

**Manchester City Council
Report for Resolution**

Report to: Economy Scrutiny Committee - 24 February 2016
Executive - 2 March 2016

Subject: European Union (EU) Referendum – Potential implications for Manchester of the UK leaving the EU

Report of: The Chief Executive

Summary

The Government is committed to holding an “in out referendum” on the UK’s membership of the European Union (EU) by the end of 2017. This report identifies a number of issues associated with the planned referendum, and the possibility of a vote to leave the EU, that are of particular relevance to the city. The report aims to inform debate on this issue in advance of the planned referendum, the outcome of which will have significant implications both nationally and locally.

Recommendations

The Executive is recommended to:

1. Note the analysis contained in this report and the fact that the Core Cities Cabinet has resolved to adopt a collective view on this question by agreeing to campaign for the UK to stay in the EU
 2. Consider what other action the Council should take in the period prior to the planned referendum.
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Wards Affected: All

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1. Introduction

- 1.1 The Government has given a commitment to hold a referendum on the UK's membership of the EU before the end of 2017. A Council motion in September asked the Executive to produce an economic impact study to highlight the effects of EU membership on the city of Manchester and the risks of the UK leaving the EU ('Brexit').
- 1.2 This paper therefore responds to the September Council motion by:
- setting out the long-term benefits of European Union (EU) membership to the UK, as outlined in research to date;
 - considering Manchester's current relationship with the EU across a range of subject areas, taking account of both direct transactions and the wider role that membership plays in international relations (e.g. the attraction of foreign investment due to providing a gateway to the EU); and
 - identifying the risks and likely economic implications of leaving the EU for Manchester and Greater Manchester.

2. EU Membership: Overall Economic Impacts

- 2.1 Assessing the overall impacts of EU membership is a complex task. The difficulty is summarised in the extract below from a document produced for the House of Commons Library in 2013 which states:

"There is no definitive study of the economic impact of the UK's EU membership, or equivalently, the costs and benefits of withdrawal. Framing the aggregate impact in terms of a single number, or even irrefutably demonstrating that the net effects are positive or negative, is a formidably difficult exercise. This is partly because many of the costs and benefits are, in certain respects, subjective, diffuse or intangible; and partly because a host of assumptions must be made about the terms on which the UK would depart the EU, and how Government would fill the policy vacuum left in areas where the EU currently has competence." (House of Commons Library, 2013)

Some recent studies and press commentary surrounding EU membership have focused on the costs and perceived negative consequences arising from some aspects of European legislation. Such analysis often points to the net direct budgetary cost to the UK of membership which the Office for Budget Responsibility estimates as amounting to £9.8 billion in 2014 and the perceived negative impacts on the UK economy arising from certain EU regulations. There is also however recognition of important economic benefits associated with the UK's membership. Research suggests that such long-term benefits of the UK's membership of the EU include:

- being part of the world's largest Single Market of over 500 million people, presenting an economic force on a global scale and providing a substantial marketplace for UK businesses and workers;
- securing access to wider international markets through EU negotiated trade agreements that make it easier for UK businesses to trade overseas;

- businesses having clarity and a single set of rules to comply with when selling goods and services across a substantial marketplace which helps to support business growth;
 - roughly doubling investment flows inside the EU as a consequence of the Single Market, including attracting investment from non-EU countries seeking access to the Single Market:
 - in terms of individual countries, the USA remains the single largest source of FDI projects in the UK. During 2014/15 a total of 564 FDI projects were recorded from the USA, up more than 12% on the previous year;;
 - consumers benefitting from lower prices as a consequence of economies of scale enjoyed by businesses;
 - helping businesses to address skills gaps by allowing for the free movement of labour between Member States and giving UK nationals greater flexibility in where they can work;
 - the benefits of professional qualifications gained in one member state being recognised in another, thereby promoting labour market flexibility and assisting in filling skills gaps;
 - the city is designated as the European City of Science in 2016 bringing a European focus to the city's scientific achievements and attracting many additional visitors; and
 - net migration from the EU is helping to underpin economic growth by providing a growing work age population at a time when the number of dependents is increasing in the UK.
- 2.2 The presence of international companies in the city and an increasing international workforce has led to the city's and the wider city region's economies becoming increasingly connected to the wider European economy.
- 2.3 The Government has embarked on a process of seeking to renegotiate the current terms of the UK's membership of the EU. The fact that attempts are being made to change some elements of the relationship makes assessing the possible impact of withdrawal more complex. It is still difficult to be certain what the conclusion of this process will be and therefore the position against which the impact of withdrawal should be assessed.
- 2.4 A further important factor to consider is the major changes that are taking place in patterns of world trade. It is likely that the coming decades will witness an increasing proportion of global economic growth being concentrated in North America and in emerging economies such as China and India. In this increasingly competitive situation if European nations are to earn their way in the world, they will need to respond by increasing their productivity and competing effectively in key sectors. A key question is how the EU, as an institution, can respond to these challenges and support its member states in competing during the coming years. A question for the UK is whether its competitive position is likely to be supported or hindered by being a member of the EU.
- 2.5 The remainder of this report focuses on identifying some of the potential implications or risks of leaving the EU from the perspectives of:
- business investment;

- access to markets;
- sector by sector analysis;
- labour impacts; and
- access to funding.

2.6 The paper also reviews current EU Policy and legislation as it affects the city and sets out some of the advantages and disadvantages to the city arising from this framework.

2.7 It should be noted that the Core Cities Cabinet has recently considered a paper on this subject. The Cabinet agreed to adopt a common position and to argue for the UK to remain a member of the EU during the period prior to the referendum.

3 Exploring the Potential Implications and Risks of Leaving the EU

3.1 EKOSGEN consultants, working with New Economy, were commissioned to undertake some analysis of the potential impacts of a departure from the EU for the Manchester economy, as well as the uncertainty leading up to the referendum. The conclusions of the analysis are set out below with each topic being considered in turn to outline potential issues and implications.

Potential Implications for Business Investment

3.2 Manchester has established itself as an important UK and European location for business investment, effectively competing for business in a competitive marketplace. The achievement of continued growth plans will in part be reliant on the attraction of investment in both the expansion of existing operations and the development of new business bases in the city by both domestic and international businesses. Some of the core considerations of an exit from the EU in this context are outlined below.

Economic Uncertainty and Company Investment

3.3 There is a recognition that the uncertainty being caused by the unconfirmed timing of the referendum and the referendum itself will cause businesses to delay investment and inward investment decisions in the intervening period. Of 406 investors surveyed by the 2015 EY Attractiveness Survey, almost a third of companies said they would either reduce or freeze their planned investments up to 2017.

3.4 Greater Manchester has a considerable number of foreign owned companies in a wide range of sectors, and many are likely to be affected by delays to investment and expansion plans. In some situations, where office and plants are in competition with other company locations elsewhere in Europe, there is a risk that uncertainties (and an exit in the longer term) could result in Manchester losing out to other countries.

The UK as a Gateway to Europe

- 3.5 The EY Attractiveness Survey, 2015, shows that 72% of investors cited access to the European single market as important to the UK's attractiveness. Nationally, more than half of all European headquarters of non-EU firms are in the UK, with the UK hosting more headquarters than Germany, France, Switzerland and the Netherlands put together.
- 3.6 Manchester Airport and strong connectivity to other major cities gives Greater Manchester a significant advantage as a gateway to the EU, for both HQ and regionally significant employment centres. Although a benefit at present, this suggests that the implications of a withdrawal could be greater for Manchester than for much of the remainder of the country. A number of major airlines that operate from Manchester Airport have indicated that they are strongly in favour of the UK remaining a member of the EU and have spoken about the importance of EU wide agreements that have led to a big increase in routes between EU destinations.

Capturing Inward Investment

- 3.7 UKTI figures for 2014/15 highlight the importance of EU Member States as a source of Foreign Direct Investment in the UK. The UK is Europe's leading destination for FDI stock, flows and projects, benefiting from significant investment from Europe, the United States and increasingly from Asia. In 2014/15 there were 1,988 FDI projects (including re-investment), supporting 84,603 new jobs. This included 1,058 new investments and 740 related to expansions.
- 3.8 A wide range of projects are being supported with the primary sectors for FDI in the UK being:

FDI in Key Industries and Sectors, 2014/15 – Number of Projects			
Software & Computer Services	253	Food and Drink	104
Financial Services	222	Biotechnology and pharmaceuticals	85
Business and Customer Services	143	Mechanical, Electrical & Process Engineering	80
Creative and Media	124	Clothing, Footwear and Fashion	77
Automotive	117	Electronics and IT Hardware	75
Source: Inward Investment Report 2014/15, UKTI			

- 3.9 A number of these sectors reflect strengths in Manchester's business base, including in financial and business services and creative and media. UKTI data for 2013/14 shows that 55 FDI projects were set up in Greater Manchester by foreign businesses, creating and safeguarding more than 3,500 jobs. In this context, the EY Attractiveness Survey 2015 found that Manchester was the third most successful city in the UK in attracting FDI projects in 2014, behind London and Belfast.
- 3.10 In total, FDI projects in the UK were recorded from over 70 countries and territories. FDI investment from EU Members States included 124 projects

from France, 97 from Germany, 91 from Italy, 59 from Spain and 51 from Ireland. Links to other EU Member States are therefore strong. In 2013 over 50% of inward investment to the UK came from EU countries¹ and UKTI figures show that the UK remains a popular destination for headquarters functions (370 projects in 2014/15).

- 3.11 Attracting investments in part reflects the strength of the Manchester and UK economies in their own right but also the strength of the Single Market. A decision to leave the EU would be expected to impact on FDI in Manchester and the wider UK by Member States but also by non-EU investors due to the point made above regarding the UK currently providing a gateway to the EU. Reductions in FDI would also be expected to impact on productivity and high level skills as they are typically features of incoming businesses.

Potential Implications for Access to Markets

- 3.12 The Single Market is a market of 500 million customers. As a member of the EU it is effectively our 'home' market with products and services being subject to the same base regulatory standards and employment legislation without tariff barriers. Free trade within an open market sits at the core of EU's remit and principles. Departure from the EU would result in the loss of common trade terms with other Member States and access to negotiated trade agreements for the UK. This carries a series of potential risks and implications, as outlined below.

Exports

- 3.13 The CBI² reports that the UK exports £227 billion of goods and services to the European Union each year – equivalent to 45% of all UK exports³. Seven of the UK's top 10 export markets are in the European Union and it is often the place smaller businesses look to export to in the first instance⁴. A survey of CBI members⁵ found that 76% rate the ability to freely buy and sell products in the EU as a positive impact on their business, including 74% of SMEs.
- 3.14 Annual Business Survey provisional figures for 2014 suggest that across the North West almost 8% of businesses directly export goods and/or services and almost 9% import goods and/or services. A higher proportion are part of business chains that feed into key export sectors such as aerospace or vehicle manufacture. Within Manchester, the Manchester Business Survey 2014 found that a quarter (26%) of businesses had dealings with international markets and of these half (49%) export and just under two fifths (38%) import.

¹ <http://www.alliotts.com/site/blog/international-blog/economic-impact-of-brexite-from-the-eu>

² <http://news.cbi.org.uk/news/cbi-makes-case-for-being-in-a-reformed-eu/choosing-our-future/>

³ ONS Statistical Bulletin, Balance of Payments, 2015

⁴ ONS Statistical Bulletin, UK Trade, April 2015

⁵ <http://news.cbi.org.uk/campaigns/our-global-future/factsheets/factsheet-2-benefits-of-eu-membership-outweigh-costs/>

Europe is the primary market place, reported by 80% of businesses that export and 82% that import.

- 3.15 Research undertaken by BIS in 2011⁶ further emphasises the scale of connections saying at that time around 3.5 million jobs were linked to the export of goods and services to the EU. The same report estimated that EU countries trade twice as much with each other as they would do in the absence of the Single Market, generating income gains for the UK of between 2% and 6%. These findings would be expected to broadly apply to Greater Manchester and other locations across the UK.
- 3.16 Whilst a departure from the EU would not affect the ability of Manchester businesses to export to the EU per se, a series of tariffs and barriers to trade would be likely to return which would serve to reduce levels of trade relative to the current position. As considered in the sectoral impacts section below, there would be particular implications for heavily regulated sectors and those with high export tariffs.
- 3.17 The position of Norway is often cited as an example of a country that is outside the EU but which continues to trade successfully with it. Norway has however, in order to retain access to European markets, agreed to retain the EU's product standards, financial regulations and employment regulations. It also continues to make a substantial contribution to the EU budget while having no direct influence over key EU decisions.

Trans-Atlantic Trade and Investment Partnership

- 3.18 The EU and the USA are currently in the middle of lengthy negotiations on a free trade agreement (the Trans-Atlantic Trade and Investment Partnership). This aims to open up access for nearly all services and goods markets between the two continents – reducing customs duties on goods, reducing restrictions on services, and further opening up public procurement markets. It is also designed to improve regulatory coherence between EU and US standards and ensure greater EU-US cooperation in setting international standards. Similar arrangements are also proposed with Japan and will build on approximately 30 trade deals already negotiated by the EU which give UK firms access to a \$24 trillion market⁷.
- 3.19 Some aspects of these proposals, particularly those concerning their application to healthcare and other public services, have provoked concern and public protests have taken place across Europe. EU officials claim that there are safeguards in the proposed Agreement that would protect local health services and enable any member state *'the right to adopt or maintain any measure with regard to the provision of all health services which receive public funding or State support in any form, and are therefore not considered*

⁶ The UK and the Single Market: Trade and Investment Analytical Papers Topic 4 of 18, Department for Business, Innovation and Skills

⁷ Quoted in <http://news.cbi.org.uk/campaigns/our-global-future/factsheets/factsheet-2-benefits-of-eu-membership-outweigh-costs/>

to be privately funded. Critics of TTIP argue however that this provision is inadequate. Discussions are continuing on this and other aspects of the TTIP between the EU and the US.

- 3.20 Assuming agreement is eventually reached the UK, with historic close ties to the United States, is expected to be a major beneficiary of the increased trade from the Trade and Investment Partnership. Leaving the EU would mean the UK would sit outside the agreement. This would be likely to make other European cities more attractive trade and investment propositions for US businesses relative to Manchester. There would be challenges to the UK negotiating comparable terms in its own right. Both the US and Chinese Governments have indicated that their preference would be for the UK to remain a member of the EU.
- 3.21 There are forecasts suggesting that consumers in the UK would be disadvantaged if the UK voted to leave as a consequence of it falling outside trade agreements. Consumer prices fell by 0.5 per cent for UK consumers as a result of EU negotiated free trade agreements which suggests new agreements with the US and Japan could save households £6.3 billion every year⁸. Such benefits would also be lost in the event of an EU exit.

Single Digital Market

- 3.22 The European Commission is in the process of taking policy and legislative action to open up the digital single market. The UK has Europe's biggest e-commerce market and the world's second biggest market for audio-visual content. In addition, the UK Government estimates that there are in excess of 120,000 UK businesses in the digital economy⁹.
- 3.23 Almost 55,000 people are working in the sector in Greater Manchester (GM) with job numbers having grown by 4.1% per annum between 2010 and 2013. Furthermore there are over 9,000 Digital and Creative businesses in GM, the vast majority (over 90%) of which employ fewer than 10 people. The digital single market could therefore generate significant opportunities for Greater Manchester business which would be threatened in the event of the UK leaving the EU.

Tourism and Conference Market

- 3.24 Greater Manchester has seen significant growth in the hospitality, tourism and sport sector over the past 10 years. The sector now provides 8% of all Greater Manchester jobs. The sector is concentrated in Manchester, Salford and Trafford, but also has a presence in town centres and areas of countryside on the outskirts of the conurbation.

⁸ <http://blogs.lse.ac.uk/euoppblog/2015/03/24/should-the-uk-stay-or-go-the-economic-consequences-of-britain-leaving-the-eu/> (LSE)

⁹ <http://euromove.org.uk/britaingainsDSM>

- 3.25 In 2005 the Greater Manchester visitor economy generated £4.6 billion of economic impact for the sub-region and by 2013 this had risen to £7.0 billion¹⁰. This growth is driven by business coming from both domestic and overseas markets. Manchester is the third most visited city in the UK by international visitors, behind London and Edinburgh and the City has seen a 21% rise in the number of international visits since 2005.
- 3.26 Greater Manchester's hospitality, tourism and sport sector has a particular strength in hosting conference and business events. Valued at £573 million in 2009, this activity grew to be worth £823 million by 2013. Investments such as the £30 million refurbishment of Manchester Central, and other venues such as Manchester Conference Centre, and academic and sporting conference facilities, have supported the city to grow its conference business and in being a leading choice for hosting national and international conferences. Recent years have shown a considerable growth in the association business¹¹ conferences hosted with 31% of delegates to Greater Manchester coming from association business in 2013¹². There is a risk that EU exit would marginalise the UK as a key venue for European wide conferences and if this were to occur there is the potential for this to disproportionately impact on the city.

Sectoral Implications

- 3.27 Disruption in the event of an exit is expected to be most significant for financial services (due to high levels of regulation which could serve as a barrier to trade and would be outside the UK's control) and those sectors with high export tariffs (above 4%) such as cars, chemicals and food which account for approximately 35% of the UK's exports to the EU .
- 3.28 The sectors most likely to be affected are:
- **Financial Services** there were 47,600 employed within the Financial Services Services subsector in GM in 2013.⁽¹³⁾ This represents almost half (47.7%) of the sector's total employment in the North West, and 5% of the national total. The sector's location quotient suggests that GM has 1.2 times the national average number of employees in the local economy. Within GM there is a particular concentration of this sector in the city.
 - **Professional Services** includes specialised professional, scientific and technical activities, with 100,300 employed within the conurbation. A report by New Economy noted that global competition and technology has allowed the UK to establish itself as a premium destination for Financial and Professional services. It is already a world-leading provider of Professional services, and London is already one of the main Financial Services Centres of the global

¹⁰ The Scarborough Tourism Economic Activity Monitor (STEAM), 2005 & 2013

¹¹ Refers to a group of people organised for a joint purpose

¹² Conference Value and Volume Study, Marketing Manchester, 2014

¹³ Financial Services sub-sector definition includes insurance and pension funding and auxiliary financial services

economy. There is potential for Manchester to exploit the UK's position to become a global Professional Services hub in its own right, continuing to build on GM businesses' areas of specialism, within existing markets in Europe and the US, and opening up new markets in the Middle East and Asia.⁽¹⁴⁾

- **Food and Drink Manufacturing:** There were just under 20,000 employed within the Food and Drink Manufacturing industries in GM in 2013, representing 39.6% of the sector's employment in the North West, and 5.2% nationally. The main concentrations are found within Manchester, Tameside, Bolton, Trafford Park, and Wigan. Well-known international brands such as Kellogg's (Trafford), Typhoo tea (Wirral) and the Heinz baked bean canning plant (Wigan) are headquartered in the North West.
- **Capital goods and machinery, chemicals and pharmaceuticals** there were just under 50,000 employed within Advanced Manufacturing in GM in 2013, representing 31.7% of the sector's employment in the North West, and 3.9% nationally. Within the Advanced Manufacturing subsector, there is over twice the national average percentage of employment within the Manufacture of Chemicals and Chemical Products (excluding pharmaceuticals) within Greater Manchester.

3.29 If the UK were to leave the EU there may be opportunities to negotiate bespoke preferential trade deals for selected sectors with the EU but the realism and terms of such an approach cannot be determined at this time.

Potential Implications for Labour Movement and Availability

3.30 The free movement of people is a further central tenet of the European Single Market. All residents of Member States have the flexibility to live and work where they choose in the EU with minimal formalities to complete or challenge. Withdrawal from the EU could have the following implications for Manchester and the UK overall.

Labour Force Movement

3.31 Between April 2014 and March 2015 there were over 824,000 National Insurance number registrations in the UK (allowing people to work or claim benefits/tax credits) by overseas nationals¹⁵. This marked an increase of over a third in a year and was the highest annual level since reporting started in 2002. Approximately half (47%) of registrations were by overseas nationals from the EU's 28 Member States (excluding the UK). While the top two countries were Romania and Poland, strong flows were also recorded from Italy and Spain, accounting for over 110,000 registrations.

¹⁴ New Economy, November 2013, *The Financial & Professional Services Sector in Greater Manchester: Sector Profile*, P13
<http://neweconomymanchester.com/downloads/2640-Sector-profile-FPS-FINAL-docx>

¹⁵ DWP StatXplore data reported in *National Insurance Number registrations to overseas nationals, 2014/15*, Manchester City Council, August 2015

- 3.32 In 2014/15, over 14,000 registrations were recorded in Manchester. Spanish and Italian nationals recorded the highest numbers of registrations in the city. In total, two thirds of registrations in the city were to EU nationals.
- 3.33 Many EU migrants tend to be young and highly skilled such as university graduates and young professionals who are seeking overseas career enhancing experiences, in the same vein as many British young people. Most EU migrants come to the UK for work purposes as opposed to family resettlement reasons. Many EU migrants offer job-specific or language skills which are highly sought after by employers. At a time of recognised skills shortages in the city and nationally, having access to a substantial mobile labour force is a distinct advantage.
- 3.34 A report by University College London¹⁶, revealed that European migrants made a net contribution of £20bn to UK public finances between 2000 and 2011. Those from the 15 countries which made up the EU before 2004, including France, Germany, Italy and Spain, contributed 64% – £15bn more in taxes than they received in welfare – while east European migrants contributed 12%, equivalent to £5bn more.
- 3.35 Changes to migration rules would be expected to have an impact on the flow of overseas nationals into Manchester. In the context of strong economic growth forecasts and an ageing population, restrictions on labour movement could impact on the ability to deliver growth ambitions both in respect of the total workforce required and demand for skilled labour. Research by Di Giovanni et al¹⁷ found that restricting mobility could restrict trade and reduce UK welfare equating to a loss of 1.5% of income. Restricting mobility would be likely to have a significant impact on the residential market in the city with the potential for reducing levels of demand.

Supply of Students

- 3.36 The reputation of Manchester's universities acts as a strong draw for both domestic and overseas students. HESA statistics for 2013/14 show that the two Manchester universities had 3,175 EU students with this figure rising to 4,430 when all Greater Manchester institutions are considered. Research conducted for the NUS¹⁸ suggests annual per capita spending by students, including tuition fees, of £20,175, suggesting EU students in Greater Manchester spend in the region of £90 million per annum with elements of the expenditure re-circulated through the local economy. Due to free movement of labour regulations, EU national graduates are able to stay in the UK after graduating providing a valuable supply of skilled labour.

¹⁶ <http://www.cream-migration.org/files/FiscalEJ.pdf>

¹⁷ Quoted in <http://blogs.lse.ac.uk/europpblog/2015/03/24/should-the-uk-stay-or-go-the-economic-consequences-of-britain-leaving-the-eu/> (LSE)

¹⁸ *Student Contributions to the UK Economy*, nef consulting, 2013.

- 3.37 Any changes to the entitlement of EU nationals to study at UK institutions would impact on the number of students attracted and levels of associated expenditure. The tuition fees that EU nationals could be charged could however increase in the event of an exit to equal those for other international students.

Potential Implications for Access to Funding

European Structural and Investment Funds (ESIF)

- 3.38 The European Structural and Investment Funds (ESIF) are the main funding instrument used to implement EU regional and cohesion policy. The programme provides funds to support the economic development of local areas and to help rebalance the European economy. The funds support investment in innovation, businesses development, skills and employment.
- 3.39 Historically Greater Manchester has been a significant beneficiary of these funds. Between 2007 and 2013 over £150 million was received and during the current ESIF for 2014 – 2010 Greater Manchester has an allocation of £356m and will also attract significant match funding. The funds will play an important role in delivering economic development objectives, including skills development, business growth and the development of new innovation facilities.
- 3.40 Manchester has a strong track record of securing funds through the fund with the European Regional Development Fund (ERDF) and the European Social Fund (ESF) funding many important projects including large scale skills development and business support programmes as well as the development of new facilities and infrastructure including the National Graphene Institute (£23m), NOMA (£6.9m), The Sharp Project (£7m), and the Second City Crossing (£10.8m). In addition to these grant funded elements of these programmes, Manchester has been a leader in the use of ERDF loan Funds in the Region. These Funds make repayable loan investments and recycle the funds to support more projects than would be possible with grants. Notable investments in the city include City Labs on the Corridor and the Cotton Building in Spinningfields. It is important to note that currently ERDF represents the only long term funding stream that is available to the Council to support its economic growth objectives.
- 3.41 Each year ESF typically supports tens of thousands of young people and older workers in Greater Manchester and is now a major contributor to all of the workforce related skills plans. As such ESF contributes to the city's growth and reform agenda.
- 3.42 The 2014-20 ESF programme has only recently opened for bids. For the duration of this programme it has been agreed that at least 20% of the allocation should be directed to projects that promote social inclusion. This programme therefore is a key source of funding to support one of the Council's key objectives. There is scope for awards from this programme to be made until the end of 2020, with funds to be spent before the end of 2022. A

decision on the UK's future membership will therefore come at an important time in the programme's delivery. The implications of a departure during the mid-point of the programme are unclear but would likely result in significant confusion and disruption for supported parties and the potential for funds not to be available for draw down in full.

Non - Structural Funding

- 3.43 In addition to the above structural funds, Manchester has had considerable success in accessing non – structural funds through the EU's Horizon 2020 programme and other similar initiatives. Recent successes in these terms have included the Triangulum project focused on Smart City solutions in Corridor Manchester which is worth €9 million to the Council and its partners.

Research and Technological Development

- 3.44 The EU has a considerable impact on UK research and technological development in the form of the Framework Programme (FP), which is the European Union's primary funding instrument for supporting collaborative, transnational research and development, with a primary focus on science and technology. The 2007–2013 programme distributed over €53.2 billion (£45.5 billion) to as many as 10,000 research projects. The UK has consistently secured a disproportionately large share of available funding and maintained a leading position in terms of the share of all FP projects in which it is involved. The UK received €5,205 million in funding through the first six years of FP7 (2007-2012) which is greater than the spending power of five of the seven UK Research Councils.
- 3.45 Examples of European research funding successes in Manchester include contributions to the Cancer Research UK Manchester Institute and participation in both the Graphene Flagship and the Human Brain Flagship. With budgets of €1bn each these Flagships are the largest R&D and Innovation investment ever made in the EU and the University of Manchester is a key partner in both projects. For the 2014-20 programme period, support will be available to science researchers through the Horizon 2020 programme. An exit from the EU would result in the loss of an important R&D funding stream with implications for Manchester's HE sector and business base. This could lead to longer term competitiveness challenges for the universities and the loss of both academic and collaborative research activity to institutes outside the UK.
- 3.46 Set against the financial benefits of membership are of course the current costs both in terms of financial contribution and some of the administrative burdens that membership imposes. The UK's net contribution to the EU Budget in 2014 was estimated at £9.8 billion¹⁹. The benefits of cities being able to attract EU funding need to be seen against the context of this. However, it is worth noting that being outside of the EU would not necessarily mean the UK would no longer be required to contribute to the EU, as this would depend on

¹⁹ <http://www.parliament.uk/briefing-papers/SN06091.pdf>

the terms of any alternative relationship the UK was to negotiate with the EU. For example, Norway is the tenth highest contributor to the EU, despite not being a member, with per capita contributions of €100, well over half of the UK's contributions (€180).²⁰

- 3.47 The UK would, though, make savings in no longer having to pay into the EU to the same level (although this does not take into account the far wider benefits of having full access to the Single Market, and the EU's international trade deals). There is a real risk that these savings would be absorbed by HM Treasury to contribute towards deficit reduction, and any financial 'gain' would not be felt at all by cities such as Manchester which would also lose access to ESIF funding.
- 3.48 Finally, one of the main issues cities face in implementing ESIF is having to navigate and abide by EU state aid rules which are outlined below in the section on EU Policy and legislation .

4. EU policy and legislation

- 4.1 The balance of policy and legislative competencies between the UK and the EU is complex, with different policy areas being subject to different degrees of EU competency. For instance competition policy is an area of EU exclusive competence; areas such as environment and consumer protection policy are areas of shared competency between the EU and the member state and member states can act only if the EU has chosen not to; in areas such as health and culture the EU has competence to support, coordinate or supplement the actions of the member states but the EU cannot adopt legally binding acts; and on employment, economic and social policy the EU has powers to provide arrangements, within which EU member states must coordinate policy.²¹
- 4.2 In addition, it should be noted, that Britain already has derogations in relation to monetary union, the banking union, the Schengen agreement (EU internal border control), and justice and home affairs.
- 4.3 Policy development at EU level is arguably more consultative and open to the input of diverse stakeholders, than policy development at national level. Indeed, there are various instances of the EU level being more receptive to the views of cities than the national level is. Cities often find themselves in the strange position of making, and having their points listened to, by the European Parliament or European Commission and influencing their national governments via the EU level.
- 4.4 There are also examples of cities using their EU level influence to call for EU legislation to go further than national governments would like it to. For

²⁰ http://www.cbi.org.uk/global-future/case_study06_norway.html

²¹ A full list of EU competencies by policy area is available here:
<http://ec.europa.eu/citizens-initiative/public/competences/faq>

instance, through the EUROCITIES network²², cities are currently calling for the EU to ensure there is a strong National Emissions Ceiling Directive with binding targets that are actually more strict than national governments would like to see in place. This is a direct response to air quality and associated health issues in cities, and the fact that cities have limited means to effectively deal with the full problem as it also strongly relates to vehicle emission industry standards. EUROCITIES have also taken a similar stance on EU climate change policy where cities' own targets often exceed the ambitions and actions of national government.

The EU Urban Agenda

- 4.5 Over the past 18 months, the European Commission has re-launched discussions on the EU Urban Agenda which seeks to strengthen its capacity in relation to urban issues and improve the direct involvement of cities in EU policy development.
- 4.6 The EU Urban Agenda aims to:
- foster the role of the European Union as a facilitator of urban development;
 - further integrate sector policies and make them better adapted to urban realities;
 - act as leverage to strengthen national urban agendas;
 - be a framework to guide action, to bring coherence to a diversity of initiatives and policies;
 - be an instrument to involve cities and their political leaders in EU policymaking and policy implementation; and
 - be a tool to develop methodology to integrate the goals of the EU2020 strategy with cities' own strategies.
- 4.7 The EUROCITIES network is using this process to also call for national governments to play their role in facilitating the joining up of policies both at EU level and at home and to better involve their main cities in strategic policy development and programming. More needs to be done on the EU Urban Agenda though and, as yet there are no firm proposals put forward from the European Commission about how it will be implemented. A stronger EU Urban Agenda would reinforce the principle of subsidiarity, and would provide the EU and national Governments with a mechanism through which they could systematically work in true partnership with cities to ensure that as EU policy and legislation is being developed its practicality in on-the-ground situations in cities is properly assessed to ensure that there is early identification of any unintended consequences.
- 4.8 The EU's response to the increasing trend for city clusters to emerge, both within and between states, has so far been disappointing. The work of Transport for the North to bring about a step change in levels of connectivity across the North of England is an example of an initiative that has been

²² All the Core Cities with the exception of Leeds and Nottingham are members of EUROCITIES.

developed independently from EU structures and which has the potential to transform the economy of the North. Similar initiatives are being developed in the Netherlands and Denmark. So far there has been little evidence of the EU developing mechanisms to support such collaborations which are likely to become ever more important as European city regions attempt to increase their trade with emerging economies, particularly in Asia.

Better regulation

- 4.9 Burdensome and costly red tape, particularly for businesses and in areas of employment and procurement, is one of biggest criticisms of EU policy and legislation.
- 4.10 In October 2013 the Government's EU Business Taskforce published a report which contained 30 recommendations addressing barriers to overall competitiveness. In November 2014, the Department for Business, Innovation and Skills published an update on progress. This reported that 10 of the 30 recommendations had been implemented, "saving UK businesses around £100 million a year, preventing additional costs of at least £100 million a year and banking one-off savings to firms of another £40 million."²³
- 4.11 The European Commission has also started to take more positive steps in this area. The European Commission has now appointed a Vice-President, Frans Timmermans, with specific responsibility for better regulation. Timmermans launched the European Commission's Better Regulation Package in May 2015 which aims to provide greater transparency in EU law making and to more closely scrutinise the consequences and cost of EU regulations throughout the policy making process. Timmermans has already proposed scrapping 80 of 450 pending EU legislative proposals. But reform in this area arguably needs to go further and at a quicker pace.
- 4.12 Open Europe²⁴ estimates that the cost of the 100 most burdensome EU-derived regulations to the UK economy stands at £33.3bn a year in 2014 prices and that the UK government estimates of £58.6bn a year benefits are either over-estimated or fail to materialise and conclude that there is "plenty of scope to cut regulatory cost to business and the public sector."
- 4.13 However, Open Europe also points out that leaving the EU and joining the European Economic Area (EEA) like Norway would not resolve this as 93 out of these 100 costliest EU-derived regulations would remain in place at a cost of £31.4bn (94.3% of the total cost). Moreover, the UK would lose any influence in shaping new laws and regulations.

'Gold plating' of EU legislation

²³ <http://www.parliament.uk/briefing-papers/SN06091.pdf>

²⁴ <http://openeurope.org.uk/intelligence/britain-and-the-eu/top-100-eu-rules-cost-britain-33-3bn/>

- 4.14 While EU membership has undoubtedly brought regulatory burdens, successive UK Governments have also chosen to go beyond the minimum requirements when implementing certain pieces of legislation, a process known as 'gold plating'. This has been particularly common in the UK's transposition of EU employment legislation. The Institute of Directors provides examples of how UK government has gold plated EU employment directives such as the Temporary Workers Directive and the Working Time Directive²⁵.

State aid

- 4.15 EU state aid rules set out whether and on what basis aid (grants, loans, tax breaks etc) can be given through or with state resources on a selective basis to any organisation that could potentially distort competition and trade in the EU. This can include private organisations, and also public or third sector bodies engaged in commercial activities. Public authorities are responsible for ensuring their policies and projects comply with state aid rules.
- 4.16 The rules can be complex and getting it wrong can mean recovery of state aid and suspension or withdrawal of aid schemes. This can have serious consequences for the recipients of aid and the delivery of policy objectives. There are mechanisms such as assisted area maps, block exemptions and notifications which determine how state aid can be granted and to what level. A number of state aid block exemptions could be reformed to make them more flexible so that cities can more effectively support economic growth.
- 4.17 One of the main ways in which state aid is given is by using the 'de minimis' block exemption where aid can be granted as long as the beneficiary does not receive more than €200,000 in state aid over 3 years. Business rate relief can have a big impact and the exchange rate has a significant impact on de minimis levels as these are calculated in Euros. For example, two years ago the de minimis threshold of €200,000 was worth £180,000 and is now worth only £140,000.

Procurement

- 4.18 All public bodies are required to comply with EU procurement rules, an important aspect of the Single Market. Historically EU procurement processes have been time – consuming and have often been off putting to potential bidders.
- 4.19 The EU has recently undertaken a review of public procurement legislation and has introduced Directives aiming to simplify procurement. These were transposed into UK law earlier in 2015, and it remains to be seen whether these changes have provided the practical level of simplification and flexibility required.

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[http://www.iod.com/~media/Documents/PDFs/Influencing/Regulation%20employment/2013/The Midas Touch](http://www.iod.com/~media/Documents/PDFs/Influencing/Regulation%20employment/2013/The%20Midas%20Touch)

- 4.20 EU public procurement rules enable contract opportunities to be promoted to local providers as long as the opportunity is openly advertised according to procurement rules, and as long as the contract is fairly awarded.

5 Conclusions

- 5.1 Although the detailed implications of an exit from the European Union will be dependent on a wide range of factors, and will depend on what reforms are delivered as part of the current renegotiation process, this paper shows that Manchester has strong connections and in places dependence on its membership of the EU.
- 5.2 The Single Market is a market of over 500 million customers and whilst a departure from the EU would not prevent Manchester businesses from exporting to the EU per se, a series of tariffs and barriers to trade could return which would serve to reduce levels of trade relative to the current position, and the UK could become a less attractive place to work and invest. In summary, implications for the city are expected to include:
- A reduced flow of EU nationals into the city for work which will impact on the ability of the city to provide the skilled workforce to support economic growth;
 - A potential reduction in the attractiveness of Manchester as a place to invest, relative to cities within the EU, impacting on overall levels of FDI activity, given greater restrictions to access to European markets;
 - An impact on levels of exporting to Europe (a significant marketplace for Manchester businesses) due to the re-introduction of tariffs and other barriers to trade;
 - Dependent on the success or otherwise of the UK negotiating new trade agreements with other major markets outside the EU, there could be an impact on the ability of businesses in the city to trade with these growing economies;
 - Reduced access to new markets including the Single Digital Market, financial services market and the forthcoming trade agreement with the United States.
 - Reductions in the number of EU national university students due to the potential for increases in tuition fees and less flexibility to remain in the UK following their studies;
 - The loss of European research funding which plays an important role in university activities, including in internationally significant research areas such as graphene and advanced materials
 - The loss of ESIF funding which has played a significant role in building workforce skills, moving people into work, supporting businesses and providing new innovation focused facilities.
- 5.3 While some of the negative effects of a UK exit from the EU could be reduced by a series of new agreements with the EU bloc, it is unclear how long these would take to conclude.

5.4 Manchester, with its international gateway role, focus on new economy sectors, attractiveness to young and skilled European workers and assets such as the Airport and international research centres is at some risk. At the very least, an exit could result in slower economic growth of the city economy and the ability of the city to achieve its growth potential in the medium term would be less certain.

5.5 While there are very strong reasons to believe that withdrawal from the EU would be damaging to the City's economy, certainly in the short to medium term, this does not mean that there are not important improvements that could be made to key areas of policy and process that would reflect the priorities of the city. These are discussed in the body of the report and include the following:

- Development of a clearer medium to long term strategy to support the global competitiveness of Europe and its member states in the context of the burgeoning economies of Asia in particular;
- Clearer support at the EU level for initiatives developed by clusters of cities, such as those in the North of England, to develop critical economic mass and strengthen regional economies through enhancements to connectivity and investment in key growth sectors ;
- Further work to reduce unnecessary red tape at the EU level and to simplify procurement and State Aid rules in ways which speed up internal processes and better support business and growth.

6 Recommendations

6.1 Recommendations appear at the front of this report.