

Report to Sheffield City Region Overview and Scrutiny Committee

Date of Meeting:	Thursday 11 April
Subject:	Potential Effects of Brexit on SCR
Purpose of the Report:	To explain the potential effects of Brexit on the City Region and how Sheffield City Region are preparing for Brexit.
The Scrutiny Committee is being asked to:	Consider the likely effects of Brexit on the City Region and how this impacts on the Committee's work going forward.
Category of Report: Open	
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Summary:

The purpose of this report is to inform the Overview and Scrutiny Committee on the possible impacts of Brexit on the City Region and what SCR has been doing to mitigate these by assisting businesses with preparations for the United Kingdom's exit from the European Union.

1. Introduction/Context

- 1.1** The Brexit report produced by the SCR (see Annex 1) considers a range of options through a city region lens and focuses on the impacts on the local economy on key sectors such as manufacturing and education.
- 1.2** Local authorities in the SCR have done their own Brexit impact assessments. These focus on impacts on their services. Rather than replicating these useful reports, the objective is to offer a complementary analysis to the work undertaken by local authorities by looking at the likely impacts of different Brexit scenarios on the SCR economy and outline potential mitigation measures.
- 1.3** As well as outlining likely impacts, this report provides an update on the practical steps being taken by the SCR to support businesses.

2. Matters for Consideration

2.1 Potential impacts of Brexit on the SCR

Economic modelling for a range of exit scenarios varies significantly with several reports released on the regional impacts of Brexit. The Government's analysis shows that Yorkshire and the Humber will likely see its GDP growth fall over a 15-year period on an increasing scale depending on how far the Withdrawal Agreement is from the current EU trade arrangement. This ranges from -2% for the Chequers plan to -8.5% if there is a no-deal.

2.2 South Yorkshire's export market is heavily dependent on the EU with 57% of the value of all goods going to this market, which means that the SCR is exposed to the negative effects of potential increased delays and tariffs. Tariff and non-tariff barriers could impose costs on business of between 5-10% in the SCR on key sectors such as advanced manufacturing. Businesses with large existing trade links/supply chain links to the EU are more highly exposed.

2.3 Just-in-time supply chain production will be extremely difficult to maintain due to EU rules of origin. Given the critical role of South Yorkshire's manufacturing sector within the supply chain, there is a real fear therefore that the introduction of tariffs and border checks in trade with the EU will have a disproportionately greater impact on manufacturing businesses in the SCR.

2.4 Lower numbers of EU workers, especially lower-skilled workers, would cause challenges to businesses in the SCR. These challenges will be greatest for sectors that are dependent on EU workers to fill vacancies, such as logistics and manufacturing. There will also be big impacts in sectors such as health and higher education if there are fewer high-skilled EU migrants. However, it also creates an opportunity for local residents to enter the labour market

2.5 After the UK leaves the EU, the European Structural Funds that provide regeneration funding will need to be replaced. The Government has committed to do this with a UK Shared Prosperity Fund (UKSPF). The Government had promised to consult on this before the end of 2018 but at the time of writing this has still not happened. The risk is that the SCR does not receive at least the same amount it would have done if the UK had not voted to leave the EU.

2.6 Proposed mitigation measures – short-term actions

SCR receives £170m from the current European Structural Fund programme (2014-2020). The SCR will make a submission to the Government's consultation on the UKSPF. The main argument will be that the SCR at least doesn't see a reduction in funding. As a Mayoral Combined Authority (MCA), the SCR has also argued that this funding should be devolved and top-sliced to MCAs. This would put the SCR in a stronger position than LEPs not part of an MCA.

2.7 The Growth Hub developed an online tool to assist the region's businesses prepare for leaving the EU, which was launched in January 2019. Based on their responses, it provides businesses with a tailored report on the things they should be considering for Brexit and directs them to resources to help them prepare. At the time of writing, 109 businesses have completed the self-assessment, giving positive feedback.

2.8 Guidance issued from all Central government departments is shared via the Growth Hub website and continually updated. SCR officers are working with a number of major corporates where leaving the European Union might have a particularly significant impact i.e. overseas ownership, high levels of international trade.

2.9 SCR officers are liaising regularly with the Chambers of Commerce, Local Authorities and Universities to share market intelligence and participate in the South Yorkshire Local Resilience Forum.

2.10 Proposed mitigation measures – long-term strategic review

If there is a no-deal, or the Brexit deal severely harms the economy, then there could be the possibility of a serious economic downturn. If this happens, there could be a need for the SCR to, hopefully temporarily, review its current strategic focus on growth. Major funding streams like the Local Growth Fund might need to be reassessed to reflect this potential economic situation. There may be a need to refocus on job safeguarding and take a more interventionist approach.

a. Financial

The research shows that a no-deal would likely have the most significant impact on the economy and suggests that the financial impact on the SCR economy will likely depend on how far the Withdrawal Agreement is from the current EU trade arrangement.

SCR received £170m from the current EU funding programme (2014-2020) and £363m from the LGF programme (2015-2021). The UKSPF will replace these funding streams.

Development of the Growth Hub's Brexit tool cost £20,000.

b. Legal

There are no legal implications arising from this paper.

c. Risk Management

The longer report on the potential impacts of Brexit (see Annex 1) is SCR's attempt to analyse and mitigate the risk of Brexit. Depending on the exit deal, the ramifications on the national and SCR economy could be significant. This is why this research was initiated because to do nothing could be harmful to SCR businesses and the local economy.

d. Environmental

There are no environmental implications arising from this paper.

e. Equality Impact Assessment

In developing how the SCR responds to the potential implications of Brexit, it will be important to consider how this will affect all members of society. The UK Shared Prosperity Fund is intended to replace the current European Structural Funds. This is predominantly targeted at less prosperous areas and is designed to reduce inequalities.

f. Performance Management/Measuring Outcomes

The Growth Hub is keeping track of how many businesses have used its Brexit tool and seeking feedback from people who have used it.

3. Consideration of alternative approaches

3.1 SCR could have commissioned a consultant to produce a report modelling potential impacts on the city region. Following discussions with other combined authorities who commissioned reports to model economic impacts of Brexit, it was decided that this would not be value for money and that desk-based research would suffice.

3.2 SCR could have decided to just engage businesses to see how they are preparing for Brexit. However, it was decided that a more proactive approach to help them with this process was a better option.

1.3 A do nothing approach could have been taken; however, if no action was taken, the SCR would not be able to assist businesses to adapt to these new conditions.

4. Issues the Overview and Scrutiny Committee may wish to consider ...

- How might Brexit impact on other areas of work the Overview and Scrutiny Committee may wish to look at.

5. Recommendations

- To note the potential effects of Brexit on Sheffield City Region.
- Consider if the SCR should be taking any other actions to help the region prepare for and adapt to leaving the European Union.

6. Appendices/Annexes

Annex 1 – Preparing for Brexit in Sheffield City Region

The following section is a legal requirement

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Other sources and references:	