# Industrial Strategy Advisory Council:

# Developing local capability for economic growth – insights from Greater Manchester and the West Midlands

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## About the Industrial Strategy Advisory Council

The Industrial Strategy Advisory Council (ISAC) is an independent expert committee, responsible for advising government on the development and delivery of the UK's modern Industrial Strategy and monitoring progress on its objectives.

In its first year, the Council was commissioned by the Chancellor of the Exchequer and Secretary of State for Business and Trade to work on three priority areas alongside its ongoing advisory role: labour markets and skills, dynamism in the UK and strengthening the monitoring and evaluation of the Industrial Strategy.

This report is one of a series of publications from the Council under that work programme. Further outputs will be published over the year, culminating in the Council's annual report. Further details of the Council's remit and work programme can be found on gov.uk.

# Foreword

The Industrial Strategy is critical to delivering the stronger regional economic growth that will boost the resilience of the UK economy and deliver higher living standards across the UK. The UK has major economic strengths including strong institutions, a highly skilled workforce and world-leading innovation capability. However, we also have some of the most acute regional economic disparities across comparable economies. Tackling this challenge is an urgent priority if we are to realise the vision of stronger national growth and productivity that is set out in the ten-year Industrial Strategy.

This is a deeply complex issue and there are no easy fixes to reversing decades of regional growth inequality. But there are reasons for optimism; over the last few years we have seen Greater Manchester start to close the productivity gap with London. The challenge now is to accelerate that progress and ensure that other regions of the UK can make similar gains by successfully turning local assets and strengths into growth.

The Industrial Strategy already has a clear place-based focus, but in this report, we set out the case for national government to prioritise supporting local areas to build the capability and expertise to determine their own economic futures. Having strong local institutions that understand their economy, use evidence well, build a shared vision, develop investable propositions, and coordinate across planning, housing, skills, and transport is essential in driving growth. National government must therefore make strengthening local economic capability a central part of how the Industrial Strategy is delivered, with departments working together to support places to understand their local strengths and turn them into long-term growth.

I am grateful to my Council colleagues who led this work: Keith Anderson, the Rt Hon Greg Clark, Chris Grigg CBE, and Dana Strong CBE. I also want to thank colleagues who have supported this project as part of the Council's strategic partnership with the University of Manchester's innovation unit, Unit M.

***Professor Henry G Overman OBE, Member of the Industrial Strategy Council and Chair of the Place Project***

# Executive Summary

In December 2025 the Industrial Strategy Advisory Council was asked to consider how business dynamism can be strengthened across the UK to support the Industrial Strategy's ambition for sustainable economic growth in every part of the country. As the Industrial Strategy recognises, closing the growth and productivity gap between London and the rest of the UK is vital to achieving sustainable national growth and delivering good jobs and higher living standards across the nation.

This report focuses on Greater Manchester and the West Midlands, two major regional economies, to draw practical lessons on how national government and local partners can boost productivity, support economic diversification, and build on distinctive local strengths. This is a not a comprehensive answer to the question of how to close the UK's regional economic inequalities, but a short, sharp and focused deep dive into the factors that have shaped economic performance and business dynamism in those two regions, and the lessons we can draw.

Greater Manchester and the West Midlands have followed different economic trajectories over the past decade. The productivity gap between Greater Manchester and London has narrowed over this time. Since 2016, Greater Manchester has seen stronger than average productivity and employment growth, a shift towards employment in IS-8 sectors (particularly knowledge-based, tradeable services) and developed a strong record of attracting greenfield foreign direct investment. The West Midlands, which has world-leading advanced manufacturing capability and a skilled and extensive labour market, has struggled to close the productivity gap with London. Sectoral composition alone does not fully explain this performance gap, pointing to the importance of local factors, including institutions, assets, networks, and the ability to coordinate policy and investment over time.

Across both city regions, we spoke to businesses and local partners to identify a set of practical conditions that support local business dynamism. These include affordable and suitable workspaces; access to skilled labour and dense labour markets; strong university and research assets; reliable transport and digital connectivity; high-quality business support ecosystems; social capital and a clear 'place' brand. These factors should be treated as important considerations for local leaders when developing evidence-based growth plans, rather than as a generic checklist for every place.

This report also identifies constraints that can limit local scale-up and productivity growth. Businesses in both areas pointed to shortages in senior management and specialist skills, gaps in scale-up finance, rising housing, transport and workspace costs, and the risk that firms leave local economies as they grow. Tackling these constraints requires local institutions that can identify barriers, prioritise credible opportunities, coordinate across policy domains and work effectively with business, universities, and delivery partners.

The central conclusion is that there is no one-size-fits-all "solution" to boosting local economic dynamism and top-down national policies alone will not be effective. Places differ in their sectoral strengths, assets, institutional capability, and opportunity sets. Effective local growth policy therefore depends on local economic capability: the ability to understand strengths, constraints and local needs, and the ability to develop an evidence-based economic strategy, align partners around shared priorities, build investable propositions and deliver coordinated interventions across skills, planning, transport, digital connectivity, housing, innovation and business support.

Our core recommendation is that national government should focus on enabling and incentivising stronger local economic capability, supporting local authorities and partners to develop their analytical base and policy capacity. This will require strong coordination across the Department of Business and Trade (DBT) and HM Treasury (HMT) as business and growth departments, the Ministry of Housing, Communities and Local Government (MHCLG) on housing, the Department for Transport (DfT) on transport and the Department for Education (DfE) and the Department for Work and Pensions (DWP) on skills, ensuring departments act as one in pursuit of joined-up growth objectives. This partnership approach between national and local authorities should define the capabilities places need, assess cross-cutting analytical and delivery gaps, ensure local government can access the high-quality expertise and resource its needs, support readiness for further devolution and simplify funding and reporting requirements so local partners can focus on growth. While this report focuses on two English city regions, we recognise that stronger cross-border collaboration will be vital to driving UK-wide growth and look forward to exploring this further with devolved governments.

For local partners, Greater Manchester’s experience shows the value of strong coordination: aligning institutions, policy levers, investment priorities, and a credible external narrative behind a long-term economic strategy. The aim should not be to replicate one city-region’s policy mix or prescribe what specific places should do, but to help each place build the capability to identify and act on realistic growth opportunities in its own economic context.

# Introduction

1. Achieving the Industrial Strategy's ambition to deliver sustainable economic growth in every part of the UK will require increasing the productivity of the UK's largest city regions. Since deindustrialisation in the early 1980s, productivity differences across UK regions have increased and, without concerted action, gaps between UK regions and London/South-East are projected to rise further between 2025 to 2029. Reflecting this challenge, the government has asked us to consider how business dynamism can be boosted in different areas across the UK in support of growth. This report focuses on Greater Manchester and the West Midlands, two of the biggest regional economies, to identify practical lessons for how central government and local partners can boost growth and productivity across the UK.

2. In the UK, stark disparities in productivity performance of different places are well documented. Disparities typically reflect a combination of factors that include differences in economic structures and national sectoral trends, local assets (such as physical, human and social capital), public infrastructure as well as the quality of local institutions and the design and implementation of local economic policies such as those relating to R&D, skills, transport, planning and business support. These factors shape local strengths and capabilities which in turn influence the options available to diversify local economies in response to new opportunities, such as those presented by the growth-driving sectors (IS-8) [1] and frontier industries identified in the Industrial Strategy.

3. Business dynamism is an important source of productivity growth. Our report on Disruptive Business Models[2] made the case that the UK needs greater business dynamism to support innovation, productivity, and growth. This refers to the entry and scale-up of new businesses, as well as the exit of uncompetitive businesses. At the local level, this can also include the attraction of young, innovative businesses to scale in a particular local economy. Business dynamism drives the reallocation of capital and labour towards high innovation and higher productivity firms within existing sectors in a local economy. It also supports structural change at the local level, driving the growth of new capabilities and the emergence of new sectoral strengths in local economies.

4. This report examines the factors which can support or constrain the emergence of business dynamism at the local level. Through a combination of desk-based research, data analysis and engagement with businesses and local institutions, this report explores the economic experience of Greater Manchester and the West Midlands, two major city-region economies that are critical to national productivity and the delivery of the Industrial Strategy.

# Section 1: Findings

## A comparison of economic dynamism across the Greater Manchester and West Midlands city regions

5. The economic performance of Manchester and Birmingham and their respective city regions have diverged markedly over the past decade. While headline statistics are likely to overstate the true extent of divergence, many city regions continue to lag London, the wider South-East and international comparators. Greater Manchester however has shown signs of "catch-up", with productivity and employment increasing faster than in many peer regions since around 2017. Our analysis finds that this widening performance gap is not fully explained by Manchester's sectoral composition, suggesting that there are strong local factors influencing growth.

6. Our data analysis suggests that Greater Manchester does not stand out in terms of standard indicators of business dynamism such as higher business entry and exit rates, or job reallocation rates). It has, however, diversified into the IS-8 sectors significantly more strongly than the national average over the last two decades. Since 2016, the IS-8 share of employment in Greater Manchester has increased by 1.4 percentage points to 21.3% in 2022, moving the city region above the national share of 21%. Meanwhile, the West Midlands has seen a smaller increase and remained well below the national average, with an IS-8 employment share of 17.6% in 2022.[3]

7. Greater Manchester's relative success is largely driven through the performance of its IS-8 services sectors (for example Professional and Business Services and Financial Services). These services sectors in Greater Manchester have outperformed national growth since 2016 by 10.5 percentage points.[4] Greater Manchester also stands out strongly in its ability to attract foreign direct investment (FDI) over the period.[5]

## The common drivers and constraints of local business dynamism across Greater Manchester and the West Midlands

8. Despite the economic differences between Greater Manchester and the West Midlands, our research and business engagement identified a set of common drivers and constraints to local business dynamism that local leaders should place at the centre of their growth plans. Many of the same themes came out from businesses who have a footprint in both regions. More detailed discussion of these areas is set out in Annex 2.

**The following conditions, that support business start-up and scale-up, should be core considerations in local growth planning.**

8. Businesses consistently identified conditions such as lower operating costs (for example, cheaper office space), access to top talent, and a thriving cultural scene as significant factors in making a region an attractive place to start, grow and locate a business.

9. Businesses across both regions highlighted the following factors as significant to growth and these should be key considerations in the development of coherent local growth strategies. Strong local economic capability will help places identify which conditions matter, prioritise interventions and coordinate delivery across planning, skills, transport, investment, and business support.

    - **The importance of city centre regeneration and affordable office space:** Sustained, coordinated investment in regeneration and commercial space has played a central role in enabling growth. Visible regeneration enhances investor confidence and place attractiveness, in turn supporting the retention of skilled workers and graduates.

    - **The necessity of access to dense, skilled labour markets and the critical role of universities:** Strong graduate pipelines, graduate retention and alignment between education provision and employer demand support growth in high-value sectors. Close links between businesses and local education providers are critical to ensuring that education providers meet the needs of local employers. This applies to graduates, apprenticeships, technical pathways, and in-work training. The university bases in both Greater Manchester and the West Midlands are critical local assets. This is both in the provision of skilled graduates, but also through the role they play in incubating innovation and offering space and resources to support start-ups, spin-outs and "spin-ins"[6].

    - **The importance of affordable and reliable regional, national, and international transport connectivity and digital infrastructure:** affordable and reliable transport and digital connectivity enable firms to access deeper labour and talent pools and supports business-to-business collaboration across the region, other UK cities, and international markets. It is key to ensuring that the benefits of city-centre or industrial cluster growth can be felt across the wider region. Manchester airport was raised as particularly beneficial to its local region's economic success, being part-owned by local authorities, a significant mover of freight[7] and having built local business activity into its strategy (for example by developing land around the airport in collaboration with the combined authority as a means to house business activity).

    - **The importance of Social Capital and Start-Up & Scale-Up ecosystems:** Entrepreneurs and business leaders highlighted the importance of social capital, including strong networks and connections for entrepreneurs, cultural assets, shared narrative, and a strong internationally recognisable “brand” for investors.

**Collaborative local institutions and local economic policies play a critical role in fostering growth, directing structural economic change towards high productivity activities, and attracting investment into the city region while building on local strengths.**

10. A strong local ecosystem that supports collaboration between local government, businesses, universities and education providers and other civic institutions is critical. Businesses in Greater Manchester and the West Midlands identified several common features which have supported building these ecosystems:

- **High-quality support for the development of Start-Up and Scale ecosystems.** Policy interventions which support the development of dense networks of support for start-ups and scale ups, such as growth hubs, accelerators and peer networks, help drive firm formation and early growth. Greater Manchester’s ecosystem provides access to talent, finance, and business support, although scaling remains a challenge.

**Case study: ASCEND – supporting scale-up growth in Greater Manchester**

The Greater Manchester Business Growth Hub designed the ASCEND programme to address a persistent gap in support for high-growth businesses, particularly in leadership capability, scaling strategy, and access to networks.

The programme brought together cohorts of ambitious firms across sectors, combining workshops, residentials, one-to-one mentoring, international exposure, and peer learning over a structured period. It also leveraged partnerships with external organisations to provide specialist expertise, networks, and broader market access.

Evidence suggests the programme delivered strong results, including job creation, business expansion into new markets and improvements in productivity. Founders reported increased confidence and a shift from operational to more strategic leadership.

- **A clear, evidence-led narrative and a strong internationally recognised ‘brand’ for investors.** A compelling and consistent economic narrative, underpinned by comprehensive data and analysis, helps align local strategy and attract investment. Greater Manchester’s long-standing use of evidence (for example, regular independent economic reviews and analytical teams) has created a shared understanding of local priorities and strengthened external confidence in its local vision for growth.

**The Greater Manchester Brand**

The "brand" of a place is the shared external narrative that helps investors, firms and workers understand its strengths and opportunities. In practice, it is a place's economic story: what it is known for, what it can credibly offer, and why businesses and people should choose to locate there.

Greater Manchester has a recognisable global "brand" through consistent, external promotion of its cultural assets - including a rich music scene, recognisable football teams, the 'worker bee' identity which explicitly celebrates local industrious spirit and collaboration, and major events - alongside world-class universities, strong business networks and visible city-centre regeneration.

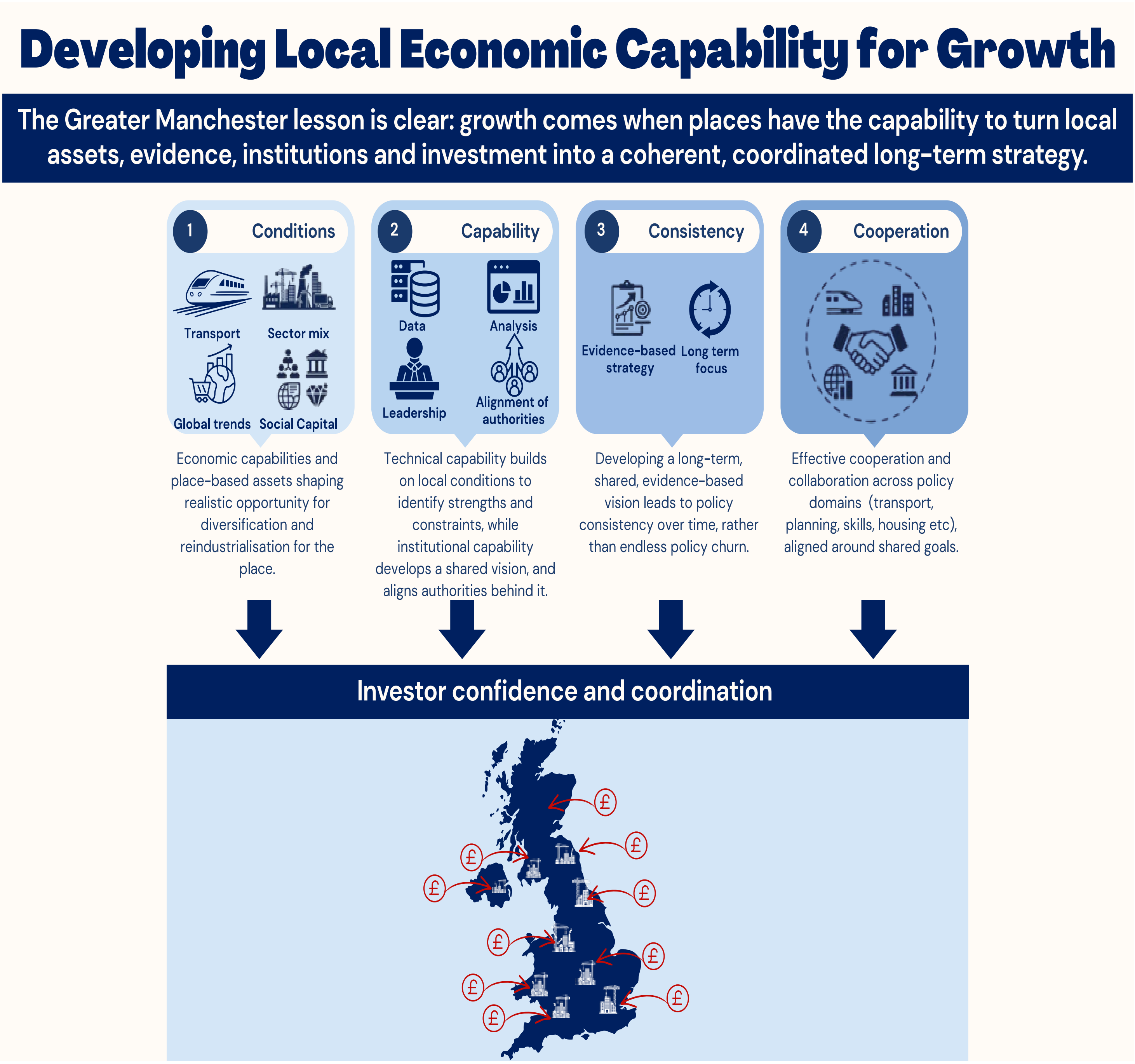
A strong place brand can support talent attraction, put a place on the radar of investors, and give local partners a common story to support.

- **Strong alignment and coordination of policies across local institutions, leading to policy consistency.** Greater Manchester has a mature governance model with co-ordinated and long-standing institutional capability to develop and implement a coherent, evidence-led economic strategy. It has invested heavily in building institutions that align stakeholders behind common goals and are able to coordinate policy across domains (for example skills, planning, transport, and innovation) and maintain consistent priorities over time to support investment and structural economic change. The long-term collaborative culture in Greater Manchester across local authorities, universities and public bodies has enabled cohesive decision-making, built its capability and, as a result, increased investor confidence. This is also reflected through Greater Manchester's ability to align local assets with regional priorities, for example through the Greater Manchester Pension Fund's place-based local investment portfolio, which is designed to stimulate regional economic growth and regeneration across the city-region and wider North-West. Where coordination is weaker in local government, places struggle to turn economic strengths into clear priorities, investable propositions, and consistent delivery. The West Midlands shows that even places with significant assets can face this challenge where coordination across a complex regional economy is still developing.

**Common challenges emerge as businesses seek to scale and grow, including access to talent, access to finance and the availability of suitable office space. Stronger local economic capability will help places address these as part of their economic strategies.**

11. Figure 1 highlights the critical areas places should focus on to build local economic capability.

***Figure 1 – Developing local economic capability for growth, from the Greater Manchester experience.***



12. Businesses in both Greater Manchester and the West Midlands identified several challenges that can limit local business scale-up. In some cases, this can result in firms leaving the region to pursue growth elsewhere.

- **Skills and leadership gaps:** While entry-level talent is strong, shortages in senior management, commercial expertise and specialist skills limit firm productivity and scaling.
- **Access to finance:** Scale up finance, particularly in the £3 million to £50 million range, is an important factor shaping firms' ability to grow locally. This is both a supply and demand issue with firms outside London facing thinner investor networks and less available scale-up capital, while some firms also need support to develop comprehensive, investment-ready growth plans.
- **Rising costs and affordability pressures:** Increasing costs of housing, transport and workspace risk displacing workers and early-stage firms, particularly in high-growth areas.

13. These constraints are shaped by the wider local environment and require local institutions with the capability to identify barriers, coordinate across policy domains and work with business to develop credible solutions.

## Section 2: Conclusions – the implications for policy

14. There is no one-size-fits-all solution to boosting local economic dynamism across the UK. Success depends on places having the economic capability to implement place-based approaches that build on distinctive local strengths.

15. Greater Manchester's relative performance is not primarily explained by higher conventional business dynamism, such as business entry, exit, or job reallocation. Instead, our findings point to the importance of longer-term structural change, including diversification into IS-8 sectors and the ability to attract investment over time. For other places, developing the local capability to build on distinctive strengths and identify realistic opportunities for diversification and reindustrialisation is a prerequisite for boosting growth.

16. Our findings suggest that local dynamism emerges through cumulative, mutually reinforcing factors developed over time. These include the place-based assets that places can use and draw upon such as local physical, human, and social capital, universities, anchor institutions, transport and digital connectivity, and access to skills. Together these factors shape the realistic opportunity set for diversification and reindustrialisation of various places.

17. For Greater Manchester, developing the technical and institutional capability to successfully build upon local sectoral strengths and place-based assets has been significant. This capability enables the identification of local strengths and

constraints, and the alignment of local institutions around a long-term, evidence-based, shared vision. This has played an important role in managing the inherent trade-offs involved in prioritisation and generating policy consistency over time. It also supported close cooperation across policy domains such as skills, planning, housing and transport, and collaboration with local delivery partners to improve access to skilled workers and graduates and the development of ecosystems which support businesses. Coupled with a nationally and internationally recognisable brand which leverages the cultural assets of the region, this has helped to provide confidence to entrepreneurs and investors.

## Section 3: What does this mean for national government and local partners?

**Recommendation: National government should focus on developing local economic capability to boost local growth**

18. **National government should focus on enabling and incentivising the development of local capability to design and deliver effective local economic strategies**. Further devolution of powers should go hand-in-hand with the development of local government capability to develop evidence-based local economic plans, maintain pipelines of investable projects to attract private sector investment, and coordinate local growth policies.

19. National government, via the Department for Business and Trade (DBT) and HM Treasury (HMT) and in partnership with local authorities, should **co-develop and implement a strategy to systematically strengthen local economic policy capacity and capability across the UK. This should support local authorities and partners to develop their analytical base, policy capacity, and local economic policymaking capability, building on existing devolution structures and supporting diversification towards the IS-8 sectors where appropriate.** The strategy should support stronger coordination within government, including with the Ministry of Housing, Communities and Local Government (MHCLG) on housing, the Department for Transport (DfT) on transport, and the Department for Education (DfE) and the Department for Work and Pensions (DWP) on skills, recognising that local growth depends on effective alignment across these policy areas. While this report focuses on two English city regions, we recognise that stronger cross-border collaboration will be vital to driving UK-wide growth and look forward to exploring this further with devolved governments.

## Define the economic capabilities places need and identify the gaps

20. The strategy should define the kinds of capability and expertise required in strategic and local authorities and set out pathways to acquire it. It should build upon the UK Metro Mayors Initiative, which supports metro mayors and senior teams through practical support to strengthen leadership, delivery, and innovation capacity so they can solve local challenges more effectively[8]. The type of capability and expertise should include:

    - **Analytical** – how well a place understands its own strengths, weaknesses and opportunities, including economic data analysis, evaluation, data management, and economic scenario modelling (often supported by think tanks, universities, other research institutes). This could include identifying their cluster strengths, monitoring their innovation systems, and evaluating interventions.
    - **Economic strategy** – how well a place can develop a consistent local economic strategy based on these strengths and weaknesses which supports growth across the region, set realistic priorities and align partners around shared growth goals.
    - **Investment** – how well a place can attract, build, and maintain a pipeline of private investment from IS-8 sector businesses, and work with central government on getting public investment in line with their local economic strategy and growth priorities.
    - **Spatial planning** – how well a place can respond to infrastructure, housing, and workspace needs through development of land and other assets and link these to their local economic strategy in support of growth.
    - **Specialist delivery capability** – targeted expertise to create and deliver growth interventions aligned to their local economic strategy, including foreign investment attraction, scale-up support, business support, and sector development.

21. To build the required capability, local and national government needs to understand the current landscape of economic policy capability. We recommend that central government, with support from the Industrial Strategy Advisory Council, commissions an **analytical-capacity audit** to understand the level of economic policy capability in different places. This should identify cross-cutting capability gaps and set out practical options for how national and local government can strengthen them. Without this capacity, national Industrial Strategy priorities cannot be translated into credible local economic strategy in many places.

## Bring high-quality expertise into places

22. Where gaps are identified, the strategy should identify practical mechanisms on how to acquire this capacity through incentivising:

- Flows of high-quality, relevant expertise from central government into local government (and vice versa) through well-designed secondment schemes and career incentives for senior officials.
- Flows of high-quality expertise from private sector into local government through allowing greater flexibility in remuneration and secondment programmes.
- Partnerships between local government and local research institutions to bolster capability.
- Resource pooling across strategic authorities, where appropriate.

## Further simplify funding and reporting requirements so local capability can focus on growth

23. As part of this strategy and building on the integrated settlements and related outcomes frameworks, government should also consider how to further simplify and align the funding, monitoring, and reporting requirements placed on local governments. Building local economic capability will have limited effect if that capability is absorbed by navigating fragmented funding pots, duplicative reporting requirements, and short-term bidding processes. A more simplified approach would free up local capacity to concentrate on economic strategy, investor engagement, and delivery, while improving the consistency of information available to central government.

## What this means for local partners

24. Although no one-policy-mix is replicable across the board for local areas seeking transferable solutions to their context, the experience of Greater Manchester suggests several significant aspects that successful local economic strategies will need to address. These include understanding local conditions and developing the capability to identify local strengths; developing a long term, evidence-based vision with local support to ensure policy consistency over time; and fostering effective cooperation across policy domains to deliver priorities.

# Endnotes

[1] The IS-8 sectors are advanced manufacturing, clean energy, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services.

[2] Industrial Strategy Advisory Council: Market Dynamism, Industrial Strategy Advisory Council (2026)

[3] ISAC Secretariat analysis of NOMIS Business Readiness and Employment Survey data (2026). Experimental data from ESCoE points to a strong longer-term increase in Greater Manchester's share of employment in IS-8 sectors dating back to at least 2000. In that source, the estimated share of employment in IS-8 sectors grew by around 6 percentage points between 2000 and 2023.

[4] ISAC Secretariat analysis of ONS regional GVA data

[5] UK-Wide Growth and Development: Insights from 'The Manchester Model', The Productivity Institute (2026)

[6] Venture creation: spinouts, spin-ins, and startups, Herriot-Watt University.  A spin-in is an external company or idea that comes into the university ecosystem to leverage academic expertise and infrastructure to grow their businesses (No date specified).

[7] Air Freight Manchester Airport, T&C Logistics (2026).

[8] Bloomberg Philanthropies Announces New Program to Supercharge the Impact of UK Metro Mayors, Bloomberg Philanthropies, (2025).

# Annex 1: The relative economic performances of Greater Manchester and the West Midlands

1. With a combined population of 5.6m people, the economic performance of the UK's "twin second cities" – Manchester and Birmingham – as well as their wider city regions – Greater Manchester and the West Midlands – is vital for national productivity.
2. While there are important differences in economic structure, both city regions have a presence of all eight growth driving sectors identified in the Industrial Strategy.
3. Over the last decade, their economic performance has diverged. Taking the headline statistics at face value, growth in employment, output and productivity in the Greater Manchester city region has substantially outstripped the West Midlands, as well as other selected city regions in England (Table 1).

**Table 1: Economic performance across a range of indicators for selected city regions**

| Region | Change in Employment 2016-2022 | Change in GDP per hour worked 2016-2023 | Change in GVA 2016-2023 |
|---|---|---|---|
| Greater Manchester CA | +12.5% | +16.2% | +24.1% |
| West Midlands CA | +6.3% | -3.5% | +1.7% |
| Liverpool CA | +8.9% | +5.7% | +10.6% |
| West Yorkshire CA | +7.8% | +12.2% | +13.7% |
| Greater London | +12% | -0.3% | +7.1% |

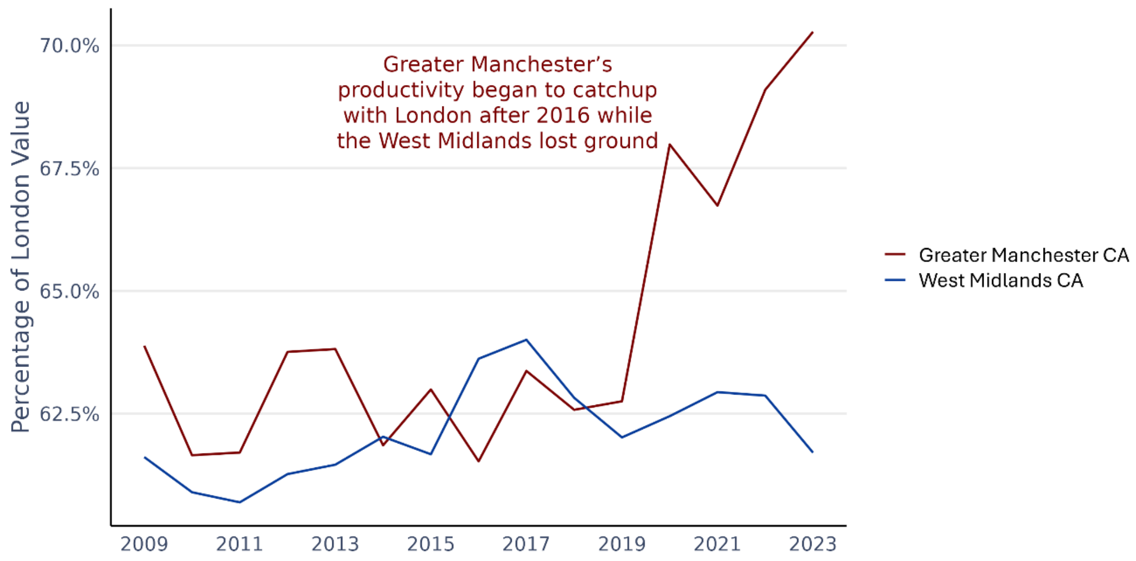
*Source: Regional gross value added (balanced) by industry: all ITL regions - Office for National Statistics and Business Register and Employment Survey*

4. As a result of these trends, the headline statistics suggest that the long-standing gap in productivity levels between London and Greater Manchester began to narrow from around 2016. The productivity of Greater Manchester compared to London increased from around 62% in 2016 to 70% by 2023. While relatively modest, this was the first example of economic convergence between London and a second-tier city.[1] This contrasts with the West Midlands which lost ground relative to London over the same period (Figure 2). Well-publicised data

discrepancies may overstate the extent of Greater Manchester's productivity growth but are unlikely to account for a large part of the divergence in economic performance (Box 1).

***Figure 2 – Productivity growth in Greater Manchester has outstripped the West Midlands and London since 2016***

*Gross Value Added per filled job for Greater Manchester and the West Midlands as a percentage of London, 2009 to 2023*




*Source: ONS [Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions - Office for National Statistics]*

5. Despite this recent success, the UK still displays large regional disparities in productivity compared to other OECD countries[2]. For instance, Lyon in France is 80% as productive as Paris. If Greater Manchester continued to 'catchup' and became 80% as productive as London, national productivity would increase by 0.7%.[3]

***Box 1: The impact of data discrepancies***

*Some commentators have argued that the divergence seen between regions is an artefact of data anomalies, rather than a real economic phenomenon[4]. For example, the Centre for Cities have identified discrepancies between HMRC and Labour Force Survey estimates of self-employment which introduce uncertainty into measures of hours worked and, since they vary geographically, may distort regional productivity comparisons. In relation to the economic overperformance of Greater Manchester, the Economics Observatory has identified concerns regarding the strength and location of growth in Legal and Accounting in the City Region (SIC 69). Their analysis of Business Register and Employment Survey employment data by Medium Super Output Area (MSOA) shows that a suburban area in Trafford has experienced implausible jobs (and output) growth in the Legal and Accounting services sectors.*

*However, after adjusting for these discrepancies, analysis by the Centre for Cities suggests productivity growth since 2019, remains three times the national average. This suggests that the headline statistics for productivity growth (which rely on measures of both output and labour inputs) may overstate the strength of Manchester's productivity growth and the extent of convergence towards London levels, but do not account for the majority of the trends. They suggest that caution is warranted when assessing sectoral changes at the regional level. Relevant figures in this report exclude SIC 69 wherever possible and appropriate to do so.*

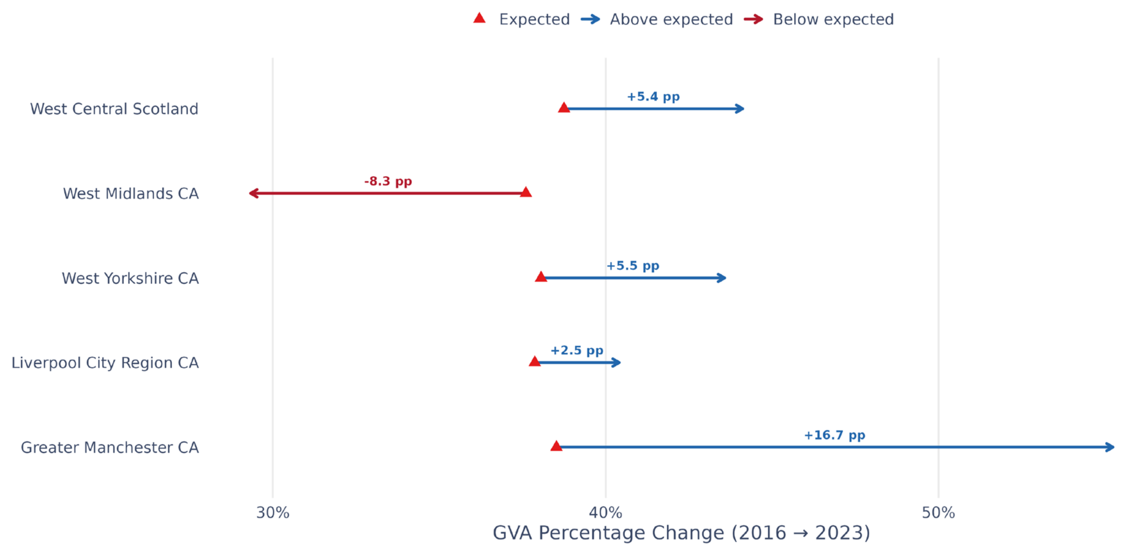
## What has driven the divergence in economic performance?

6. There are differences in the economic structure of the Greater Manchester and West Midlands city regions. For example, the economic output of the West Midlands in 2016 is markedly skewed towards the manufacturing sectors (14.5% of GVA), relative to the Greater Manchester city region (9.1% of GVA).

7. However, our analysis suggests these differing economic structures in 2016 account for very little of the differences in economic performance to 2023 (Figure 3). If sectors in each city region had followed national sectoral growth trends, nominal GVA growth between 2016 and 2023 would have been similar across the regions at just below 40%.[5] This shows that Greater Manchester's economic growth was not because it started the period with higher growth sectors. Growth in nominal GVA in the Greater Manchester city region outstrips this expectation by 16.7 percentage points, while the West Midlands underperforms by 8.3 percentage points. This means that differences in growth performance across these places reflect differences of performance within sectors.

**_Figure 3 – Greater Manchester's growth has not been because it started the period with higher growth sectors_**

*"Expected" takes UK level Industry growth from 2016 to 2023 to estimate how each region would perform if its constituent industries, defined at the 2 digit SIC level, followed the national industry average (Bartik Instrument). This is compared to actual nominal GVA growth. (Nominal GVA used as per ONS guidance)*

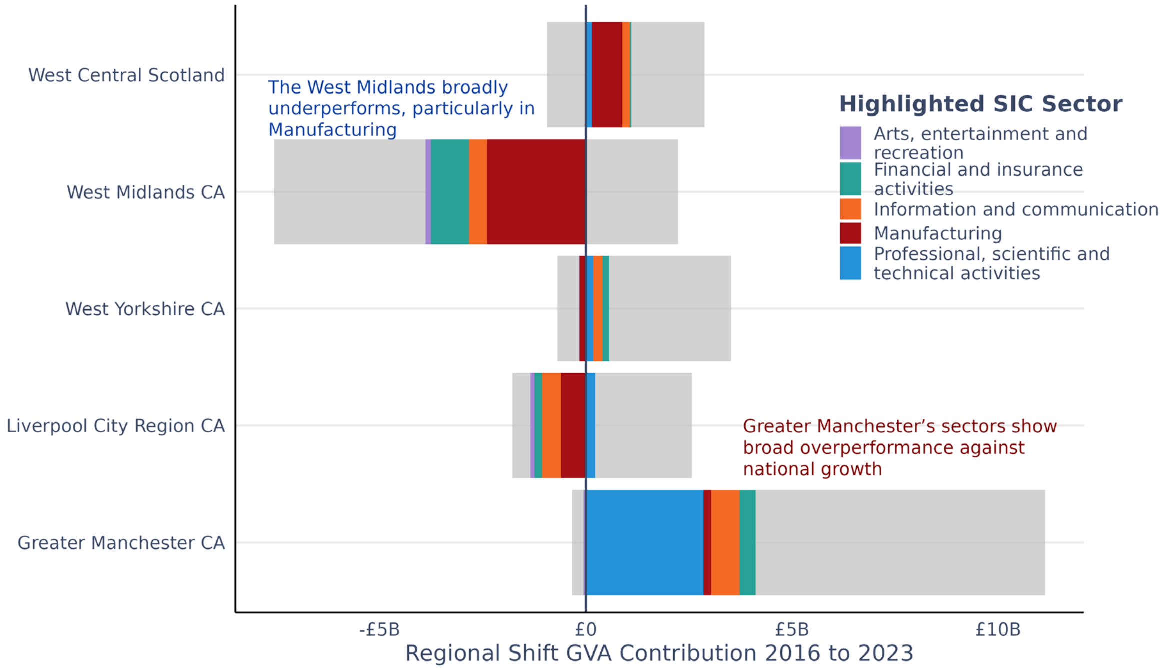



*Source ISAC Secretariat Analysis of ONS Regional Growth Value Added by Industry*

8. Almost all sectors in Greater Manchester have outperformed national growth trends (Figure 4). Out of the five regions shown, only Greater Manchester achieves such broad overperformance across so many sectors. This suggests there are region-specific factors supporting growth.

***Figure 4 – Shift Share Analysis shows Greater Manchester has outperformed national trends in almost all sectors. The underperformance of the West Midlands is broader than manufacturing.***

*Regional Shift shows the estimated effect of regional sector growth on GVA after removing the impact of sectoral UK average growth from 2016 to 2023.*




*Source ISAC secretariat Analysis on ONS [Regional gross value added (balanced) by industry: all ITL regions - Office for National Statistics]*

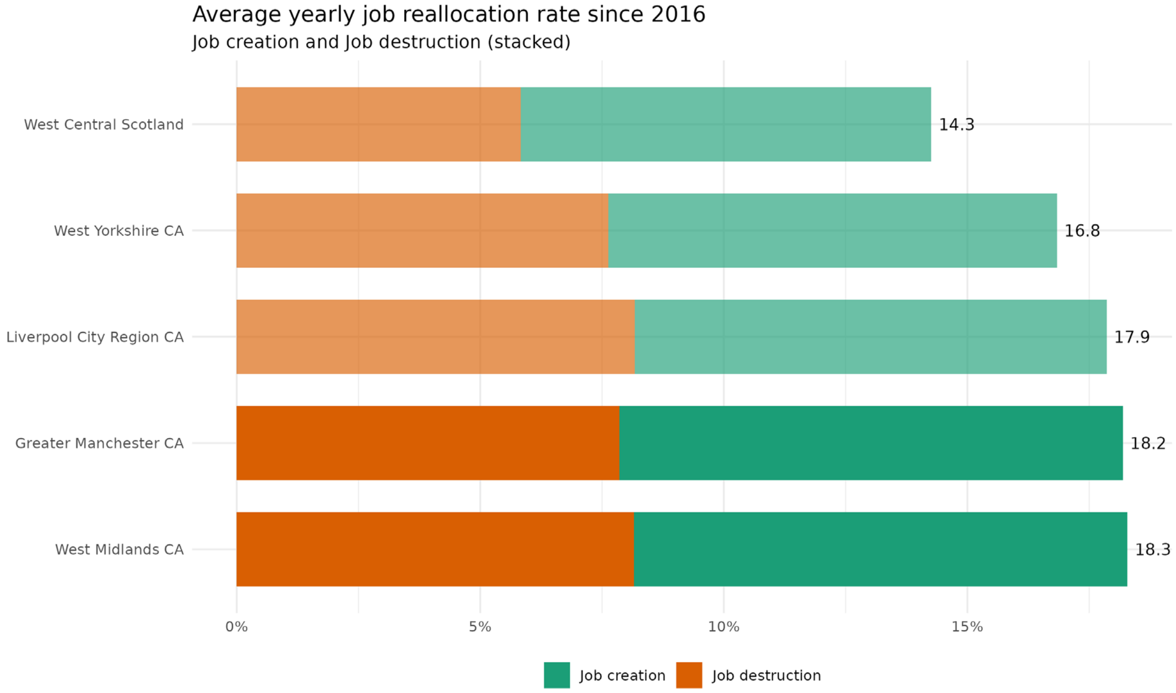
## The role of business dynamism in Greater Manchester

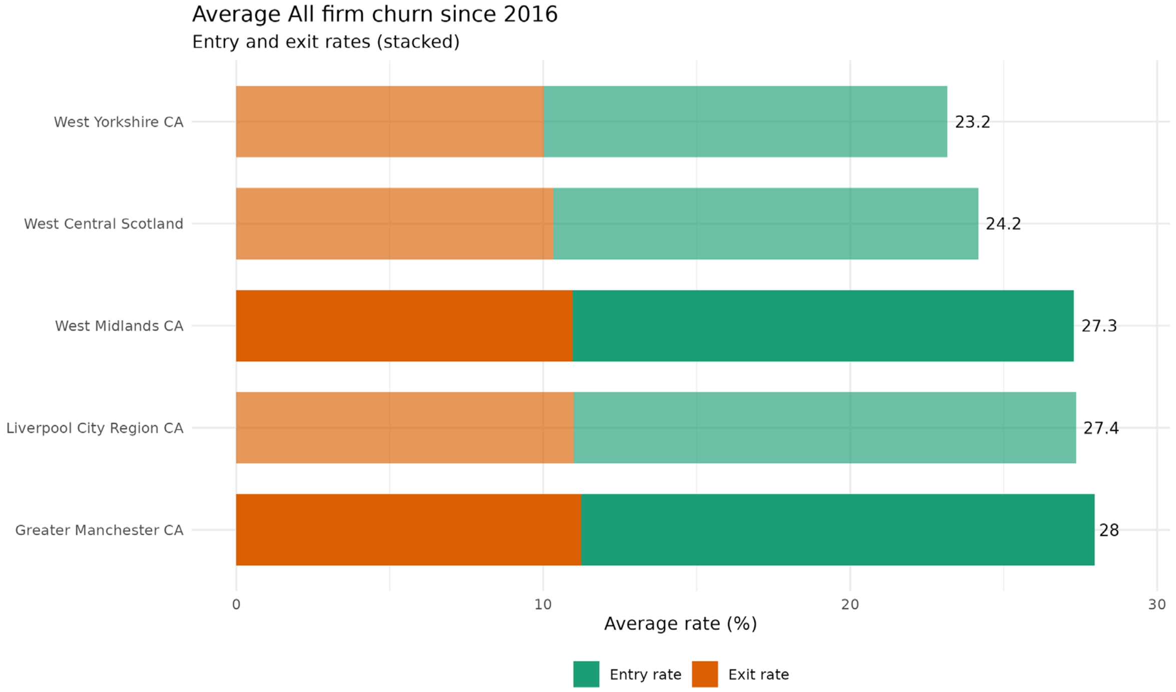
9. Dynamic local markets are characterised by high degrees of business entry, scale-up and exit, as well as the smooth movement of capital and labour between firms, both within and across sectors. To analyse the role of local market dynamism in regional economic performance, we worked closely with the Economics Statistics Centre of Excellence (ESCoE) to develop business dynamism indicators for the IS-8 sectors at the sub-national level for the period 2000 to 2024[6]. These include business entry and exit rates and job reallocation rates.[7]

10. Averaged over the period since 2016, Greater Manchester has ranked second in job reallocation (jobs created and destroyed as a percentage of total jobs) and first by a small margin in overall business churn (the rate at which firms have entered and exited the local economy) compared to the other regions looked at (Figure 5). However, it is difficult to draw a definitive link to this improving Greater Manchester's economic performance. According to these indicators, the West Midlands has achieved similar levels of dynamism to Greater Manchester but has seen much weaker growth over the period. Meanwhile, West Central Scotland has seen weaker levels of business dynamism but achieved the second biggest economic performance against expectations in Figure 3. This suggests the relationship between business dynamism and local economic growth is complex and other factors should be considered in addition to the metrics below.

***Figure 5 – Greater Manchester does not stand out as having drastically higher business entry or exit Rates, nor job reallocation rates over the period compared to other regions.***

*The top graph shows average yearly job reallocation (job creation and job destruction) in all sectors between 2016 and 2023. The bottom graph shows average yearly firm churn (Firm entry and exit rates) between 2016 and 2023.*



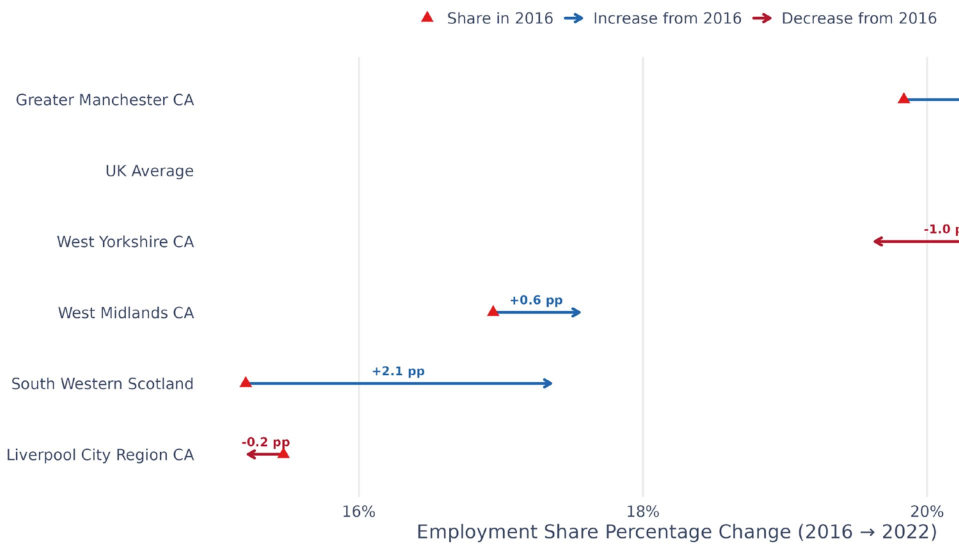




*Source: Forthcoming ESCoE analysis of ONS Microdata*

11. The Greater Manchester city region does stand out in terms of its shift towards the higher productive, faster growing IS-8 sectors compared to the UK average (Figure 6). Greater Manchester has been more successful shifting employment towards IS-8 sectors with the share of employment in the IS-8 rising from 19.8% in 2016, to 21.2% in 2022. This percentage point increase ranked fourth out of the 39 UK NUTS2 regions over the period.[8]

***Figure 6 – The share of jobs that are classified as being in IS-8 sectors as a share of total jobs in the region increased for Greater Manchester from 2016 to 2022.***

*The share of employment identified as part of IS-8 sectors at the sectoral SIC 2-digit level for each NUTS2 region. Clean energy and Defence are not included because they cannot be defined by SIC codes. SIC code 69 representing Legal and accounting has also been excluded given the data concerns noted above.*




*Source: ISAC Secretariat analysis of* [Business Register and Employment Survey]

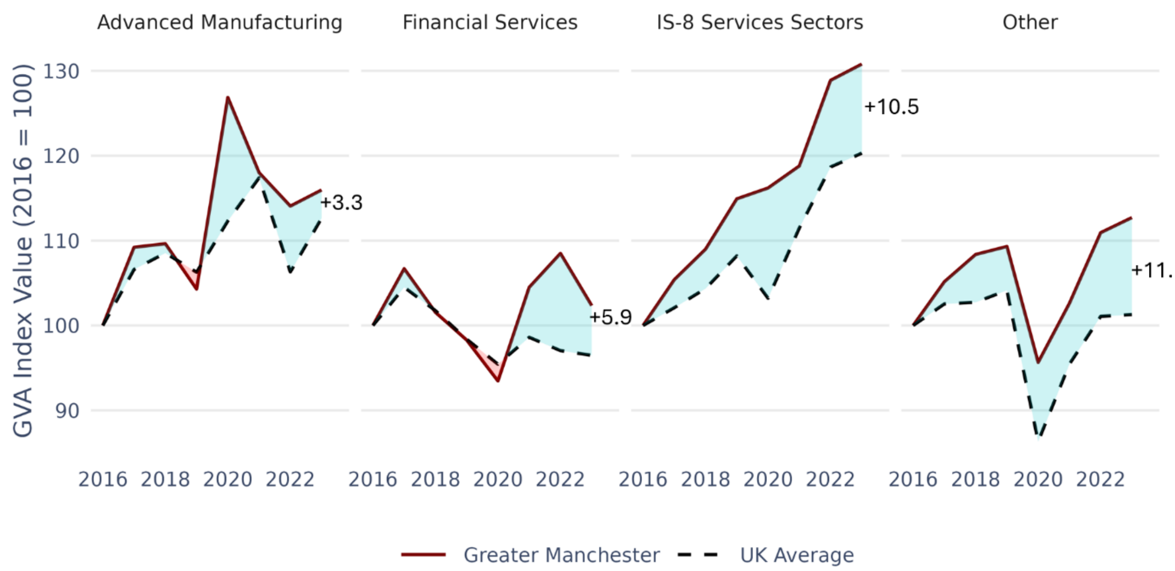
12. The evidence suggests that the Greater Manchester region has been particularly successful at the long-term development of and diversification towards tradeable, knowledge-intensive services in particular.[9]

13. IS-8 services sectors (creative industries, digital and technologies, and professional and business services)[10] have grown more than other sectors in Greater Manchester since 2016, improving on the already high UK average for these knowledge intensive sectors as shown in Figure 7. Again, this demonstrates that Greater Manchester's growth is not driven by a concentration of sectors that

are expanding rapidly at the national level, but by those sectors performing more strongly in Greater Manchester than they do across the UK as a whole.

***Figure 7 – IS-8 Services sectors in Greater Manchester have consistently outperformed national trends, even with the strong average growth of these sectors across the UK since 2016.***

*Sectoral SIC 2-digit level GVA for each ITL2 region grouped by IS-8 sector and indexed to 2016. IS-8 Services Sectors groups professional and business services, digital and technologies and creative industries due to overlapping SIC codes. Clean Energy and Defence are not included as they cannot be defined by SIC codes. The SIC code 69 representing Legal and accounting has been excluded in the production of this chart given the data concerns noted above.*




*Source ISAC Secretariat Analysis on ONS [Regional gross value added (balanced) by industry: all ITL regions - Office for National Statistics]*

## The attraction of Foreign Direct Investment to the City Region

14. The Manchester city region also stands out is its ability to attract Foreign Direct Investment (FDI). The Productivity Institute's analysis of Moody's Orbis investment data found that Manchester attracted $13.7 billion of FDI from 2013 to 2025[11], the most of any UK city outside of London. By comparison, Birmingham and Leeds attracted $8.6 billion and $3.6 billion, respectively.

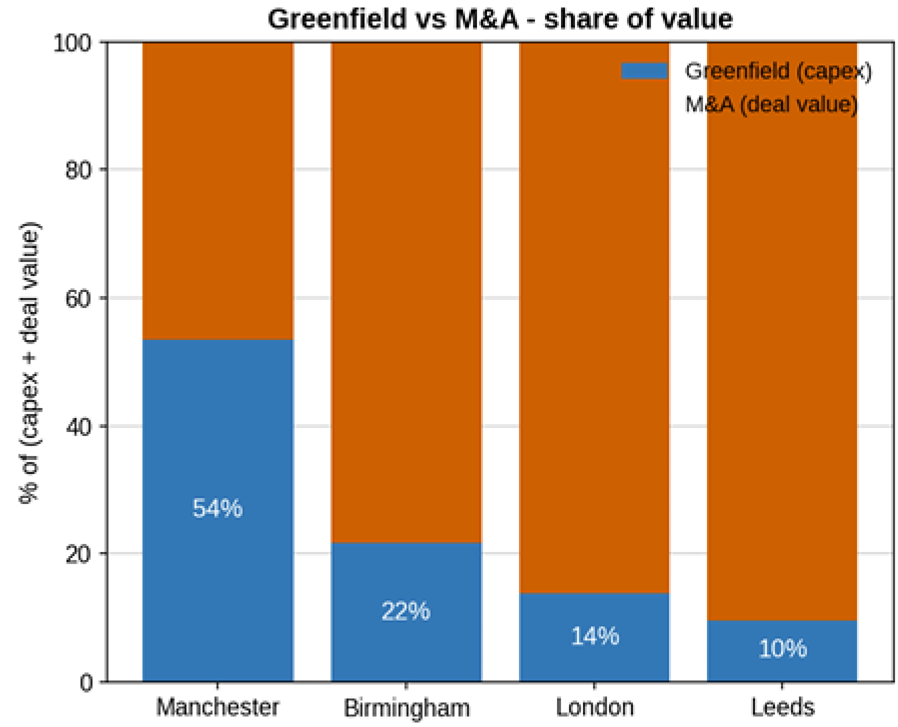
15. Their analysis suggests that over half of the FDI Manchester attracted from 2013 to 2025 was Greenfield investment (Figure 8). This share is significantly higher than Birmingham (22%), London (14%), and Leeds (10%). The TPI's review of the literature found positive productivity spillovers for greenfield investment but mixed

results for cross border Mergers and Acquisitions. This suggests that Manchester's FDI profile has been relatively more effective in supporting productivity growth.

16. The sectoral composition is also notable. High value services (information services, computer programming, and Scientific R&D) make up 14.5% of all FDI in Manchester. This share ranks second out of the selected cities, behind only London (18.5%).

***Figure 8 – Over half of foreign direct investment in Manchester is greenfield investment.***

*The economic literature finds that greenfield investment creates higher productivity spillovers. This suggests FDI in Manchester should be more effective in driving growth.*




*Source: The Manchester Model, The Productivity Institute (2026)*

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[3] Tale of Two Cities (Manchester), Resolution Foundation (2023).

[4] Have the UK's northern cities really experienced a productivity miracle?, Economics Observatory (2026).

[5] Sectors are defined as Standard Industrial Classification headings.

[6] Forthcoming ESCoE analysis of ONS Microdata

[7] Entry and Exit rates measure the proportion of firms that have either entered or exited the local economy as a percentage of total firms each year. Job reallocation rates measure the number of new jobs created and old jobs lost as a percentage of total jobs each year. These are imperfect measures. While the entry and scale up of new firms contributes directly to productivity, the scale of their impact depends on their ability to disrupt – challenging and competing with incumbents by introducing new technologies, ideas, and practices which change how things are done. It is therefore not just the number of new entrants or scale of business churn that matters, but the presence of high-performing firms capable of influencing incumbents or becoming incumbents themselves.

[8] The increase in the share of employment in the IS-8 was greatest for South Western Scotland, however, the share in South Western Scotland remained at just below 17.5% in 2022. Experimental data from ESCoE points to a strong longer-term increase in Greater Manchester's share of employment in IS-8 sectors dating back to at least 2000. In that source, the estimated share of employment in IS-8 sectors grew by around 6 percentage points between 2000 and 2023.

[9] A tale of two cities (part 1) A plausible strategy for productivity growth in Birmingham and beyond. Resolution Foundation (2023).

[10] These sectors have been grouped together because the SIC codes defining them overlap.

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# Annex 2: Insights on the drivers and constraints to local business dynamism in Greater Manchester and the West Midlands

17. Our approach to collecting insights combined desk-based research and a review of the policy landscape in Greater Manchester, alongside targeted engagement through roundtables with businesses and local institutions in Greater Manchester and the West Midlands.

18. Businesses and stakeholders identified several common themes across Greater Manchester and the West Midlands as important for encouraging and sustaining local business dynamism. Furthermore, important **conditions** were identified as enabling factors supporting business growth, investment, and the ability of firms to start and scale in both city regions: namely, lower operating costs, access to talent, quality of life and cultural assets that help make places attractive to business. Many of these conditions rely on the ability of local institutions to diagnose local economic needs, coordinate partners, and sustain delivery over time.

***Local leaders should treat the following conditions that support start-up and scale-up as core considerations in growth planning. These conditions are the practical issues that stronger local capability should help places diagnose, prioritise, and address.***

## Theme 1: City centre regeneration and office space

19. Greater Manchester has benefitted from a long-term pipeline of regeneration and infrastructure projects argued to have improved quality of life, supported the development of the cultural scene and office spaces for businesses to start and expand into [20] [21]. The Greater Manchester Combined Authority's (GMCA) consistent approach has enabled successful investment in regeneration, underpinned by a clear commitment to work with local authorities and business areas, while providing support to development partners with alignment across planning, transport, and economic development[22]. GMCA saw devolved funding arrangements, earn back mechanisms and revolving investment funds as enablers of delivery at scale and reducing investment risk[23].

20. In the West Midlands, businesses highlighted physical regeneration as a necessary enabling condition for growth, improving perception and investor confidence in Birmingham in particular. The major regeneration projects of Birmingham New Street and the Commonwealth Games were seen to support Birmingham becoming more attractive to international investors and improved the city's brand.

21. Businesses also highlighted lower operating costs (such as cheaper office space, compared to London) as a determinant of their location decisions. Greater Manchester has been further ahead in terms of seizing that opportunity, indeed the Deloitte crane survey found that Manchester has built 8.2 million square metres of office space since 2012[24], almost double that of Birmingham's 4.5 million square metres.

22. Businesses noted the positive effect of attracting large, "anchor" employers. For example, the BBC's relocation to Salford contributed significantly to the regeneration of the Salford Quays area in Greater Manchester. The BBC's relocation helped create jobs and stimulate business growth across the wider creative industries sector[25] [26] [27], while businesses[28] also highlighted the expansion of professional and business services as a key contributor to city-centre regeneration.

23. Visible regeneration is an important pull towards a city region, both for businesses and people, as it makes an area start to 'feel' better to live, work and do business. Capitalising on regeneration (and other opportunities) with significant policy decisions to invest in office space – which can only be done with a holistic approach across policy domains and institutions – is an important condition to enable growth.

## Theme 2: Access to skills and a dense labour market

24. Businesses in both Greater Manchester and the West Midlands highlighted the importance of access to skills and dense labour markets to the development, attraction, and growth of businesses in the knowledge-intensive services sectors.

25. The strong university base in both Greater Manchester and West Midlands were seen as critical assets through incubating start-ups, providing graduate talent as well as space and resources to support start-ups, spinouts and "spin-ins". Businesses highlighted their importance in attracting and retaining graduates, pointing to the role of liveability which is brought out more in theme 4. The close links between universities, businesses and the wider ecosystem including science parks and incubators also support talent development and help connect graduates into local opportunities.

26. Between 2010 and 2023, both Manchester and Birmingham increased the proportion of residents holding qualifications at Level 4 or above. In Manchester, the share rose from 29% to 45%, while in Birmingham it increased from 23% to 41%. Despite this progress, both cities remain below the national average of 47.1%, indicating that the availability of highly skilled workers may continue to act as a constraint on economic growth and productivity[29].

## Theme 3: Within-city, domestic and international connectivity, and digital infrastructure

27. Businesses in both Greater Manchester and the West Midlands highlighted the importance of international connectivity and airport links in attracting inward investment and for businesses to internationalise and encourage links with fast-growing economies in Asia. Manchester Airport strengthens Greater Manchester's international connectivity, including as the UK's third-largest air freight hub[30]. Its part ownership by the ten local authorities brings money back to the region[31], while the Mix Manchester development, partly owned by the Manchester City Council and the Greater Manchester Pension Fund, is creating an airport-adjacent innovation campus to support business growth and access to international markets[32]. Furthermore, affordable intra-transport networks, including roads in the West Midlands and public transport in Greater Manchester were seen as critical factors in ensuring access to skills and expanding the talent pool that businesses can access to support their expansion.

28. Within Greater Manchester, the 'Metrolink' saw an investment and expansion between 2010 to 2020, improving access to employment, labour market integration, and healthcare. Wider transport reform through the Bee Network – capitalising on the historical worker bee emblem of the region – including bus franchising has brought local bus services under public control, enabling greater coordination across the network and supporting improved access to jobs and development sites.

29. In the West Midlands, intercity connections, such as the prospect of HS2, has helped to attract private investment in recent years. However, businesses there highlighted the constraints and difficulties with rail connections within the wider city-region. Businesses highlighted that many in the city-region travel to work by car, highlighting the importance of road travel, not just rail.

30. Given the tendency for knowledge-based services to cluster due to external economies of scale, businesses highlighted the importance of connectivity between cities. Both regions noted challenges reaching cities further north, with Greater Manchester's businesses also mentioning troubles getting to London. Strong digital connectivity was also flagged as an important part of the region's competitiveness, an important feature for productive businesses – citing 'dead time' as an issue for business where digital connectivity failed (for example train internet connections) while undertaking necessary business travel so it feels like travelling or productivity during that time, not both.

31. Both city regions offer high levels of connectivity as measured by the share of the population within a 30-minute walk of their nearest railway station. Greater Manchester ranks first out of combined authorities (79%), and the West Midlands ranks third (61%). However, there remains a significant gap with London (96%) suggesting that connectivity within the city regions could be improved[33].

***Collaborative local institutions and local economic policies play a critical role in encouraging and sustaining growth, directing structural economic change towards high productivity activities, and attracting investment into the city region while building on local strengths.***

32. Businesses in both Greater Manchester and West Midlands identified several important features of local institutions, or policies they introduce, that enable the formation of the conditions that support business dynamism.

## Theme 4: High-quality start-up and scale-up support

33. Policy interventions that support local ecosystems for start-ups and scale-ups, such as growth hubs, accelerators and peer networks, were seen as important in driving firm formation and early growth. The effectiveness of this support depends on the capability of local institutions to convene universities, investors and business networks, tailor support to highest growth sectors and business growth stages where it can have the greatest impact and ultimately a deep understanding of the local business environment.

34. In the West Midlands, businesses placed greater emphasis on strong innovation capability and R&D activity, particularly in Advanced Manufacturing and emerging sectors. This has developed over time through collaboration between universities, government, and other business, with structures such as the Combined Authorities Innovation Board supporting knowledge exchange, firm formation, and clustering. This matters because innovation-led clusters can support productivity growth where firms, research institutions and specialist skills are connected [34], but the West Midlands' challenge is to convert these recognised strengths into stronger commercialisation, private investment, and scale-up outcomes.

35. In Greater Manchester, businesses described a well-established ecosystem of support programmes, networks, and intermediaries, including the Growth Hub and the ASCEND scale up programme funded by GMCA and central government, and Ignite Alliance Stockport. These initiatives provide access to experienced founders, peer learning, universities, and practical support for navigating early growth, while collaboration across universities, businesses and public bodies supports knowledge exchange and product development[35] [36] [37].

### Theme 5: a clear, evidence-led narrative supporting effective, consistent prioritisation and a strong internationally recognised ‘brand’ for investors

36. Businesses emphasised that a compelling and consistent economic narrative, underpinned by comprehensive data and analytical capacity, has helped align strategy and attract investment. Greater Manchester’s long-standing use of evidence has created a shared understanding of priorities and strengthened investor confidence. Differences in the development and articulation of such narratives can negatively affect external visibility and momentum.

37. In Greater Manchester, the 1990s City Pride prospectus emphasised the importance of narrative building, where Manchester framed itself as ‘the regional centre’ while the Manchester Independent Economic Review in 2009 [38] and later Greater Manchester Prosperity Reviews, provided an economic diagnosis, a shared reference point and a basis for aligning priorities and tracking progress[39][40]. Business reported that this set an important foundation for the Greater Manchester policy landscape providing an economic diagnosis, a shared reference point and a basis for tracking progress. It intentionally drew in external experts to provide an objective review – something which presented an unbiased and realistic evidence base for setting future policy direction. Data-led policy making is demonstrated through the continued use of granular data by a substantial analytical team within the GMCA to inform policy and investment decisions. A strong narrative incorporating the region’s cultural offering is seen to attract businesses and skilled workers and retain graduates.

38. Alongside a strong economic narrative, businesses emphasised the importance of dense networks, collaboration, and strong institutional and cultural connectivity in the support of knowledge exchange, innovation, and business growth. In Greater Manchester, business consistently described Greater Manchester as having strong informal networks, openness and a ‘get things done’ culture: support is accessible; institutions and business form a tight-knit community; and ideas can be progressed quickly through shared commitment to collectively ‘get this over the line’.

39. Business leaders highlighted the importance of a shared and consistent external narrative (or “brand”) of the strengths and opportunities of the Greater Manchester city region for attracting investment. They also highlighted the importance of leveraging cultural assets, such as football teams (and international appeal), sporting events such as the Commonwealth Games and music venues which cumulatively build a brand that each business was proactive in ‘pushing’ to build social capital, investor confidence, and, in turn, opportunity. The creative economy is a key driver in this respect, as investment is not only about attracting major capital projects but also about creating the conditions for local economic activity to flourish. For example, Greater Manchester’s music, sporting and wider cultural offers have been seen to attract business and talent, and large events and

investors, including the recent Brit Awards bringing in more economic activity to the region [41] [42].

40. Businesses and stakeholders viewed narrative, perception, cultural assets, local pride, and visible leadership as important but underdeveloped factors influencing investment, talent attraction, and confidence in the West Midlands. Business cited Greater Manchester as having a stronger, more cohesive narrative alongside confidence and external visibility. Businesses and stakeholders described the West Midlands as having a fragmented identity, weaker positioning, and less positive messaging, which they felt had damaged the region's brand. Birmingham was seen as the core engine of the regional economy, but the wider region's brand was viewed as less effective – which in part was explained as being 'too close' to London to compete with the capital's narrative. The West Midlands business explained that they thought their city region could do better at utilising their cultural assets and follow in Greater Manchester's footsteps in this respect.

41. Analysis from The Productivity Institute found that Manchester's brand was an important factor in attracting Foreign Direct Investment. Their analysis of Moody's Orbis investment data found that Manchester attracted \$13.7 billion of FDI from 2013 to 2025[43], the most of any UK city outside of London. By comparison, Birmingham and Leeds attracted \$8.6 billion and \$3.6 billion, respectively. By analysing the significant factors that influenced these investment decisions, they found that investors consistently cite factors like industry clusters, technology and innovation, the business environment and overall location attractiveness as their reasons for investing in the city[44].

## Theme 6: Strong alignment and coordination of policies across local institutions, leading to strong policy consistency over time

42. Greater Manchester provides an example of how strong, long term institutional alignment through a shared economic strategy, supported by coordinated delivery across institutions can support growth. There is a shared vision across business, local authorities, the combined authority, universities, and business support infrastructure with a common understanding of the city region's strengths and growth opportunities alongside coordination across policy areas such as planning, transport, digital connectivity, skills, regeneration, and innovation. Business highlighted that this shared direction, combined with consistent leadership and local capability, has reduced risk, enabled delivery, and built investor confidence over time. Variation in local capability can influence the effectiveness of coordination and growth outcomes.

43. For some, Greater Manchester's growth trajectory is because of long-term policy development and consistency and institutional collaboration[45]. The ten local councils formalised their existing collaboration by creating the Association of Greater Manchester Authorities (AGMA) in 1986, which later became the GMCA

in 2011, the UK's first combined authority[46]. Subsequent devolution deals provided Greater Manchester with greater control over transport, skills, and regeneration[47] [48]. Various articles have stated that the introduction of the metro mayor in 2017 strengthened coordination and national profile of the city region [49] [50] [51]. This is supported by the fact that other structures (Transport Authority, NHS, Chamber of Commerce, etc.) cover the same footprint, enabling a full focus on the whole city region – this is not the case in other Strategic Authority regions.

44. Business emphasised that this coordinated approach is reinforced by practical, long-term governance mechanisms, such as formal boards and public-private-university partnerships that bring together local government, universities, business, and cultural institutions [52]. These structures help align development plans, funding bids, and delivery decisions, and give external partners confidence that major projects are backed by a wider coalition. The 10 Local Authority Leaders demonstrate this collaborative approach by sharing "portfolio" responsibilities across Greater Manchester. GM's 10 leaders all take responsibility for areas like transport, housing, or skills, and are paired with a Chief Executive from a different local authority area to provide officer support, building their experience and network while contributing to the cooperation across the region.

45. The Greater Manchester Pension Fund has a dedicated place-based investment portfolio which provides a mechanism to align long-term institutional capital with the region's regeneration and economic development priorities [53]. The Good Economy found that the portfolio has supported housing, childcare, healthcare, and digital infrastructure across the region, illustrating how the effective use of place-based capital can help turn local assets into practical economic and social benefits[54].

46. Business highlighted that local institutions are pragmatic, enabling and commercially aware, particularly in planning, development, funding, and business engagement, with planning officers understanding the wider economic objectives of the city and are understood to work with applicants to support viable development. This was linked to the use of evidence-based economic strategy, strategic frameworks for important sites and a long-term pipeline of projects, which make local priorities tangible, improve planning certainty, and help local authorities engage more confidently with investors and developers. This depends on cross-functional local capability, with planning, legal, finance, and development teams understanding the growth plan end-to-end and working together to enable delivery. The development of a recent cross-authority "Regeneration Skills Academy" demonstrates this desire to share best practice and pool resource across the 10 LAs – increasing the agility to encourage regeneration and development priorities[55].

47. Conversely, institutional capability, coordination, and patterns of agreement in the West Midlands were perceived as less developed than in Greater Manchester, with longer lead-in times required to establish ways of working. The West Midlands

Combined Authority was formed in 2016, four years later than the GMCA[56]. Business pointed to continued tensions around focus, localism and the balance between the city core and the wider region. They noted that the combined authority is having to "build capability while delivering" but did report that capability and delivery is improving in the region. There was a view that national government is perceived as risk-averse and too much 'in the detail' which is seen as a constraint on local government in areas such as innovation and R&D. Business called for more flexible and place-based approaches rather than standardised national programmes or a one-size-fits-all as a means to overcome this barrier.

48. The challenges identified by businesses in the following section reinforce this point: constraints around senior talent, finance and workspace are often experienced by firms, but their solutions depend partly on the capability of local institutions to effectively coordinate skills, planning, investment, and business support.

***There are a range of common challenges emerging as businesses seek to scale and cities grow, including access to talent & finance and the availability of suitable office space. Stronger local economic capability will help places address these as part of their economic strategies.***

49. Despite its relative economic success, Greater Manchester still has further to go to close the productivity gap with London and other leading global city regions. Business emphasised that its growth has brought with it new pressures that could limit future dynamism. The West Midlands has experienced more limited growth outcomes and continues to face challenges in realising its full economic potential.

50. The challenges outlined below highlight significant factors that business identify as constraining further growth and/or driving businesses to relocate to scale.

## Challenge 1: Shortages in senior leadership, management capability, and specialist skills

51. Despite strong pipelines of skilled individuals, shortages in senior leadership, management capability and specialist skills persist, which can limit firm productivity, commercialisation, scaling, and competitiveness. Graduate retention remains an issue in places outside of London, limiting access to skilled labour.

52. Business in both Greater Manchester and the West Midlands identified shortages in senior leadership, management capability, and specialist roles as significant constraints, with firms often needing to recruit from outside their local labour markets. These gaps are seen as limiting the ability of businesses, particularly SMEs, to scale and compete, and are compounded by wider pressures including rising costs, housing constraints, and increasing demand for higher-level skills.

53. In Greater Manchester, skills mismatches and health-related inactivity remain persistent constraints on labour supply and firm growth [57]. Graduate retention in Greater Manchester is stronger than in many other regions, but remains below London, at 67% compared to 79%[58]. While the city region has seen an increase in its graduate population rising from 28.9% in 2010 to 44.5% in 2023[59] , this growth (15.6 percentage points) is slightly below the national increase of 16 percentage points. The graduate premium in Manchester has grown considerably since 2018 and it now has the second largest graduate premium out of the major UK cities, behind only London[60]. This supports other evidence that there is a shortage of postgraduate skills.

54. In the West Midlands, these challenges are further reinforced by issues around work readiness, school-to-work transitions and access to technical skills, alongside intense competition for talent from larger firms. Business also highlighted the effect of structural changes in the labour market, including the role of AI and automation in reshaping career pathways and increasing the need for mid-career reskilling.

## Challenge 2: Availability of finance

55. While business formation is relatively strong in both city regions, there is evidence of a drop-off at the scale-up stage, with challenges relating to finance, talent, space, and capability affecting the ability of firms to grow and remain locally anchored.

56. Business evidence suggests that scale-up finance is both a supply and demand side challenge. On the supply side, firms outside London often face thinner investor networks and less readily available scale-up capital, particularly for larger funding rounds. On the demand side, firms seeking growth capital may need stronger support to develop well thought out, investment-ready business plans that can meet the discipline expected by venture capital and private equity investors. This points to a potential role for both local scale-up support and further central government consideration of how to strengthen the UK's scale-up finance market.

57. Businesses in Greater Manchester highlighted that scaling remains a challenge due to shortages in management capability, access to finance and premises. Firms tend to drop off at mid-scale, reflecting both the limited availability of patient capital at Series B/C+, weaker access to venture finance compared to London and the challenge of preparing sufficiently comprehensive, investment ready growth plans. Investors are less willing to commit over longer time horizons or accept delayed returns, and the limited presence of locally headquartered anchors or buyers can result in firms plateauing at £10 million to £30 million turnover or shifting important functions to London or overseas.

58. In the West Midlands, business consistently identified access to finance as a major constraint, particularly at the scale-up stage. While the region has strong R&D capability, private investment remains limited and much investment activity is concentrated in London and other regions, requiring firms to seek funding externally. Business also noted that some firms need more support to translate strong technical propositions into investor-ready commercial plans.

59. Business highlighted a persistent funding gap at both lower levels and in the £3 million to £50 million range, alongside weak support for capital-intensive investment, particularly in Advanced Manufacturing. Low investor appetite for financing capital equipment, regulatory constraints on funds and lending, and high thresholds for bank financing are stalling high-growth firms, including spin-outs, pushing them overseas for funding or forcing them to relocate. More broadly, firms are increasingly making investment decisions on global, not regional, terms, reinforcing the need for a more joined-up national approach to competitiveness and supply chains.

## Challenge 3: Availability of suitable office space to scale

60. Rising costs across workspace, housing and transport are placing pressure on firms and labour markets. This can be seen because of growth for places like Greater Manchester but is an acute example of a UK-wide issue. Affordability constraints can affect access to labour and may cause firms to move out of the region underpinning the importance of local institutions ability to effectively plan, assemble and provide the right mix of workspace and housing.

61. Housing supply constraints present a growing challenge with house prices in the North-West facing the highest growth across England[61]. Waiting lists for social housing remain high which limits access to affordable and family housing[62], constrains labour mobility and reduces investment returns for firms having to provide higher wages for housing and transport costs for longer commutes[63].

62. Savills UK Residential Property Market Forecasts predicts that the cost of prime office space in Manchester will increase significantly by 2030, reaching close to £60 per square foot per annum[64]. This projected growth would position Manchester

as the most expensive prime office space of the cities analysed (Birmingham, Bristol, Edinburgh, Glasgow, Leeds, Manchester).

63. Businesses in Greater Manchester highlighted space as an important pre-condition for innovation and collaboration. Rising rents, the loss of affordable space and increasing pressure on central locations risk displacing early-stage firms, incubators, graduates, and freelancers. Business noted that innovation is increasingly taking place in informal settings and that startup infrastructure remains concentrated rather than consistently available across the city-region. Businesses and other stakeholders cited international examples, such as Switzerland, where innovation, academia and industry are more explicitly co-located and provide clearer pathways for firms as they scale[65].

64. In the West Midlands, with its large Advanced Manufacturing base, businesses highlighted challenges in accessing appropriate facilities and managing high upfront structural costs. Business raised wider national pressures including energy prices, regulatory burden, labour costs, and access to infrastructure.

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The Department for Business and Trade is an economic growth department. We ensure fair, competitive markets at home, secure access to new markets abroad and support businesses to invest, export and grow. Our priorities are the Industrial Strategy, Make Work Pay, the Trade Strategy and the Plan for Small Business.

**Artificial Intelligence**

AI was used as a support tool during preparation of this report, specifically to support project research, meeting transcripts and stylistic improvements to the material. The final content has been reviewed and approved by the Industrial Strategy Advisory Council Secretariat, who remain responsible for its accuracy and conclusions.

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