
Crude Materials	36	3.2%	1.1
Mineral Fuels	31	1.1%	0.3
Animal and Vegetable Oils	-	8.8%	-
Chemicals	784	3.0%	23.9
Manufactured Goods	491	1.9%	9.4
Machinery and Transport	568	4.3%	24.6
Miscellaneous Manufactures	896	5.1%	45.4
Other commodities	-	2.1%	-

Source: GMCA applying assumptions from Civitas national work. (Data on Beverages not available)

In order to calculate the potential impact of non-tariff barriers, the Government's estimates of non-tariff barrier costs, expressed as 'tariff equivalents' were used from the Government's 'EU Exit Analysis Cross Whitehall Briefing, January 2018'. These were then applied to the HMRC data on Greater Manchester exports of goods. This approach found that the additional costs for Greater Manchester sectors from an increase in non-tariff barriers would be £170m per annum for a deal similar to the European Economic Area, £320m for an a deal similar to the average Free Trade Agreement or £380m if there were no deal and the UK were to then trade under World Trade Organisation rules. The impact is clearly negative and significant.