

BUSINESS GROWTH THEMATIC BOARD

28 August 2019

The likely impacts of a no-deal Brexit on the SCR

Purpose of Report

With the UK is set to leave the EU on 31 October, this paper outlines the potential risks of a no-deal Brexit to the SCR economy. The paper seeks to stimulate a discussion on potential impacts of a no-deal scenario and consider additional work to prepare and mitigate for a no-deal Brexit.

Thematic Priority

Cross Cutting - Economic

Freedom of Information

This paper will be made available under the MCA publication scheme

Recommendations

That Board members:

- Consider and agree the areas of activity detailed in this paper, against which to commence or accelerate activity.
- Consider the merits and purpose of establishing an Economic Resilience Taskforce.

1. Introduction

- 1.1** A report on preparing for the likely economic impacts on the SCR was taken to the LEP Board meeting in January 2019 and to the Overview and Scrutiny Committee in April 2019. This report outlined that the Government's long-term economic analysis showed a likely fall in GDP growth over a 15-year period on an increasing scale depending on how far the Withdrawal Agreement is from the current EU trade arrangement, with no-deal being the worst-case scenario.
- 1.2** Activities agreed by the LEP Board included the following:
 - Development and publication of a Brexit Toolkit for businesses to consider and evaluate their preparedness and seek additional support;
 - Active participation on the SCR Local Resilience Forum and, with other key local stakeholders, supporting businesses to collaborate on business intelligence;
 - Lobbying civil servants on the importance of replacing European funding.
- 1.3** With a no-deal Brexit increasing in likelihood, and with national Government intensifying its no-deal preparations, it is important that the LEP / MCA, through the Business Growth Board, consider the increased risks on the SCR economy posed by this scenario and any actions or mitigation measures required.

2. Proposal and justification

2.1 Based on a no-deal scenario, the crucial areas to plan against include:

- Business preparedness
- Trade
- Business and institutional investment
- Labour market including retraining

2.2 Business preparedness

The Growth Hub's free Brexit Tool is available for businesses to consider how to prepare for Brexit. So far, 121 businesses have utilised the tool but intelligence from businesses, received via the Growth Hub, indicates that some businesses, having prepared once, do not want to do so again until there is more certainty on the outcome. Many SMEs are concerned about the impact of Brexit and are putting growth plans on hold, and investment decisions are being delayed.

Further actions to consider

1. Ramp up the marketing of the BREXIT tool and promotion of other support via Chambers, FSB and other partners.
2. Improve intelligence on the national and local support offer and consider any gaps. Plan to enable the Growth Hub Service to swiftly translate the resultant outcomes of the deal/no-deal scenario into how businesses 'action' the outcomes and what measures they need to implement.
3. Improve market intelligence, with local partners, to segment businesses to more effectively target messages and support.
4. Provide more intensive support to our existing investors to support their continued retention within the SCR.

2.3 Trade

South Yorkshire's export market is heavily dependent on the EU with 57% of the value of all goods going to this market. Just-in-time supply chain production could be difficult to maintain in a no-deal scenario due to EU rules of origin. Given the critical role of South Yorkshire's manufacturing sector within the supply chain, the introduction of tariffs and border checks may have a disproportionately greater impact on this sector as well as the logistics sector. This is likely to include an increase in costs due to new administrative burdens and delays. Increased barriers to trade will likely lead to reduced export volumes and increased import costs and inflation through a further fall in the value of Sterling.

Further actions to consider

1. Recruit specialist business advisers and/or experts in tariffs to provide practical advice to exporters and develop a targeted marketing and support campaign for businesses in at risk supply chains trading with the EU. This could be delivered in association with the Chambers and other partners to add value to existing support.
2. Accelerate the development of the revised SCR international trade programme, focusing on new, non-EU markets.

2.4 Business and institutional investment

The SCR, alongside other regions of the UK, has experienced a reduction in new investment enquiries following the outcome of the EU Referendum. In addition to a reduced investment pipeline, existing schemes are often being delayed pending clarity regarding the Brexit outcome.

There will be opportunities for future investment in a no-deal Brexit scenario. Government may want to invest in place-based interventions where an area has strengths and can show how it needs to grow.

Further actions to consider

- It has been announced that ten free ports will be created following Brexit. This provides a potential opportunity to be explored in relation to Doncaster Sheffield Airport.
- Develop a compelling investment pitch for the region to secure increased levels of institutional investment in infrastructure and property.
- Develop and implement lead generation capabilities to attract UK businesses to scale-up in the SCR. An example is the recent decision by UK Atomic Energy Authority (UKAEA) to invest in Rotherham.
- Increase the targeting of investment offers into the India, China and US market.
- Consider that some of SCR's investment might shift from job creation and growth towards resilience and safeguarding.

2.5 Labour market including retraining

The effects of Brexit upon different labour market groups is uncertain. If there is an economic shock, certain existing labour market differences could exacerbate inequalities between SCR and other areas (e.g. London & South East) and within the labour market. For example, the current unemployment rate for women in SCR is higher (6.1%) than the national average (4.1%) and this could worsen if there is an economic shock.

Rapid response services and retraining will be an important part of any response to an economic shock. The most recent experience of this was with Tata Steels and a lessons learned document was produced. Partners need to be prepared to consider how to mobilise quickly if there is such a shock and job losses.

There is also a need to consider the operation of the labour market more broadly, particularly those sectors that employ a greater proportion of migrant workers, including the logistics sector, the NHS, and further education. This would also include the impact on potential student number at our Universities linked to a no-deal Brexit.

Further Actions to consider

- Partner planning for a rapid response task force
- Options to be developed on proposal for a retraining pilot

Other Measures

2.6 Economic Resilience Taskforce

In support of the Local Resilience Forum, the SCR Executive could convene an Economic Resilience Taskforce. However, this will only be effective if sufficient resources could be marshalled and deployed at short notice. This taskforce could oversee actions and report both to the LEP / MCA (and sub-boards) and the LRF as appropriate.

2.7 Market intelligence

Work is commencing to improve access to market intelligence. This work will include intelligence on the SCR business base thus better enabling the targeting of businesses support. An important part of this will be improved intelligence of the activities and behaviours of foreign-owned, and/or export-led, and/or strategically important SCR businesses. The outcome of this activity will be increasing the number and strengthening the position of SCR businesses operating in global value chains.

2.8 Government engagement

SCR Executive will continue to engage with Government ministers and civil servants. The Local Resilience Forum agrees that there is a need for an economic risk assessment and mitigation plan to maximise the opportunities and mitigate the risks of a no-deal Brexit.

3. Consideration of alternative approaches

- 3.1 Do nothing:** The MCA/LEP could leave it to other organisations to plan for the likely effects of a no-deal Brexit. However, the underpinning purpose of both the MCA and LEP is

economic development and therefore planning to maximise opportunities and mitigate for a potential economic shock in the region would fall under the SCR MCA and LEP's remit.

- 3.2 Do more:** Whilst the effects of a No-Deal BREXIT could be far reaching, many areas of planning are best left to organisations with specific resource to strategically plan, put in place contingencies and deploy resource eg NHS, Universities, Home Office and Police. The MCA / LEP will need to be clear in the focus it takes.

4. Implications

4.1 Financial

Government's own analysis found that a no-deal could hit Yorkshire and the Humber's GDP by 8.5% over the next 15 years.

SCR Executive has a small amount of resource to target on Brexit preparations. The prioritisation of actions discussed in this paper will influence how this resource is deployed.

4.2 Legal

There are no direct legal implications associated with this paper.

4.3 Risk Management

The SCR Overview and Scrutiny Committee have suggested that the MCA / LEP have a Brexit Risk Register. Board Members are asked to consider this.

4.4 Equality, Diversity and Social Inclusion

A no-deal Brexit may disproportionately affect women and part-time workers in the SCR.

5. Communications

- 5.1** Many of the actions outlined in this report will have significant implications for communication activity. The proposal is that the SCR Executive Communications Team produce a communication plan of activity. This will include, but is not limited to:

- Lobbying of government for clarity over future funding (Shared Prosperity Funding) in order to design and resource programmes for businesses and individuals;
- Business communication to encourage preparedness and signpost to support;
- Stakeholder/partner liaison to share and communicate knowledge and intelligence.
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6. Appendices/Annexes

- 6.1** N/A

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: