Brexit and the Glasgow economy:

impacts, actions and asks

GLASGOW CHAMBER OF COMMERCE

GLASGOW ECONOMIC LEADERSHIP

Glasgow CITY COUNCIL

Prepared with the assistance of the International Public Policy Institute (IPPI)
and The Fraser of Allander Institute, University of Strathclyde

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Executive Summary

The economic impact of Brexit poses Glasgow - alongside Scotland, the UK and EU itself - with many significant challenges. However it is necessary to recognise that Glasgow has overcome several significant economic challenges in the past and is in a strong economic position to do so going forward.

Our confidence in our future is based on facts and on our evident ability to work across the private, public and academic sectors to the benefit of the Glasgow economy, its businesses and citizens.

Glasgow has proved itself to be resilient when faced with huge economic challenges, especially in the past decade and has developed an economically strong, broad-based economy that stands in comparison with the rest of the UK and the rest of Europe.

During the worst global recession in a generation Glasgow did not sit back and try to manage decline. Instead hundreds of millions of pounds were invested in capital infrastructure, thousands of jobs were created and Glasgow hosted “the best Commonwealth Games ever” in 2014. Importantly just a few weeks before the Games began Glasgow negotiated the biggest City Deal in UK history, locking in capital investment of over £1.13 billion in the city region over the next 20 years.

Glasgow has emerged as the fastest growing major city economy in the UK, with 7% Gross Value Added (GVA) growth in 2014. Glasgow has outstripped London in this achievement which is an economic statistic that may surprise many commentators. Glasgow’s growth in this period was more than double that of the much vaunted achievements of Manchester and Edinburgh.

The city is rightly proud of its industrial past but we are no longer reliant on one sector. We have a thriving tourism industry, are one of Europe’s top financial centres, and in the past 10 years Glasgow has ranked third in the UK for the development of commercial property.

In the context of today’s digital economy, Glasgow’s Digital GVA (total high tech outputs less input costs) is a testimony to how the city has become a diversified powerhouse in the Scottish economy. Recent academic research measured the value of Dundee’s Digital GVA at £61m; likewise for Edinburgh the figure is £378m. Glasgow’s Digital GVA significantly exceeds both Dundee and Edinburgh combined, at £480m.

This document highlights the scale of the challenge facing Glasgow and Scotland following Brexit. Glasgow clearly has key strengths and a broad economic base which, properly supported by the UK and Scottish governments, can continue to thrive. However to achieve this the city has to formulate a response to the challenges posed. This report sets out a range of actions and asks across our key sectors as defined by the council, the Glasgow Economic Leadership and Glasgow Chamber of Commerce.

There are a series of actions contained within this report, but there are six principal areas that can make the biggest difference. Therefore, our asks of the Scottish and UK governments are as follows:

1. Scottish and UK governments to commit to maintaining a structural funds programme post-Brexit funded at the same level as the current programme.

   This is worth £780m to Scotland over 2014-20 and this should be the level of investment in successor programmes. In allocating these resources the Scottish Government should prioritise urban areas where the vast majority of Scotland's economic output is generated and its population live.

2. Scottish and UK governments to accelerate City Deal capital infrastructure works, principally in relation to the approvals required for enhanced surface access to Glasgow Airport. Other projects should be accelerated in consultation with the Scottish Government.

3. Scottish and UK governments to commit to the transfer of surplus land holdings to Glasgow City Council to enable their inclusion in the city's Strategic Housing Investment Plan.

   This will support the acceleration of house building programmes and provide a major jobs stimulus to the Glasgow and Scottish economy.

4. In economic development and skills, Scottish Government agencies to develop more effective collaborations across agencies and with Glasgow - and Scotland's cities generally - to support higher levels of city competitiveness, innovation and economic growth.

   A new opportunity exists for collaborative working between local government, Scottish Government, its agencies and business stakeholders. This will maximise the impact of local decision-making and joint working to deliver on national outcomes and to enable Scottish cities to reach their economic potential and meet the major challenges that lie ahead.

5. UK government to work with the EU to guarantee UK access to Horizon 2020 funding beyond 2019/20 and clarify the immigration status of EU students for 2017/18; we welcome the commitment by the Scottish Government to continue to fund EU students studying in Glasgow / Scotland and those about to enrol.

   Glasgow's Higher and Further Education sector is highly international, attracting students and staff from across the UK, Europe and the world with 15,000 foreign students, of whom 6,400 are EU nationals as are 1,230 staff. Any diminution of our Scotland's engagement in key EU academic programmes - student exchange (ERASMUS) and research (Horizon 2020) will impact negatively on the HE sector and may impact on forward investment programmes.

6. The Scottish Government to introduce a two year moratorium on non-domestic rates for unlet, new build Grade A properties.

   The removal of rates relief by the Scottish Government in April 2016 for empty properties is a barrier to development. Its removal for unlet Grade A offices would stimulate speculative development at the time when it is most required.

“ Glasgow is open for business. People make Glasgow. And people will always make Glasgow flourish.”

Frank McAveety
Glasgow City Council Leader
6 October 2016

#GlasgowIsOpenForBusiness

Foreword

Councillor Frank McAveety,
Leader of Glasgow City Council

This report has been prepared by Glasgow City Council with input from Glasgow Economic Leadership and Glasgow Chamber of Commerce.

A considerable amount of research has gone into its production involving consultation with leading political figures, economics experts and the business community. The report will be submitted to the Scottish Government's Standing Committee on Europe.

However it also aims to be a measured contribution to the on-going debate that there is in Glasgow and its city region about the impact of Brexit and the necessary economic and political responses.

Firstly I need to declare an interest in that regard. My council in its deliberations on the European Referendum voted overwhelmingly to remain in the EU. On June 23rd when I had my ballot paper in my hand I voted for the UK to stay as a member of the EU. So I am dismayed by the decision that was reached by the people of the UK in favour of leaving.

Nonetheless it is not the purpose of this report to rehearse the arguments that were standing at the time of the referendum. Rather it is to assess what are the likely results of leaving the EU for Glasgow and how the city should respond to what is being predicted as unfavourable economic consequences. Like in any similar circumstances of great change there will be challenges and opportunities. Our aim will be to make sure Glasgow can overcome any challenges to make the best of any opportunities. Furthermore there is the need for another qualification. We are in 'uncharted waters' for the Scottish and UK governments and in that case Glasgow has to be prepared to respond to the unexpected or the unpredictable.

Glasgow has proved itself to be resilient when faced with huge economic challenges especially in the past decade. It has developed an economically strong, broad-based economy that stands comparison with the rest of the UK and indeed the rest of Europe. The city is rightly proud of its industrial past but we are no longer reliant on a single predominant manufacturing sector.

We have a thriving tourism industry, we are one of Europe's top financial centres and in the last 10 years we have ranked third in the UK for the development of commercial property projects. I make these points to emphasise that although the economic impact of Brexit poses the city with many challenges it is necessary to recognise that Glasgow has overcome many such economic challenges in the past and is in a strong economic position to do so in the future.

Clearly there is a defined body of opinion that believes that Brexit is not a threat but rather offers an opportunity and that Scottish business, in particular, will rise to the occasion as Brexit proceeds. Central to that is the idea that the EU restricts the UK's ability to trade with the rest of the world and the new circumstances of free trade post Brexit will see a huge development of the Scottish and UK economies when the chains of EU regulations are broken.

The preponderant view of the economic research institutes here in Scotland and across the UK, private business, and official forecasts is that the likely short-term to medium consequences of Brexit, based on the uncertainties it has created, are likely to be negative. The findings of this report suggest that every element of the GEL economic work streams faces what can only be described as daunting challenges.

#GlasgowIsOpenForBusiness

I can refer to the section on Higher and Further Education as an example. The report points out that currently Glasgow and Strathclyde universities between them attract some £25m of EU research income every year and the city is home to more than 7,000 EU students and staff. The difficulties that Brexit present are self-evident. What is to be done if the student numbers fall prompted by unfavourable perceptions by both EU staff and students?

I believe that challenges of this order, along with others identified here, can be overcome but will require specific policy initiatives to be taken by the Scottish and UK governments. There are actions and asks requested in every section of the report.

Our analysis also clearly shows that there must be guarantees from the Scottish and UK governments about the replacement of all EU structural funding in the future. Further there is a clear case in the circumstances of the Brexit predictions for an acceleration of capital infrastructure works, notably in the City Deal, and a recognition that if the cities in Scotland are to be the powerhouses to overcome any of the negative consequences of Brexit, consideration should be given to further devolution of powers to enable them to act.

Thus I close on an optimistic note. I am confident that the challenges of Brexit can be overcome and that Glasgow has the sound economic framework to do so. However that requires specific actions from the Scottish and UK governments regarding the challenges of Brexit if it is to become an opportunity for economic growth and not a threat of crisis.

Councillor Frank McAveety,
Leader of Glasgow City Council

> **“ It is critical that city and metro leaders have a significant voice within their national government both during exit negotiations with Brussels and in the creation of a new national budget.”**

Bruce Katz
The Brookings Institution
12 July 2016

Observations from Glasgow Economic Leadership

Professor Sir Jim McDonald
Principal and Vice-Chancellor University of Strathclyde and Chair of GEL

Glasgow works best when it works together, focuses its collective resources and commits to a clear strategic direction, nowhere is this better illustrated than in the work of Glasgow Economic Leadership (GEL).

GEL brings together over 100 senior leaders from business, public agencies and academia to focus on how best to collaborate and maximise investment in the Glasgow economy and its key sectors: Low Carbon Industries; Manufacturing; Life Sciences; Financial & Business Services; Tourism and Higher and Further Education. In each of GEL's key sector work streams, industry leaders work with academics and public agencies to prioritise and act on how best to grow and develop their sector and to attract investment.

GEL is the principal advisory group for the Leader of Glasgow City Council on economic development and the GEL Board has discussed the implications of Brexit. David Wilson, Executive Director of the International Public Policy Institute (IPPI) at the University of Strathclyde, presented the *implications and options presented by Brexit*[1]. That was in the immediate aftermath of the Brexit vote. Though the prognosis is not at all clear, there is no doubt that Brexit is a fundamental system shock and one that poses challenges to us all; for all levels of government, educational establishments and for all business and industrial economic development partners working in Glasgow.

However Glasgow is well used to challenge, indeed, agility and proactivity are woven into the city's history; one of recurrent challenge and successful response.

Glasgow has pursued a generation-long journey to rediscover its economic dynamism after being severely impacted by the decline of its industrial base in the 1980s. In responding to that challenge, Glasgow learned new lessons from the rest of the world; it developed new ways to engage the private sector (e.g. Glasgow Action) and it rebuilt its economy as a broadly-based, high-skill economy: in technology and life sciences; in finance, business services and the professions; and, in the creative industries, tourism and events.

Glasgow must now position itself to meet the challenge of Brexit. To meet this challenge and exploit longer term opportunities, Glasgow should continue to work collaboratively with the Scottish and UK governments and their agencies. GEL's clear focus is to maximise investment in our key sectors, businesses, infrastructure and people. Only by working together can we boost our economic fundamentals: our skills, innovation and entrepreneurship.

It is on these foundations that our future will and must be based. Working collaboratively, we need to widen the number of companies and workforces engaged in innovation, upskilling and work-based learning in order to impact on our productivity and competitiveness.

Glasgow is Scotland's economic powerhouse[2]. Working together, the economic challenges of Brexit can be met and overcome within the city, across Scotland and throughout the UK.

1. University of Strathclyde blog by David Wilson, What next after EU referendum
www.strath.ac.uk/research/internationalpublicpolicyinstitute/ourblog/june2016/whatnextaftereureferendum/

2. Glasgow Chamber of Commerce 10 Reasons Why Glasgow is an Economic Powerhouse
www.glasgowchamberofcommerce.com/news-media/glasgow-buzz/2014/november/24/10-reasons-why-glasgow-is-an-economic-powerhouse/

Observations from Glasgow Chamber of Commerce

Stuart Patrick
Chief Executive

Leveraging the expertise of Glasgow Economic Leadership and working in collaboration with Glasgow City Council, the Chamber of Commerce supports the creation of a progressive, compelling and clear city narrative to take advantage of and embrace new ideas and innovations.

We will redouble our efforts to build on existing relationships and create new ones to mitigate the threats that come with leaving the EU. We will reach out to our trading partners with extra vigour in the months ahead. Time is of the essence, and we must mount a coordinated campaign on Scotland and Britain's behalf.

Glasgow Chamber of Commerce has been at the heart of the Glasgow economy for more than 250 years. It was established in 1783 in the aftermath of the American War of Independence to reach out to new markets, grow new trading relationships and bring together the collective power of Glasgow business to strengthen and secure its economic future. This approach has stood the test of time and we continue to lean on this heritage today.

In order to take advantage of the new world as it exists in the aftermath of the Brexit vote, and to seize the opportunities that will be presented to us, a clear, collective, coherent and forward looking approach from Glasgow and from the Scottish and UK governments is required.

With this in mind, we are setting up a new International Trade and Investment Unit. This will provide a practical forum where Glasgow businesses can combine their efforts, share their thoughts and experiences, bring new ideas to the table and influence and engage with policy makers.

"European leaders are in no mood to negotiate with their Bolshevik neighbour. That is why Britain should delay as long as possible before invoking Article 50 of the Lisbon Treaty, the mechanism for Brexit negotiation, which sets a two-year deadline"

The Economist
2 July 2016

Outlook for the Scottish economy

Summary

The consensus of opinion is that the UK and Scottish economies will weaken in the short to medium term as a direct result of the uncertainty generated following the UK vote to leave the EU.

This shock to the economy comes on top of a weak and uncertain recovery, especially in Scotland. In July 2016, the Fraser of Allander Institute (FAI) issued a post-Brexit economic forecast and outlook.

It forecast "a sharp slowdown in the rate of growth in the Scottish economy over the next three years" with "the largest downward revision … to growth in 2017 and 2018." However, it did caution that over the period (2016/7 to 2018/19) that although "Scotland is likely to fall short of a sustained recession … a short 'technical recession' – two consecutive quarters of falling output – is highly possible."

On balance, all the key short to medium term macroeconomic impacts will likely be negative: a decline in purchasing power via a lower value of Sterling (10%, even 15%), a reduction and 'lower for longer' interest rates, a rise in inflation (due to higher import prices of food and fuel etc.), a decline in real incomes (and consumption), a fall in business investment (due to heightened uncertainty), a consequent fall in employment and a rise in unemployment.

> **"… cities must explore other avenues for driving economic growth and investment. They should, among other things, leverage their balance sheets, [and] use municipal bonds to finance projects…"**
>
> **Bruce Katz**
> The Brookings Institution
> 12 July 2016

Economic outlook and post-Brexit re-forecasts

Growth is forecast to be weaker in 2016 and especially in 2017 and 2018.

In line with other major forecasters, the Fraser of Allander Institute (FAI) has issued a revised *post-Brexit forecast and outlook*[3]. It has significantly downgraded growth forecasts, especially for 2017 and 2018 (refer Table 1).

However, FAI still forecasts growth (refer Table 2), though the probability of a short 'recession' - 2 consecutive quarters of negative growth – over the period it says is "highly possible".

Table 1:
FAI revised forecast: %-point change from June pre-Brexit forecast by sector, 2016-2018

	2016	2017	2018
GVA	**-0.5**	**-1.4**	**-1.3**
Production	-0.5	-1.4	-1.4
Construction	-0.3	-0.8	-0.8
Services	-0.4	-1.3	-1.2

Table 2: The Fraser of Allander revised forecast Scottish GVA growth (%) by sector 2016 to 2018

	2016	2017	2018
GVA	**0.9**	**0.5**	**0.7**
Production	1.3	0.7	0.8
Construction	0.4	0.3	0.4
Services	0.9	0.5	0.7

Source: *The Fraser of Allander Institute, July 2016*

3. The Fraser of Allander Economic Commentary July 2016
www.sbs.strath.ac.uk/economics/fraser/fraser-commentary-july2016.pdf

Monetary stance

The Bank of England significantly loosened UK monetary policy in August, in response to the negative short to medium term economic impacts of Brexit.

At its July meeting, the Monetary Policy Committee (MPC) had voted for no change to the base rate (0.5%) and the Asset Purchase Programme - perhaps in response to a lack of firm post-Brexit data. At its August meeting and for the first time since 2007, it further reduced the bank rate by 0.25% to 0.25%. This was in stark contrast to the pre-Brexit discussion of when the Bank would increase rates. The Governor of the Bank of England has been steadfast in noting the Bank's readiness to respond robustly to any negative macroeconomic impacts of Brexit, He also signalled that monetary policy was reaching the limit of what it can achieve alone, without an active fiscal policy response.

Fiscal stance

It is likely that the UK Government will loosen fiscal policy, though this will not be known until the Autumn Statement, probably in November.

This move to loosen the Government's fiscal stance began, post-Brexit in early July, with the then Chancellor of the Exchequer, George Osborne, abandoning the Government's long-term Fiscal Charter to generate a surplus in the UK's public finances by 2020. Subsequently the new Chancellor signaled the Government's willingness to reset fiscal policy in his forthcoming Autumn Statement. Comment appears to revolve around reducing corporate and personal taxation as well as a significant boost to investment in infrastructure; energy, transport and housing.

Trade

Scotland's export performance has been weak (and narrowly-based) for some time and Brexit will likely further undermine performance.

In 2014 total Scottish exports to the EU were greater than the sum of all of Scotland's other international exports. Almost £12bn of Scotland's international (ex-UK) exports are to the EU, two and a half times larger than to its next largest export destination, North America. In addition, EU companies in Scotland account for 42% of all foreign-owned enterprises and 36% of all foreign-owned company jobs across almost 1000 enterprises. They support more than 100,000 jobs with a turnover of £34bn.

The weakening of Sterling is unlikely to offset the impact of a weaker UK demand and not feed through to boosting exports.

Though a weaker exchange rate will initially assist export industries (manufacturing, oil and gas, tourism etc.) this impact will be eroded by weakening UK demand and increased prices of imported goods and services, leaving exports at best unchanged, if not weaker due to higher import prices as they feed through.

The UK (and Scotland's) final trade deal with the EU will be not be known until the conclusion of Article 50 negotiations in 2019-20, or even later, further feeding business uncertainty.

The final terms of Brexit – i.e. what is desired by the UK (and the devolved governments), what is eventually negotiated between the UK and the EU Commission, and then what is agreed by the EU Council of Ministers – remains unknown. This uncertainty will continue to be the case until well into the Article 50 process, which the Prime Minister has indicated will be triggered before the end of March 2017.

The UK will only be able to negotiate new, bi-lateral trade deals once it has formally exited the EU (c. 2019/2020).

The new UK Secretary of State for International Trade, Liam Fox, has indicated that the UK will not be able to negotiate any new, ex-EU, bi-lateral trade deals until the UK has formally exited the EU. Until then, the UK and Scotland's post-EU trade environment will be largely unknown and uncertain feeding business uncertainty.

Industry sector impacts

All economic sectors will see mark downs to growth, with manufacturing worst hit.

According to the Fraser of Allander Institute, construction will come “perilously close” to zero growth, while services and production (i.e. manufacturing) will post growth of below 1%. Manufacturing will be worst hit, especially those companies and sector which trade with the EU.

Labour market

Post-Brexit, unemployment is projected to increase, with further pressure on people to leave the labour market.

The Fraser of Allander Institute has revised up its forecast for unemployment as a result of Brexit, from its former March forecast rate of 5.5% to 7.0% in 2017 (refer Table 3).

Table 3: FAI forecast of Scottish unemployment in central forecasts, 2016 to 2018

	2016	2017	2018
ILO unemployment	173,500	188,250	183,050
Rate (%)1	6.5	7.0	6.8

Note: Rounded to the nearest 50. 1 = Rate calculated as total ILO unemployment by total economically active population 16+.

Source: *The Fraser of Allander Institute, July 2016*

Glasgow economy and key sectors, pre- and post-Brexit

After the 2008 global financial crisis, in line with most UK Core Cities, Glasgow was hit hard and is forecast to recover only 40% of its post-2008 jobs losses by 2038.

Employment in the Glasgow city region peaked in 2008 at 954, 000 and fell to a low of 867,600 in 2012. *Oxford Economics*[4] forecast that only 40% of this drop would be recovered in the 25 year period to 2038, though 50% of that will be in Glasgow.

The post-crash Glasgow economy had positive economic indicators:

- Relatively large share of working age adults
- Glasgow's graduate level workforce above its large Core City competitors
- Third highest level of commercial property investment in UK in the past decade
- GVA of £19.25 billion
- Productivity sixth highest in Scotland at £2,500 per capita above Scottish average
- GVA growth predicted at 2.5% pa until 2023 – above the Scottish average
- Business base increased by 2,000 firms over past two years

... plus some (longstanding) challenges:

- An over-reliance on Public Administration, Finance and IT
- Job levels in 2014 still 30,000 below pre-recession levels
- Long-term unemployment remained high; 30% in 2014, compared to 13% in 2009.
- Population growth slower than most UK comparator Core Cities
- Continuing and significant health and skills inequalities.
- Forecast additional 23,000 jobs by 2023, though still below pre-recession peak.

4. Economic Outlook and Scenarios for the Glasgow and Clyde Valley city region 2013-2038 www.clydeplan-sdpa.gov.uk/files/BR3.pdf

Glasgow Economic Leadership (GEL) was established - following work conducted by the independent Glasgow Economic Commission - as Glasgow's response to the global financial crisis. Significantly, the key sectors identified by GEL have outperformed the Glasgow economy as a whole.

Glasgow's GEL sectors posted an above-average increase in employment of 5.7% compared to a Glasgow economy average of 2.2%, (2011- 2015), equivalent to 6,200 net new jobs. And this despite a large fall of 3,000 jobs – the largest of any sector - in Financial and Business Services.

Post-Brexit, the Glasgow economy is facing two sets of difficulties - (continuing) post-2008 growth challenges, plus forecast and reported short to medium term post-Brexit mark downs.

Since the Brexit vote, business uncertainty has risen as noted by the recent *the Fraser of Allander post-Brexit business survey*[5] that reported that most businesses see Brexit as unwelcome and something that will impact on growth, investment and hiring decisions. The survey did find that notwithstanding heightened business uncertainty – and an almost universal lack of any prior planning for Brexit – that current business plans are "on hold" rather than having been scrapped.

In some sectors in Glasgow – notably property and Financial Services – growth plans have been trimmed / marked down.

Business uncertainty has been heightened and in the absence of UK government plans for Brexit will continue for some time to come – at least until the Autumn Statement. Brexit clauses in property deals have been exercised and forward growth projections in Financial Services have been trimmed – especially in those areas exposed to trading in a European market environment.

Actions and asks:

1. UK and Scottish governments to accelerate Glasgow City Deal capital infrastructure investment (e.g. upgrade of surface access to Glasgow Airport).
2. UK and Scottish governments to maintain and increase a post-Brexit Structural Funds programme.
3. UK and Scottish governments to ensure that any future trading arrangements offer the minimal of disruption with no further trade barriers.
4. Scottish Government to press for an increase in Smith Commission-sanctioned capital borrowing limits to maximise infrastructure spending in Scotland.
5. Glasgow City Council to identify high impact transport, housing and energy projects to benefit from any additional UK / Scottish Government infrastructure funds.

5. The Fraser of Allander Institute Business Survey www.sbs.strath.ac.uk/economics/fraser/Fraser_of_Allander_Business_Survey_-_First_reactions_to_EU_Referendum_Outcome.pdf

Low carbon industries (renewable energy technologies)

Glasgow is Scotland's key energy industry centre home to ScottishPower, one of the UK's largest energy companies, SSE, the headquarters of the global energy/engineering consultancy and design companies plus small, innovative renewables and related companies.

Glasgow has a strong energy industry renewable technologies platform: based on direct industry engagement with the city's universities. Glasgow is the headquarters of the UK Renewable Offshore Energy (ORE) Catapult, located adjacent to the Technology & Innovation Centre (TIC) at the University of Strathclyde. ORE works with industry partners to test, develop and deploy new technologies in the offshore renewable energy sector.

In addition, the Power Networks Demonstration Centre (PNDC) at Cumbernauld works with energy generators and grid operators, Original Energy Manufacturers (OEMs) and innovative Small Medium Sized Enterprises (SMEs) to develop more efficient ways to transport electricity in bulk, a vital element to unlock Scotland's dispersed renewable energy potential.

The low carbon and renewable energy sector has been buffeted by an uncertain and changing UK regulatory and fiscal environment that has de-prioritised support to the solar, carbon capture and storage, marine and on/off-shore wind sectors.

The general slowdown in the economy will constrain household and business demand; Sterling devaluation will increase energy prices (and inflation) and act to reduce energy demand, including demand for renewable energy - and may further weaken any sizeable switch to greener energy.

It is vital that Scotland (and the UK) remains in the EU Internal Energy Market (IEM) to enable Scotland's low carbon energy resources to be exploited and exported.

Given Scotland's rapid move into renewable energy and the loss of its baseload supply from coal (Longannet power station generated 20% of Scotland's electricity) has meant it has routinely become a net electricity importer. It is vital that the interconnector infrastructure is in place to enable renewable energy capacity - which increased by 5% or 406MW in 2015 - to be exploited/exported and to enhance system security/resilience via power imports at times of system stress or generation shortfalls.

The *National Infrastructure Commission's Smart Power report*[6] noted: "Linking European electricity markets through interconnection can also enable low carbon sources of electricity, particularly renewable electricity, to be deployed at a lower cost. It allows renewables projects to be sited where they are best suited, for example offshore wind in the North Sea … with the electricity exported to where it is most needed."

6. National Infrastructure Commission's Smart Power report
www.gov.uk/government/uploads/system/uploads/attachment_data/file/505218/IC_Energy_Report_web.pdf

Actions and asks:

1. UK and Scottish governments to ensure that UK remains in the EU Internal Energy Market (IEM) to enable the exploitation of Scotland's renewable energy potential.

2. UK Government to outline its longer-term energy policy, especially with respect to the exploitation of the UK and Scotland's large renewable energy potential and move towards addressing energy system needs in electricity, heat and transport.

3. UK and Scottish governments to continue to invest in renewable energy technologies and projects in Glasgow and leverage investment of Glasgow City Council, Glasgow Housing Association and the National Health Service

4. Scottish Government to continue to promote its world-leading climate change targets as an attractor to business and innovation investment.

5. Scottish Government and Glasgow City Council to strengthen the marketing of Glasgow as a renewable energy technology and innovation centre and develop new ex-EU markets for low carbon products, services and technologies.

> **"For the EU to survive it will be important for the UK to be seen to pay a high price for leaving. We don't know what that price is going to be and I don't look forward to finding out."**

John Lancaster
London Review of Books
28 July 2016

Manufacturing – widen productivity and innovation support

Glasgow is one of the UK's largest manufacturing and technological centres:

Glasgow has several FTSE manufacturing companies including Weir Group, Aggreko, BAe Marine Systems, Clyde Blowers and Edrington, plus a significant number of SMEs and tech companies such as Clyde Space. Glasgow's Digital GVA is £480m, a figure greater than Dundee (£61m) and Edinburgh (378m) combined. *Tech Nation*[7] estimates Glasgow has 25,350 tech jobs – placing it eighth in the UK.

Glasgow has a strong manufacturing and engineering supplier and skills base:

Manufacturing and engineering companies in Glasgow supply into corporates and into wider UK and overseas markets. In addition, Glasgow has a very significant skills base as one of the UK's major centres for design and consulting engineering - across civil, mechanical, electrical and marine – that is supported by world class engineering skills in its universities and colleges.

The Brexit-related fall in Sterling is unlikely to stem the long-term decline of manufacturing or manufacturing exports, given the forecast reductions in UK demand.

The fall in Sterling will help industries that export, especially manufacturing (whisky, food and drink, pharmaceuticals and chemicals) and penalise import sectors (manufacturing inputs, consumer goods, foreign travel.) It is unlikely that devaluation in itself will boost manufacturing competitiveness and exports. The increased cost of imported inputs and technologies will see a continuation of the slow adoption of new technologies. Though signals appears mixed, the latest Scottish Engineering survey points to a downturn in the sector.

For manufacturing to flourish post-Brexit will require a strong(er) focus on practical ways to improve innovation including workforce innovation and skills productivity and exports.

The new UK Government's new focus on industrial policy may provide an opportunity for Scotland to build a more activist industrial policy to boost the development of manufacturing as a source of high wage employment, innovation and exports.

7. Tech Nation 2016 report
www.techcityuk.com/wp-content/uploads/2016/02/Tech-Nation-2016_FINAL-ONLINE-1.pdf?utm_content=buffer2e58f&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer

Actions and asks:

1. UK Government to outline its industrial policy position, including how it will positively impact on productivity (including workforce) innovation and exports.
2. UK Government to posit a new, activist industrial policy to reboot the UK and Scottish manufacturing base for the post-Brexit era.
3. Scottish Government to exploit the opportunity of a UK industrial policy and specify / resource an industrial policy to focus on productivity, innovation and exports.
4. Scottish Government to specify a manufacturing competitiveness strategy that increases the number of companies involved in innovation, upskilling and exporting.
5. In economic development and skills, the Scottish Government to direct its agencies to develop new ways of working to better enable Glasgow and Scotland's cities to better compete, innovate and grow their economies.
6. Scottish Government to expand the work of Scottish Manufacturing Advisory Service (SMAS) and better align allied support for workforce innovation and skills.
7. Scottish Government, industry, colleges and universities to significantly increase the number of companies and organisations offering work-based learning via increased delivery of Foundation, Modern and Higher Apprenticeships.

"Some in Britain speak blithely of relying on the rules of the World Trade Organisation after Britain has left the EU. They ignore the fact that Britain is a member of the WTO under the auspices of the EU. Creating an entirely separate British WTO membership requires another set of complex negotiations."

The Financial Times
4 October 2016

Life sciences – grasp global opportunities

The Glasgow BioCorridor has the largest concentration of life sciences activity in Scotland: by companies, universities, research hospitals and specialist Institutes.

The Glasgow Economic Leadership has led on the development of the Glasgow BioCorridor as a nationally significant development proposition for life sciences in Scotland. Its development has the backing of Scotland's company, university, health and research base.

Life sciences though a relatively small subsector of the Glasgow and Scottish economy in terms of jobs and output, is high-value, high-wage and crucially highly export-orientated.

Life sciences and pharmaceutical manufacturing more broadly are key components of Scotland's innovation, manufacturing, technology and export base.

The impact of Brexit on the life sciences sector may well be positive.

Given the global export orientation of the sector, the decline in Sterling will boost exports and incentivise companies to insert themselves further into global supply chains across the globe.

However, given the SME nature of the sector and its very close ties with the universities, continuing access to global talent is a key issue:

Scottish life science companies have very close technology, innovation and talent links to the universities. It is essential that this innovation-rich sector continues to be able to access global talent to grow.

Access to EU funding for research is a key element in the success of Scotland's life science sector.

The continuing uncertainty over access to EU 2020 research funding for Scotland's universities and companies is a key risk for the sector as it continues to innovate, develop and grow.

In scale terms at the Scottish level, the impact of Brexit on the sector will be determined by the fortunes of GlaxoSmithKline's Grangemouth plant.

The recent £110m investment by GSK in its Montrose plant is a very welcome addition to the sector in the Scotland and indeed the UK and may signal further expansion.

The longer term success of the sector will relate fundamentally to the UK Government's ability to further develop the Patent Box, a special tax regieme for intellectual property revenues, outwith restrictions from the EU.

Brexit may allow the UK to attract further investment in the life science and pharmaceutical sectors. However, this is dependent on the final deal negotiated by the UK Government and the EU.

Actions and asks:

1. Scottish Government to increase the marketing of Scotland as a global life sciences location that has an open, hi-tech, university and innovation-rich ecology.
2. Glasgow City Council and GEL partners (private sector, Scottish Enterprise and Scottish Development International, universities) to resource and promote the Glasgow BioCorridor as a key Scottish and UK life sciences development.
3. Scottish Government , Glasgow City Council and the Chamber of Commerce to support life science companies to increase their global outlook and integration in global supply chains.

“ **Brexit means Brexit and we are going to make a success of it.”**

The Right Honourable Theresa May MP
Prime Minister of the UK
July 2016

Finance and business services – passport to success

Finance and Business Services (F&BS) is a significant sector in Scotland; financial services alone employs 95,000 people, generates turnover of £7bn and contributes nearly 7% of Scotland's Gross Domestic Product.

Glasgow (with Edinburgh) is the principal location of F&BS in Scotland, with Glasgow the location of several global financial services technology operations.

Glasgow is the headquarters of the FTSE 100 Clydesdale Bank PLC plus a number of global brands (including Barclays, Morgan Stanley, BNP Paribas, J P Morgan). As a financial centre *Glasgow is ranked as 70th worldwide and 24th in Europe*[8] (Edinburgh is 71st and 25th in Europe).

Financial Services in Scotland could be one of the biggest winners - or losers - as a result of Brexit.

Some have argued[9] that if managed properly, a break from the UK while maintaining Scotland's access to the single market, could see 50,000 financial jobs coming to Edinburgh and Glasgow. If Scotland leaves the EU with the rest of the UK, the sector could well contract, with the loss of over 5,000 jobs.

There is anecdotal industry evidence of a softening of FS growth plans in operations whose growth had been based on transfer of jobs from the EU into Glasgow and Scotland.

Given current uncertainty it is likely that financial services growth plans may soften, especially in those operations most closely linked to servicing overseas, including European, markets.

Pre-Brexit office uptake in Glasgow in 2016/ Quarter 2 was the strongest since 2007 with a squeeze on new Grade A office supply.

With strong uptake of 272,414 sq ft in 2016/ Q2, this is leading to a squeeze on new Grade A office accommodation supply. Currently in Glasgow city centre there is no committed new development capable of completion before 2019.

The pressure on UK financial services companies to reduce operating costs, will continue to provide opportunities to move financial services activity from London to other UK cities, including Glasgow:

On-going pressure to reduce operating costs will be strengthened by any Brexit economic slowdown, however available property supply may need to be encouraged and incentivised by the public sector (e.g. rental guarantees, business and water rates relief etc.).

It is likely that F&BS will face a challenging environment.

In the short to medium term, the development and expansion of the International Financial Services District (IFSD), Glasgow's premier F&BS location will face some challenging times, in the absence of public sector support.

8. The Global Financial Centres Index 18, September 2015
www.longfinance.net/images/GFCI18_23Sep2015.pdf

9. University of Strathclyde Business School web article entitled Scotland's financial sector faces a two edged Brexit sword by Daniel Broby posted June 29, 2016
www.engage-sbs.com/scotlands-financial-sector-faces-a-two-edged-brexit-sword/

Actions and asks:

1. UK and Scottish governments to ensure that financial services companies in Scotland retain their ability to passport within the EU.
2. Scottish Government – with GEL partners - to enhance UK / overseas marketing of Scotland and Glasgow as a competitive financial services location.
3. Scottish Government to introduce a two year moratorium on non-domestic rates for unlet Grade ‘A’ new-build developments to enable the provision of Grade A property.
4. Glasgow City Council and GEL to increase marketing of Glasgow and its ready supply of industry-ready F&BS skills, plus its excellent industry, college and university links.

> **“ My experience of businesses is that they are very resilient...Instead of negative attitudes and worrying about downturns Scots firms will look outwards and seek new opportunities.”**

Lord Dunlop
Under Secretary of State for Scotland
2 August 2016

Tourism and events – opportunities to grow

Tourism and events is a large employment sector in the Glasgow economy and is reliant on UK and international visitors, plus the day visitor market.

It is expected that there will be downward pressure on UK budgets across the UK and day visitor segments. However, international tourism (businesses and visitors) will be boosted by a weaker Sterling, though it may take time for this to build.

The International Air Transport Association *(IATA)*[10] has forecast that as a direct result of Brexit, the number of UK air passengers will fall by 3-5% by 2020:

As UK air travel is dominated by outbound travellers, the fall in Sterling will reduce foreign travel from the UK and increase travel to the UK. This will be particularly the case at Glasgow Airport that has a strong outbound tourist destination market.

Business tourism (i.e. overnight visits generated by business, including conferences and events) is an important segment of Glasgow's tourism market:

It is likely that the UK domestic business will weaken. However, the smaller, higher-value international business tourism segment may well grow into the medium term with the fall of Sterling increasing international business interaction in the city and attendances at international conferences and events. Increased conference bookings will likely happen over the medium term, with events increasing in number and value from 2019/20 onwards. Already confirmed international events and conferences may well attract additional international delegates due to the fall in Sterling.

It is expected that overseas tourism to Scotland will increase over the medium term:

Given a forecast sustained fall in Sterling, it is expected that international tourism to Scotland will increase. Given this, Glasgow needs to strengthen its position as both a key Scottish destination and gateway to maximise its attractiveness to touring visitors to Scotland. The city should boost the marketing and development of the city's unique Mackintosh heritage, galleries and museums and its retail, entertainment and leisure offer.

It has been estimated that *reducing Air Passenger Duty (APD) by 50% will boost Scotland's economy by £200m pa, create nearly 4,000 jobs and pay for itself in terms of lost revenue*[11]. This would help boost Scotland's international air connectivity, something that is central to the future success of Scotland's international trade ambitions.

10. The International Air Transport Association (IATA), The impact of Brexit on UK Air Transport published June 2016
www.iata.org/publications/economic-briefings/impact-of-brexit.pdf

11. Edinburgh Airport report, The impact of reducing APD on Scotland's airports published March 2015
www.s3-eu-west-1.amazonaws.com/edinburghairport/files/2015/03/20150308_Edinburgh_Airport_APD_study_March_2015.pdf

Actions and asks:

1. Scottish Government to implement its commitment to cut Air Passenger Duty (APD) by 50% to boost the competitiveness of the tourism sector and the Scottish economy.
2. Scottish Government to work with the UK Government to ensure the sector's continued access to foreign skills.
3. Scottish Government (via VisitScotland) to enhance overseas marketing of Scotland and Glasgow as an increased value destination and gateway for foreign tourists.
4. Glasgow City Council and GEL partners to develop Glasgow's offer as both a tourism destination and gateway to Scotland to maximise its tourism opportunities.
5. Scottish Government and Glasgow City Council to continue to attract and incentivise international conferences and events to Glasgow and Scotland.

"GSK invests £110m in Montrose plant - pharmaceutical giant dismisses Brexit fears with £275m package for its UK sites."

The Herald
22 July 2016

Higher & Further Education – a global education destination

Higher & Further Education (HFE) is one of Glasgow's crown jewel sectors and is the second of third largest centre of HFE in the UK (outside London) with 82,000 university and 110,000 college students.

Glasgow's sector is also Scotland's largest centre of HFE, with approximately a third of the Scottish HFE income, research income and student numbers.

Glasgow's HFE sector is highly international, attracting students and staff from across the UK, Europe and the world with 15,000 foreign students, of whom 6,400 are EU nationals as are 1,230 staff.

Any diminution of Scotland's engagement in key EU academic programmes student exchange (ERASMUS) and research (Horizon 2020) will impact negatively on the HEI sector in particular and may impact on forward investment programmes.

HFE sector is a key component of Glasgow's export economy, attracting research and fee income as well as industry investment, global talent and visitors.

Universities in Glasgow attract £25m per annum in EU research income. The city's foreign students, including for example the city's 3,000 plus Chinese students, not only contribute to universities' income, they support both private sector-funded / operated student accommodation suppliers and many other local businesses, including the city's night time economy. Increasingly foreign students support international flights in and out of Glasgow and Scotland as do visiting family and friends.

Glasgow's HFE sector is a key component of Glasgow and Scotland's innovation base.

Glasgow is home to numerous industry-facing and funded innovation institutes including Advanced Forming Research, Power Networks Demonstration Centre and the UK's only Fraunhofer Institute. These support industry innovation across manufacturing, energy, renewable technologies, MedTech, Precision Medicine, Sensors, Pharma Manufacturing.

Brexit's impact Sterling will make study in Glasgow cheaper for foreign students, though this may be offset by increased negative perceptions of the UK and Scotland as destination that welcomes international students.

The danger is that Brexit is interpreted as a vote against foreign nationals, including foreign students. This, plus on-going concerns with UK student visa regulations that have already impacted heavily on Indian student numbers may likely make the UK including Scotland a less popular global student destination.

Actions and asks:

1. UK Government to guarantee Horizon 2020 funding beyond 2019/20 and clarify the immigration status of EU students for 2017/18; we welcome the commitment by the Scottish Government to fund the studies of all EU students enrolling or currently studying in Glasgow and Scotland.

2. Scottish Government to continue to exert pressure on UK Government on the visa position and immigration status of inbound overseas students.

3. Scottish Government to give greater priority to direct promotion of Scotland as a global and welcoming centre of higher and further education.

4. GCC and GEL partners via GEL HFE Marketing Group to work with Glasgow City Marketing Bureau (GCMB) to market Glasgow as a global HFE destination.

" Britain faces at least two years of economic turbulence and a period of "fiscal uncertainty" as it prepares for Brexit in 2019 and the prospect of a clean break with the EU, Chancellor Philip Hammond has warned."

The Financial Times
4 October 2016

Responding to Brexit: policy and governance responses

Brexit has been a political and economic shock. In its wake this has led to a new UK Prime Minister and government and to very significant changes to UK fiscal, monetary and industrial policy:

Brexit is a fundamental system shock that has led to a fundamental review of policy across a broad area. The Scottish Government has responded at the UK and EU level to ensure that Scotland's voice is heard in the complex negotiations that will follow the Brexit vote. In tandem it is vitally important that Scotland's key economic engine, Glasgow, has a voice in shaping Scotland and the UK's negotiating position It needs the powers and resources to respond to Brexit's economic challenges and opportunities.

Cities need to be at the forefront of responding to the economic (and social) impacts of Brexit:

As the *Core Cities has noted*[12], responding to Brexit is not only about negotiating positions with regard to the loss of £1.8bn of EU Structural Funds that has helped to co-fund UK infrastructure and vital economic and labour market programmes over the past two years; or the £5.6bn of European Investment Bank funding in 2015 that has helped finance infrastructure, innovation and university expansion; or indeed the £1.8bn of EU research funding that has helped to underpin the excellence of Scotland and Glasgow's academic and innovation excellence: and all of which have been disproportionately invested in Scotland's (and the UK's) cities. Critically important as these no doubt are, it is also about cities' having the powers and resources to work collaboratively with national agencies on-the-ground to address issues of low growth, productivity, skills, innovation and trade.

Brexit is also an opportunity to revisit and align the Scottish Government Economic Strategy to an enhanced Scottish Cities policy, especially via the current review of Scottish Entrprise, Scottish Development International and Skills Development Scotland:

As noted by the *Fraser of Allander Institute*[13], the extraordinary economic and political impact of Brexit, requires a review of current policy. In particular it recommends "a practical look at 'how' the [Government] Economic Strategy can best be delivered outside the EU ... should extend beyond the current review of Enterprise and Skills bodies and involve business, trade unions and other key stakeholders." The key stakeholders include Scotland's cities - and Glasgow most especially, given its centrality to creating a wealthier, fairer, greener and healthier Scotland as set out in the *Scottish Government's Strategic Objectives*[14].

12. AdiEU: The Impact of Brexit on UK Cities by Metro-Dynamics
www.static1.squarespace.com/static/55e973a3e4b05721f2f7988c/t/5788f58cc534a5d05cbed52a/1468593554958/AdiEU+-+15+July.pdf

13. Brexit: What next for Scotland's Economic Strategy? By Andrew Goudie & Graeme Roy, The Fraser of Allander Institute at University of Strathclyde
www.fraserofallander.org/2016/07/08/brexit-what-next-for-scotlands-economic-strategy/

14. Scottish Government Strategic Objectives
www.gov.scot/About/Performance/scotPerforms/objectives

#GlasgowIsOpenForBusiness