Preparing for Brexit in Sheffield City Region

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1. Summary

What SCR has done so far

- SCR commissioned research in 2017 on the likely impacts of a hard Brexit. The main findings were that a hard Brexit would likely lead to a fall in employment by 2019 (5,000 lower), and GVA will be 11% lower than forecasted compared to pre-Brexit forecasts.
- Lobbied Government on the need to give the SCR its fair share of the UKSPF. SCR received £170m in the current programme and is demanding at least the same amount this time with additional devolution powers to invest in its own priorities.

Brexit negotiations and options

- Theresa May agreed a Withdrawal Agreement with the EU on 14 November. This still needs to get through parliament, but if it does then it keeps the UK, for the transition period at least, closely economically aligned to the EU. This would likely have negative effects on the economy but not as significant as a hard Brexit or a no-deal. If Theresa May fails to get her deal through parliament then this could increase the possibility of a no-deal.
- There is a consensus that the economic impact of a no-deal scenario for the UK economy (trading with the EU on WTO terms) would be significant and negative. Businesses trading with the EU, especially manufacturing firms, are likely to see increased costs due to delays and tariffs.
- Economic modelling for a range of exit scenarios varies significantly with several reports released on the regional impacts of Brexit. The most reliable source is the Government's analysis, which shows that Yorkshire and the Humber will likely see its GVA and GDP fall on an increasing scale depending on how far the Withdrawal Agreement is from the current EU trade arrangement.

The impact of Brexit on trade, businesses and investment in the SCR

- 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.
- Investment is a key driver of the economy and is crucial for fuelling innovation, which is a key objective of the Global Innovation Corridor. There has already been a decline in investment by existing SCR companies and there is a strong likelihood that future investment could be curtailed.
- A common theme from SCR businesses is that they are waiting to see what happens with Brexit before thinking about how it might affect them. This suggests that the SCR needs to encourage firms to consider the implications of Brexit, especially if an exit deal is not agreed.

The impact of Brexit on employment, education and skills in the SCR

- 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.
- Higher education is vulnerable to the effects of Brexit as there are concerns about the supply of student, teaching staff and academic numbers, depending on what post-Brexit migration rules are implemented.
- In the event that the UK is granted 'third country status', the universities will no longer be eligible for major Horizon 2020 grants. A reduction in EU funding post-Brexit, would negatively affect the ability to fuel innovation across SCR.

The impact of Brexit on transport, housing and infrastructure in the SCR

- If an exit deal is not agreed then the UK will leave the EU common aviation area, which will restrict flights to and from 44 countries. This would have a big effect on DSA, especially given their eastern European flight schedules.
- There is uncertainty and a lack of confidence to invest in speculative and non-speculative commercial development, and there is more vacant floorspace due to a lack of confidence in business growth.
- There are concerns over a lack of construction workers as migration reduces and skilled workers are attracted to higher paid areas in the South (as happened post the 2008 downturn). The cost inflation on construction materials and skilled workers will likely result in development being slowed due to suppliers not being able to continue to meet 'just-in-time' requirements.

Opportunities that could arise out of Brexit

- The weaker pound should help boost exports and could be an opportunity to uncover better ways of operating.
- Trade relationships are likely to change post-Brexit and an opportunity is potentially more trade with emerging markets like India and China.
- Some industries like the rail industry are Brexit-proof in terms of investment. The HS2 college at Doncaster means that the SCR could help nurture rail investment in the region.

Potential mitigation measures that the SCR could implement

- Lobby government to deliver a UKSPF that at least doesn't see a reduction in funding for SCR and is top-sliced and devolved to MCAs.
- Promote the commissioned Brexit tool that will be on the SCR website in January 2019.
- Organise a workshop about the importance of preparing for Brexit and what support is available from the SCR.

2. Introduction

2.1 Purpose of the report

The purpose of this desk-based research is to inform the Combined Authority, LEP and Mayor on the possible impacts of Brexit on the SCR and what could be done to mitigate these. This explores a range of exit deal options and how the impacts may vary. The aim is for the SCR to have a better understanding of the effects of Brexit and help shape how the SCR can prepare and support businesses and individuals ahead of the UK's withdrawal from the EU.

2.2 What SCR has done so far

In 2017, SCR commissioned Oxford Economics to conduct Brexit research on the assumption that there would be no fixed trade agreement deal in place by 2019 and a 'hard' Brexit would take place. This was based on the worst-case scenario at that time. The main threats to the SCR economy that the report found were:

- **Fall in employment** - by 2019, employment in SCR is forecast to be 5,000 lower than it would otherwise be.
- **GVA decline** - by 2030, GVA will be 11% lower than forecasted compared to pre-Brexit forecasts.

SCR staff have attended several external events, including Government workshops, to keep on top of the likely impacts of Brexit on the SCR. In addition to this, briefing notes have been produced for the Mayor on the Prime Minister's Chequers Deal, the no-deal Technical Notices, a report by the Migration Advisory Commission, and the UK Shared Prosperity Fund (UKSPF).

UK Shared Prosperity Fund

The UKSPF will replace the European Structural Funds. It was a commitment in the Conservative's manifesto in 2017. Its objective is to "tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind."

A submission was made to the All-Party Parliamentary Group for Post-Brexit Funding for National, Regions and Local Areas on the UKSPF. The main points in this explain what the SCR wants to see from the Government's UKSPF:

- The budget for the UKSPF should ensure that regions do not receive a reduction in what they would have received if the UK had not voted to leave the European Union.
- A multi-annual allocation of UKSPF is essential.
- It should be merged with the Local Growth Fund (LGF) to create a 'single pot' approach to funding allocations, which would be easier and less resource intensive to manage. With the LGF merged into the UKSPF, we propose that the budget should be at least £3 billion per annum.

- The UKSPF must be targeted at places of need. For the LEPs in England, spend per head for the 2014-20 period in the North and Midlands was €147 compared to €76 (€59 if Cornwall is excluded) in the South. If this split is not replicated for the UKSPF, regional divides could become even starker.
- SCR missed out last time as its spend per head was €111, which was only marginally above the England average of €107 per head. The North East (€273) and Tees Valley City Regions (€300) received nearly treble that amount. So, we propose that the formula used is different to the one used for the 2014-20 programme.
- Gross Value Added (GVA), productivity and house prices are three options that could be considered for the UKSPF funding formula.
- The UKSPF should be allocated to functional economic areas, and top-sliced and devolved to MCAs because of strong and directly accountable governance.
- The UKSPF gives the opportunity to provide areas with the autonomy to invest in locally set priorities rather than priorities defined by others.
- Impacts and outcomes of the Fund should be defined and measured at the local level.

Huge funds are at stake for the UKSPF, especially if the Local Growth Fund (LGF) is rolled into replacing European Structural Funds (£1.3bn per year), which we expect, then the size of the UKSPF will need to be £3bn per annum. SCR received £170m from the current EU funding programme (2014-2020) and £363m from the LGF programme (2015-2021).

Summary	
1.	SCR commissioned research in 2017 on the likely impacts of a hard Brexit. The main findings were that a hard Brexit would likely lead to be a fall in employment by 2019 (5,000 lower), and GVA will be 11% lower than forecasted compared to pre-Brexit forecasts.
2.	Lobbied Government on the need to give the SCR its fair share of the UKSPF. SCR received £170m in the current programme and is demanding at least the same amount this time with additional devolution powers to invest in its own priorities.

3. Brexit negotiations and options

The Brexit negotiations are constantly in the news, but below is some detail on the type of options and what this entails:

	Single Market	Tariffs	Customs Union	EU budget contributions	Free movement
EU membership	✓	X	✓	✓	✓
Norway	✓	X	X	✓	✓
Norway+	✓	X	✓	✓	✓
Switzerland	Partial	X	X	✓	✓
Canada	X	Reduced through free trade agreement	X	X	X
Turkey	X	None on industrial goods	✓	X	X
Ukraine	Partial	Reduced through association agreement	X	X	X
WTO (no deal)	X	✓	X	X	X

Table 1 – Brexit options

The UK Government reached an agreement with the EU on the Withdrawal Agreement on 14 November. The agreement sets out arrangements for citizens' rights, the transitional period, immigration, and the Irish border. The key points are:

- The UK will be treated as a member state during the transition period (20 March 2019 – 30 December 2020)
- The UK will honour all its financial obligations (£39bn)
- The UK will benefit from access to customs related services
- Free movement of people will be replaced with a skills-based immigration system
- Trade deals with other countries will be allowed to be negotiated from 30 March 2019 and implemented after the transition period

Theresa May was in a difficult position of trying to respect the referendum result yet maintaining a relationship with the EU that won't be harmful, in the short-term at least, to the UK economy. Her proposal is a compromise between these issues as it ends the free movement of people yet keeps the UK economically aligned with Europe.

Key dates for the Withdrawal Agreement process:

- 11 December – Theresa May will try to get the agreement through parliament
- 13-14 December – final scheduled European council summit of 2018
- January-February 2019 – European Parliament would have to approve the agreement
- 29 March 2019 – the day of Brexit. The transition period would begin at 00:00 on 30 March 2019, which includes the more detailed discussions on the UK's future relationship with the EU on key areas such as trade
- 31 December 2020 – scheduled end date for the transition period

If this agreement gets through parliament then this will deliver a soft Brexit but with uncertainty about what will happen. The options are moving to a free trade deal, stay within the customs union arrangement, or extend the transition period. The likely effects of are still likely to negatively impact the national and SCR economy, at least in the short-term. The report discusses a wide range of potential implications of Brexit on the SCR economy, and what is clear that these impacts are more severe depending on how close our economic relationship is with the EU. The Withdrawal Agreement keeps the UK, for the transition period at least, closely economically aligned to the EU. A hard Brexit and particularly a no-deal will lead to the UK not being closely aligned to the EU. Subsequently, the impacts on the SCR economy would likely be greater.

If the deal is not agreed by parliament then the options of a hard Brexit and a no-deal could still be on the table. If the Government agrees a hard Brexit then the negative impacts on the SCR economy are likely to be greater than the Withdrawal Agreement agreed between the UK and EU. If an exit deal isn't agreed with the EU this would result in trading with EU countries on World Trade Organization (WTO) rules. This means that previous tariff-free trade would face tariffs. One pertinent example for the SCR is the production of car parts, which would see 4.5% tariffs applied. A range of studies have modelled the economic impacts of different exit scenarios. The Institute for Government summed this up effectively with a chart on the long-term impact of GDP under different trading scenarios by numerous reports:

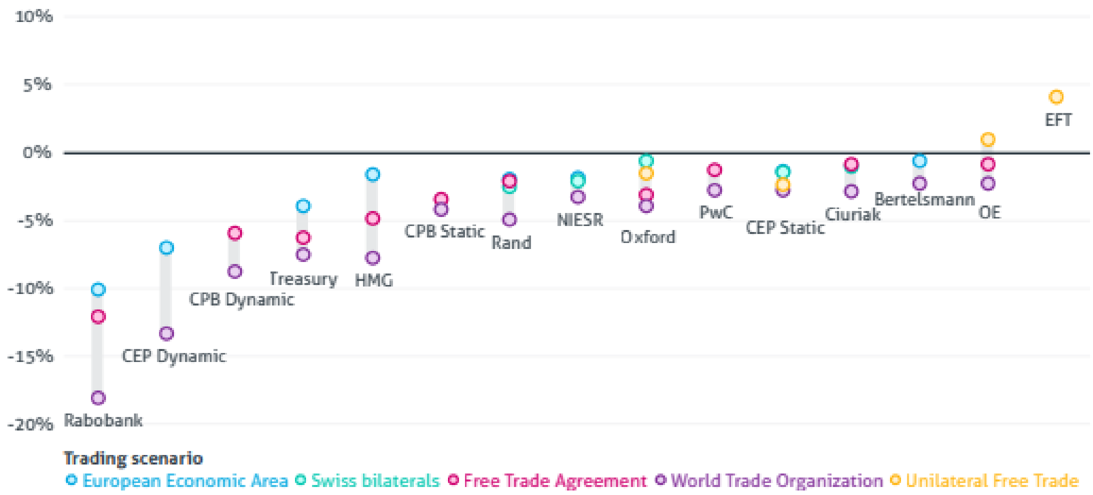


Figure 1 – different reports' economic forecasts of the impact of Brexit (source: Institue For Government)

As can be seen in figure 1, the economic modelling varies significantly. Nevertheless, there is a consensus that the economic impact of a no-deal scenario for the UK economy (trading with the EU on WTO terms) would be significant and negative. WTO tariffs, associated paperwork and border checks are a threat to the day-to-day operation of industry in the SCR but also to the attractiveness of the region as a place for new investment.

McCann (2016) found that across the UK, the results for a no-deal Brexit scenario show:

- More than 2.5m jobs are directly at risk.
- Almost £140 billion of UK economic activity annually is directly at risk.
- Many important manufacturing and primary industries are at risk, but so are many service industries – not just financial services.
- Many of these services are not only exported directly to EU countries, but are also sold to UK manufacturing firms who then export to the EU.
- Workers in the jobs at risk are on average slightly more productive than the average British worker – so Brexit is likely to exacerbate the UK's productivity problems.

It is clear that the effects of a no-deal Brexit would be significant. If Theresa May fails to get her deal through parliament then this could increase the possibility of a no-deal. This is concerning for the SCR, as well as the rest of the country, which places more emphasis on the need to ensure that our businesses are prepared for this.

3.1 How will Brexit affect different regions of the UK?

There have several reports released on the regional impacts of Brexit with mixed conclusions. Making estimates is difficult as the nature of the Brexit deal is still unknown as it depends what trade deals with non-EU countries will look like. There are mixed conclusions about the impact of Brexit on different regions. Dhingra (2017) found that London and the South East would be the most severely affected. However, several other reports have suggested that the Midlands and the North would be more severely affected due to their higher share of manufacturing and being more integrated into EU supply chains, which is certainly pertinent to the SCR. Professor McCann is leading an ESRC project (The Economic Impacts of Brexit on the UK, its Regions, its Cities and its Sectors) and its findings reaffirmed this as the Midlands and North are more exposed to the negative effects of Brexit because of greater dependence on EU markets for their trade compared to London and the South East.

It seems clear from the evidence that places that have a high dependence on trade with the EU, and especially if they specialise in one industry like car manufacturing, are most at risk of job losses. The closer the economic links with the EU then the greater the impact is likely to be. This varies across the country as the ports in the South East are likely to be affected by trade barriers to trade with the EU more than London who has less reliance on EU trade.

The Institute for Fiscal Studies (2018) found that some parts of the country have an unusually large share of low-educated workers employed in highly exposed industries. Figures are only available at the national and regional scale, but Yorkshire and the Humber is only behind the West Midlands and Northern Ireland in terms of low educated men in employment in highly exposed industries. This is relevant to SCR as one of the main exposed industries is process, plant and machinery operative occupations. The IFS notes that these employees tend to be older men with skills specific to their occupation who may struggle to find equally well-paid work if their current employment were to disappear.

It appears that the long-term impact of Brexit will depend on a place's capability to adapt. One of the variables is how easily workers will be able to find new employment if their employer is severely affected by Brexit. Cambridge Econometrics argues that London is more resilient than other parts of the country and is therefore better placed to adapt to any adverse shock, which was illustrated in London's recovery from the financial crisis in 2008.

Martin's (2017) findings suggest that Brexit will impact as many southern cities as well as northern ones. Whatever the academic forecasts, the consistent message is that the impact will be great and more severe the harder the Brexit deal is. Concerningly for the SCR, Martin (2017) found that Northern areas will take longer to recover from the economic shock of Brexit than Southern areas:

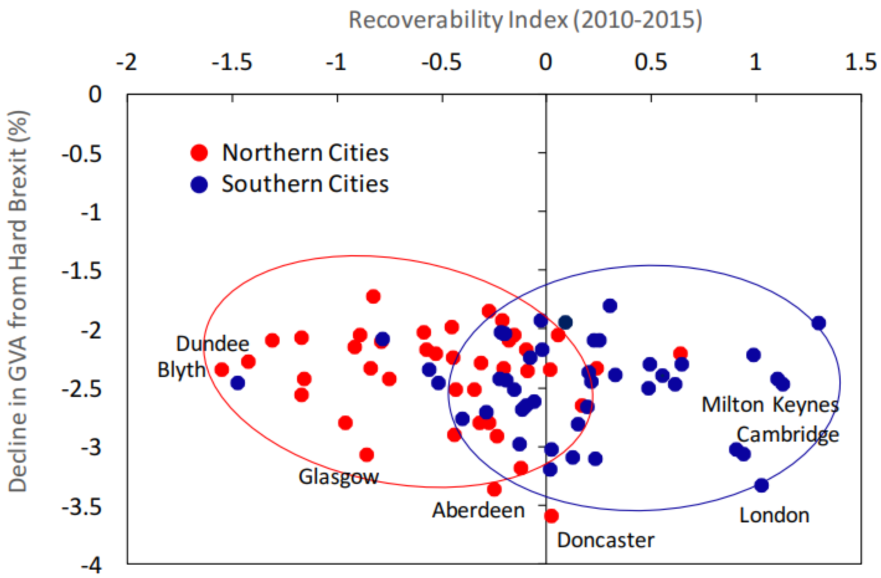


Figure 2 – city economic resilience (source: Martin, 2017)

According to Martin (2017), the determinants of strong economic resilience in a city are the diversity of its economy; a low dependence on manufacturing; high levels of knowledge intensive business services; low levels of exports; high productivity levels; and a high proportion of its workforce in high-skill occupations. This suggests that the SCR economy is not well placed to be resilient to economic shocks.

Given the range of academic forecasts, the most reliable source is the Government's own analysis. The Government's analysis was leaked to the press in January 2018. The report identifies sectors dependent on trade with the EU that are likely to see the biggest effect on economic activity. The emerging findings suggest that the largest effects would be on chemicals, food and drink, clothes, manufacturing, cars, and retail:

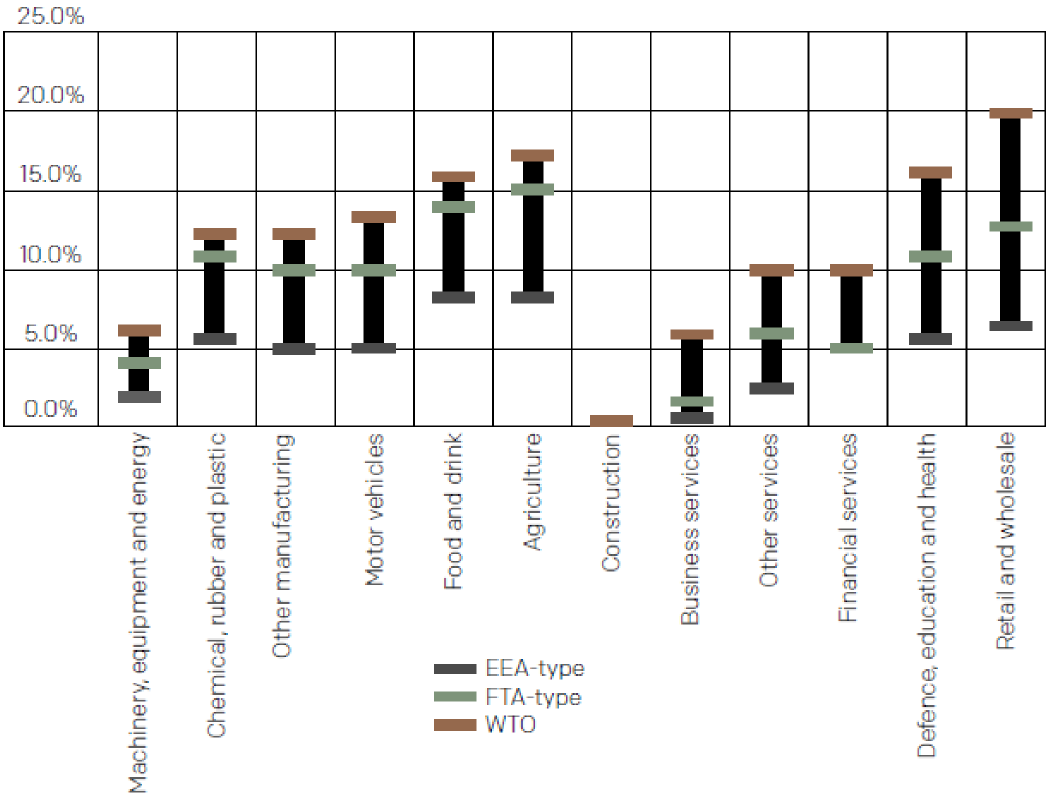


Figure 3 – Likely impacts of Brexit on sectors (source – HM Government)

Their findings on the regional impact for Yorkshire and the Humber are:

Deal	% change in GVA
Single market	-1.5%
Free trade	-5%
No-deal	-7%

Table 2 – Likely GVA impact of Brexit on Yorkshire and the Humber (source – HM Government)

Government released a policy paper on its long-term economic analysis of Brexit on 28 November. The main finding for regions was that areas that trade more with the EU are predicted to be most affected. It reviewed the economic options for four options for a 15-year period, but did not include the Withdrawal Agreement agreed between Theresa May and the EU:

	GDP growth - National	GDP growth - Yorkshire and the Humber
The Chequers plan (without border checks and 50% border checks)	-0.1% and -3.9%	-0.25%; -2%
Staying in the single market and free movement continues (Norway)	-0.9% and -2.4%	-1.3%
A free trade agreement where some border checks would be required (Canada)	-3.4% and -8.1%	-5.5%

No-deal	-6.2% and -10.7%	-8.5%

Table 3 – likely GDP impacts of different scenarios

Under a no-deal scenario, Yorkshire and the Humber would be the 5th-worst affected region behind only the North East, West Midlands, North West, and Northern Ireland. If the exit deal looked like the Chequers proposal then London would be the most affected with only Wales, Scotland and Northern Ireland faring better than Yorkshire and the Humber. The main conclusion is that the UK economy would be significantly worse off in 15 years' time under all the possible Brexit scenarios modelled in the report.

Analysis by the LSE and Centre for Cities examined the potential impact of a hard and soft Brexit on local authorities in the ten years following the implementation of new trade arrangements with the EU:

	Soft Brexit (change GVA)	**Hard Brexit** (change GVA)
Barnsley	-0.9%	-1.7%
Doncaster	-1.2%	-2.2%
Sheffield and Rotherham	-1.2%	-2.1%

Table 4 - Impact of Brexit on South Yorkshire's local authorities (source: Centre for Cities)

The assessment carried out by Cambridge Econometrics for the Greater London Authority also found a larger impact on the rest of the UK than on London. They looked at a range of sectors and the differences of what deal is agreed impacting on GVA and employment. This has been adapted for relevant sectors for the SCR economy:

	GVA			**Employment**		
	S1	S2	S3	S1	S2	S3
Manufacturing	-2.2%	-3.4%	-6.4%	-1.5%	-2.4%	-4.7%
Distribution	-0.7%	-1.2%	-2.5%	-0.3%	-0.5%	-1.0%
Transport and Storage	-0.5%	-0.8%	-1.4%	-0.6%	-1.1%	-1.9%
Digital technologies	-1.8%	-2.8%	-4.5%	-1.3%	-2.2%	-3.6%
Life sciences and healthcare	-0.2%	-0.3%	-0.6%	0.0%	-0.1%	-0.1%

S1 – Single Market, no Customs Union
S2 – Customs Union, no Single Market
S3 – No-deal, WTO rules
Table 5 – Brexit impacts on sectors relevant for the SCR (source: adapted from Greater London Authority: Preparing for Brexit, 2018)

On manufacturing, these forecasts are for a national level. SCR has a greater share of manufacturing compared to the rest of the country with 12.1% of employees working in manufacturing compared to 8.2% in Great Britain, so this means that the forecasts for manufacturing are likely to be even more severe in the SCR.

The National Institute of Economic and Social Research recently predicted that the difference between a soft Brexit and no-deal will be worth approximately £15bn to the UK economy over the next five years. They predict that a no-deal would cause annual output to be about 5.3% smaller over 10 years compared to a soft Brexit deal.

3.2 No-deal technical notices

The government has produced 84 Technical Notices which outline its approach to preparing the UK if a deal is not agreed with the EU. The intention is that they can help businesses and individuals prepare for the eventualities of a no-deal. These can be found here. They cover a wide-range of issues so to go through each one of them would not be prudent. The Technical Notices make it clear that the costs of a no-deal are likely to be substantial, especially for businesses who trade with the EU. The LGA has produced a guidance document on how the Technical Notices affect local councils, which can be accessed here.

Impacts for businesses in the SCR	
EU funded programmes	There is a guarantee to receive funding for major EU-funded programmes, such as ERDF and Horizon 2020, "over a project's lifetime if they successfully bid into EU-funded programmes before the end of 2020".
Trading with the EU	Businesses would have to apply the same customs procedures to importing and exporting as they currently apply when trading with a country outside of the EU.
State Aid	The Government would create a UK-wide subsidy control framework. EU state aid rules would be transposed into UK law.
Impacts for individuals in the SCR	
Driving	UK drivers who want to drive in the EU may require an international driving permit. Currently, a UK driving licence enables UK citizens to drive anywhere in the EU.
Using the Eurostar	Eurostar travel between London, Paris, Brussels and Amsterdam could be disrupted. The government said it would have to negotiate new arrangements with individual countries to keep trains heading to the continent.
Passports	UK nationals who want to travel to the EU in the event of a no-deal that they need to have at least six months' validity left on their passport. So, if people are planning to travel in the EU from April 2019 and have six months or less validity on their passport then they will have to renew their passport if they want to enter EU countries if a deal isn't agreed with the EU.
Mobile phones	The EU abolished roaming charges in 2017. A no-deal scenario means that free data roaming cannot be guaranteed.
Purchasing goods	UK consumers may be in legal limbo if they buy faulty products from EU countries

Table 6 – Overview of some impacts of a no-deal on businesses and individuals in the SCR

It is positive that the government has reiterated its financial commitment to EU-funded initiatives until 2020, but how the UKSPF is designed and funded is crucial. No new information has been provided on this, although a government consultation is expected in December 2018.

The Institute for Government has produced a table on each Technical Notice and likely impacts, so for detail on what businesses and individuals should do for each Technical Notice please see Annex 1.

Rather than going into detail the implications of what a no-deal would entail for a range of issues, a case study of logistics – an important sector in the SCR – illustrates the chaos a no-deal would likely bring. In the event of a no-deal, driving licenses may not be valid in the EU. The Freight Trade Association has said that 1400 permits will be allowed per day, but there are around 10,000 truck movements through Dover per day. Drivers would need passports to drive in Europe; there would be no guarantee that driver quality certificates would be recognised across Europe; and trailers might have to be registered. To demonstrate this problem, 14% of HGV drivers are EU citizens, and 25% of warehouse staff are EU citizens. British hauliers are already turning down European contracts due to the threat of a no-deal.

The Freight Trade Association has recommended that in the event of a no-deal to minimise UK-EU transport in the first 100 days. The implications for the SCR economy are that smaller haulage firms might not do work outside of the UK; the recruitment of drivers is already difficult in the region and would be exacerbated; existing foreign drivers' driving licences might not be valid in the UK; and there could be problems of where to park vehicles if less are on the road. The Technical Notices show that a no-deal would bring a myriad of problems, and the logistics case study shows the likely chaos that would ensue and its implications on the SCR economy.

Summary	
1.	Theresa May agreed a Withdrawal Agreement with the EU on 14 November. This still needs to get through parliament, but if it does then it keeps the UK, for the transition period at least, closely economically aligned to the EU. This would likely have negative effects on the economy but not as significant as a hard Brexit or a no-deal. If Theresa May fails to get her deal through parliament then this could increase the possibility of a no-deal.
2.	There is a consensus that the economic impact of a no-deal scenario for the UK economy (trading with the EU on WTO terms) would be significant and negative. Businesses trading with the EU, especially manufacturing firms, are likely to see increased costs due to delays and tariffs.
3.	Economic modelling for a range of exit scenarios varies significantly with several reports released on the regional impacts of Brexit. The most reliable source is the Government's analysis, which shows that Yorkshire and the Humber will likely see its GVA and GDP fall on an increasing scale depending on how far the Withdrawal Agreement is from the current EU trade arrangement.

4. The impact of Brexit on trade, businesses and investment in the SCR

4.1 Trade

South Yorkshire's export market is heavily dependent on the EU with 57% of the value of all goods going to this market. South Yorkshire is the 8th highest county in England for its share of export goods going to the EU:

	NUTS2 (counties in England)	EU exports (goods)
1	Northumberland and Tyne and Wear	61.4%
2	North Yorkshire	60.1%
3	Bedfordshire and Hertfordshire	60.0%
4	Shropshire and Staffordshire	59.3%
5	Outer London – South	59.3%
6	Tees Valley and Durham	58.6%
7	Greater Manchester	58.3%
8	South Yorkshire	57.2%
9	East Yorkshire and Northern Lincolnshire	56.0%
10	Cornwall and Isles of Scilly	55.3%

Table 7 – The ten highest counties in England with their share of exports (goods) going to the EU

The value of South Yorkshire's export goods market is heavily dominated by manufactured goods (45%), followed by machinery and transport equipment (27%). Oxford Economics (2017) found that SCR's exports are almost certainly biased towards its traditional base in engineering. This includes some world-class companies and facilities, with very important innovative assets in the region. However, it is a narrow base and vulnerable to trade barriers. Like its share of exports to the EU, the share of imports coming from the EU is also very high at 54.3%. Oxford Economics (2017) asserted that "these high figures suggest that the area has a lot to lose from Brexit, which is potentially quite disruptive to the area's exporting firms."

Businesses with large existing trade links/supply chain links to the EU are more highly exposed. For instance, given the likelihood of leaving the EU Single Market and Customs Union, increases in customs bureaucracy are anticipated, as British companies will be required to fill in customs declarations for all goods crossing the border. In addition, products exported to EU countries would need to be checked for compliance with EU/EEA standards and regulations, and rules of origin.

The importance of the EU to the region's exporters shows up in the top ten export partners list where eight are from the EU, although the USA is the region's top export partner with exports worth £382 million:

Top 10 Export Partners	Value of Trade £ millions	Top 10 Import Partners	Value of Trade £ millions
USA	382	China	676
Germany	356	Germany	584
Irish Republic	216	Netherlands	354
France	200	Italy	204
Sweden	173	USA	200
Netherlands	136	Belgium	187
Spain	114	Spain	144
Italy	98	Irish Republic	130
Belgium	88	France	127
China	87	Turkey	125

Table 8 – SCR's export and import partners

The dependence on the USA is a concern, especially given the volatile political climate in the USA and the protectionism agenda being driven by the President. There is also a concern around imports as there could be a potential loss of the advantage that South Yorkshire has held with the strong relationship with the USA, being able to act as its landing point into Europe.

Increasing trade with emerging markets is going to be important post-Brexit. A concern is that globally the political trend is for a more nationalist approach to trade and increased regionalisation, potentially restricting opportunities for growth in international trade. This is something the SCR needs to bear in mind and overcome.

Headline export figures also fail to capture the supply chains which are within the city region for exporting firms in other parts of the UK. Barriers to trade are likely to have a significant impact on these supply chains, and on some firms who may not be aware that they are in the supply chains for exporters given that they may be several tiers below the primary exporter.

A lot of the focus has been on exporting when looking at the impact of Brexit on trade; however, non-tariff issues for importing are also important. For example, food standards and safety checks could be enforced at the port of Dover. This would not only be costly in terms of delays but would cause an issue of where to park lorries. A similar issue could arise in the SCR if fewer lorries are on the road.

The table from the Oxford Economics report shows average EU tariffs by sector. SCR top sectors tend towards the middle of the table. However, other border costs such as form-filling average at 4.4% and so make a big difference. Duties and inspections at ports are reliant upon UK access to European-wide databases, which provide much of the intelligence for assessing risks. If the UK Government does not agree an exit deal with the EU then there would be no access to these EU databases and more checking and associated costs is inevitable. Several important sectors in the SCR will face combined costs in a range from 5% to 10%:

EU tariffs by product type, plus non-tariff costs

	Av MFN on ECU sales	MFN plus Border Cost
Clothing and textiles	10.1	14.5
Non-alcoholic beverages	9.1	13.5
Automotive	8.0	12.4
Other transport equipment	5.5	9.9
Food products	5.0	9.4
Rubber, plastics and other mineral products	4.9	9.3
Chemicals	3.7	8.1
Alcoholic beverages and tobacco	3.7	8.1
Agriculture	3.2	7.6
ICT and electronics	2.8	7.2
Aerospace	2.7	7.1
Coke products and refining	2.6	7.0
Electrical equipment	2.5	6.9
Metals and metal products	2.0	6.4
Other machinery and equipment	1.9	6.3
Other manufacturing	1.5	5.9
Furniture	1.1	5.5
Ships and boats	0.9	5.3
Wood, paper and printing	0.5	4.9
Pharmaceuticals	0.1	4.5
Other mining activity	0.0	4.4
Oil and gas	0.0	4.4

Table 9 – Costs of tariffs and other costs on sectors (source: Oxford Economics, 2017)

Oxford Economics (2017) found other likely impacts on the SCR related to trade:

- Problems/delays in exporting to traditional markets due to new/unanticipated export documentation requirements
- Delays cause increased costs due to goods being held up in customs
- Limited capacity of SMEs to absorb these additional costs are passed on to customers, suppliers
- Variance in cost of exporting to EU for different sectors (e.g. automotive) impacts the competitiveness of SCR capabilities/strengths
- Loss of competitive advantage e.g. leaving the customs union slows down the movement of export goods driving buyers to other countries who can supply faster

4.2 Manufacturing

The ambiguity of Brexit is having an unsettling impact on UK manufacturers, according to research by Sheffield Hallam University. Manufacturing is still one of the key sectors for the SCR economy. Despite only making up 10% of the UK economy, it accounts for 44% of trade and 80% of goods exports. As discussed earlier, this makes manufacturing one of the high-risk sectors for Brexit, which is concerning for the SCR economy. The most exposed manufacturing industry is the automative sector. Approximately 60% of components needed to assemble UK cars come from abroad, mainly Germany. The uncertainties associated with Brexit have led to car manufacturers being reluctant to make investment decisions. This is particularly concerning for places such as Sunderland and the West

Midlands but also for the SCR as it has SMEs involved in the manufacturing of car parts. These are often moved backwards and forwards from the EU so are likely to be hit hard by tariffs, especially if there is a hard Brexit or a no-deal.

A Sheffield Hallam report on the digitisation of manufacturing found that “businesses recognise the strategic risk that Brexit poses, however they are more than twice as likely to point to global competition and the role of data and connected technologies when asked what they consider to be the single biggest challenge they face.” The report found that 59% of UK manufacturers intend to invest in smart technology to support growth plans post-Brexit. 66% of British manufacturers still expect to employ more people in the event of a hard Brexit, and 80% of businesses with 250-500 employees have intentions to grow their workforce. Despite the uncertainties that Brexit presents, there is a bullishness amongst manufacturers. However, despite the encouraging intentions of organisations with 250-500 employees, only 11% of small manufacturers intend on hiring more people after Brexit. With a lot of small manufacturing firms in the SCR the news isn’t quite as positive.

There is a pressing need to support buinsseses to mitigate the effects of Brexit, but this should be complementary to supporting businesses in adopting new technologies, particularly the digistation of industry which is at the heart of the Global Innovation Corridor proposal, to ensure that SCR businesses can reap the benefits of Industry 4.0 and become more globally competitive.

For manufacturing production, Sheffield Hallam research estimates that output would be reduced by 5.5% and increasing to 19.5% under a no-deal scenario. The SCR economy remains dependent on manufacturing. There is a real fear therefore that the introduction of tariffs and border checks in trade with the EU will have a disproportionately large and damaging impact on manufacturing businesses in the SCR. Components as well as finished goods presently move freely back and forth across the border with the rest of the EU. Just-in-time delivery systems have often become the norm. The reliance of the motor industry on cross-border movements has been well publicised but similar arrangements apply to a wide range of other manufacturing industries.

Advanced manufacturing, a key sector in the SCR, will most likely be impacted by the imposition of tariffs on traded goods across complex supply chains which cross the EU multiple times. Oxford Economics (2017) found that tariff and non-tariff barriers will impose costs on business of between 5-10%. This includes sectors where SCR excels; for example, advanced manufacturing and engineering.

Just-in-time supply chain production will be extremely difficult to maintain due to EU rules of origin. This will have a significant disruption on the manufacturing sector. Given the critical role of South Yorkshire’s manufacturing sector within the supply chain, this is likely to have a particularly significant impact. So, if the SCR wants to achieve its Global Innovation Corridor ambitions then it needs a Brexit deal that will enable supply chains to be strengthened, not weakened.

The key recommendation from Sheffield Hallam research was that manufacturers should plan for the most disruptive Brexit outcome to mitigate the immediate structural changes triggered by the UK leaving the EU. They argue that “the manufacturers that plan for the most disruptive Brexit outcome – by systematically evaluating business risks and opportunities, defining tactics, and closely monitoring the macro environment – will mitigate the immediate structural changes triggered by leaving the EU.” Given that only 21% of manaufacturing firms and very few of foreign-owned companies in the SCR seem to be concerned about Brexit, the role of the SCR should be to encourage firms to consider the potential ramifactions of Brexit on their business. An event to promote the importance of this might be an effective way of the SCR letting businesses know what support is available.

4.3 Businesses and investment

Following Brexit, Businesses will see changes in access rights to EU countries with the UK businesses potentially having to navigate the complexities of trading outside the common market. There will be a huge impact on supply chains; for all businesses that export, import and manufacture could be put at risk due to the potential increased costs of moving of goods. Even those who aren’t direct exports/importers are likely to use goods/services, including EU elements. There is a risk to just-in-time method of production, especially with the increased regulations. The potential devaluing of the pound will lead to higher input costs to UK businesses and an increase in inflation.

Investment is a key driver of the economy, and there is evidence at a national scale that companies have been postponing investment decisions due to the uncertainty over Brexit. The CBI found that in 2017 Brexit has affected 40% of businesses’ investment plans. More recently, EEF found that 51% of companies said their investment in plant and machinery had been put on hold because of Brexit negotiations. In addition, 36% had shelved plans for new or improved buildings. For example, AstraZeneca have frozen UK investment in manufacturing since 2017.

Brexit will result in running a manufacturing business a lot more complicated, with many businesses unsure what to do. This is a potentially key role for the SCR. It is imperative that businesses, especially ones most at risk, are offered support and guidance to try to help them mitigate – and possibly take advantage of – the impacts of Brexit.

EU funding is crucial for the manufacturing sector. The CBI (2016) found that 68% of UK R&D expenditure was allocated to manufacturing. Moreover, the UK was the second largest recipient of funding for the Horizon 2020 project. If the UK loses eligibility for these funds because of Brexit then this could have huge ramifications for the manufacturing industry and its long-term competitiveness would be at risk.

Funding is also crucial to fuel innovation. Funding for UK tech firms by the European Investment Fund fell by 91% during 2017 to €61.1m (£53m) compared with €708.8m in 2016. Brexit will impact not only upon the funding available for business innovation but upon the opportunities for business collaboration, access to specialist expertise and joint innovation projects. Considering that research and innovation are key regional strengths, and driving innovation being intended priority of the Global Innovation Corridor, this is concerning.

There has already been a negative impact of business investment in the SCR due to the uncertainty of Brexit. Some businesses have delayed decisions to expand due to the uncertainty, as well as indigenous investment in R&D and workforce development being put on hold. The SCR has already seen a downturn in applications/take-up of BIF from inward investors. Moreover, there has been reduced interest from institutional financial investors, and a decline in value of current investment funds due to the value of sterling. This could have other knock-on effects for transport and housing schemes. Brexit poses a risk to established partnerships, especially for the USA and other countries use of UK expertise to enter EU markets.

The major risks for investment in the SCR are:

Current investment	New investment
Decline in existing SCR companies making investments in their existing SCR businesses	Decline in foreign investment
Existing foreign investors decide to leave the SCR, with knock-on implications for jobs, productivity and local supply chains	Cost increases make the SCR a less competitive business environment to operate in compared to EU counterparts

Table 10 – business investment risks for the SCR

The UK is one of the biggest recipients of FDI among major advanced economies and 42.6% of FDI is from the EU (ONS, 2018), which illustrates the risk of any decrease in FDI from the EU. The risk of international companies making less investment in the UK in addition to the threat of less EU funding is a big threat to the UK economy as a whole but even more so for economies with a reliance on manufacturing like the SCR. The SCR has seen a decline in new foreign investment following the outcome of the 2016 EU referendum, which is also reflective of the UK in general. FDI enquiries in the SCR were down for 2017 and are likely to be lower in 2018, according to figures from the SCR's inward investment team. Moreover, clients that the SCR does have on-going projects with are generally taking longer with their decision making and a number have delayed projects to wait and see the outcome of Brexit. In addition to the pipeline of investment opportunities declining, the SCR has also seen the timescales for those investment decisions being made being extended as investors wait for the outcome of the Brexit negotiations to be concluded.

4.4 What businesses in SCR think of Brexit

Over 50% of respondents in the Quarterly Economic Review after the 2016 referendum indicated that the referendum result had not influenced their investment decisions. For Q4 of 2017, only 29% of those in the service sector and 21% of those in the manufacturing sector expressed marked concern about what the impending exit from the EU could mean for them. Moreover, only 9% of businesses in the SCR said that Brexit is a reason for expected new skills in the next 12 months compared to 13% for the national average (English Skills Survey, 2017). This implies that businesses on the SCR aren't as concerned about Brexit as they possibly should be.

SCR has been having discussions with foreign-owned companies in the city region and asking them about the implications of Brexit. Over 40 of these businesses have given feedback on Brexit, with the SCR actively exploring options recently with a couple of these businesses with a view to retaining their presence in the city region given the seriousness of their Brexit concerns. We are concerned that more existing foreign investors in the city region will locate elsewhere should a no-deal scenario occur. The vast majority of companies have not planned, or even thought about, what might happen in a post-Brexit world. A common theme was that they are waiting to see what happens before thinking about how it might affect them. This is concerning and suggests that the SCR needs to encourage firms to consider the implications of Brexit, especially if an exit deal is not agreed.

Summary	
1.	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.
2.	Investment is a key driver of the economy and is crucial for fuelling innovation, which is a key objective of the Global Innovation Corridor. There has already been a decline in investment by existing SCR companies and there is a strong likelihood that future investment could be curtailed.
3.	A common theme from SCR businesses is that they are waiting to see what happens with Brexit before thinking about how it might affect them. This suggests that the SCR needs to encourage firms to consider the implications of Brexit, especially if an exit deal is not agreed.

5. The impact of Brexit on employment, education and skills in the SCR

5.1 Workforce

To illustrate the scale of the potential impact of Brexit on the SCR workforce and economy, it is estimated that approximately 72,000 jobs in South Yorkshire are dependent on EU exports (BBC, 2016). In 2017, Oxford Economics forecasted that by 2019, employment in the SCR could be 5,000 lower than it would otherwise be as a result of Brexit. They also found that if a hard Brexit deal is agreed then this will have huge structural and demographic changes. They forecasted that by 2030 migration curbs will result in a bigger drop in the working-age population (18,000 compared to 14,000) than would otherwise be the case. This would result in a smaller tax-paying labour force and subsequently increased pressure on public services.

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. This is particularly relevant to the logistics and manufacturing sectors in the SCR:

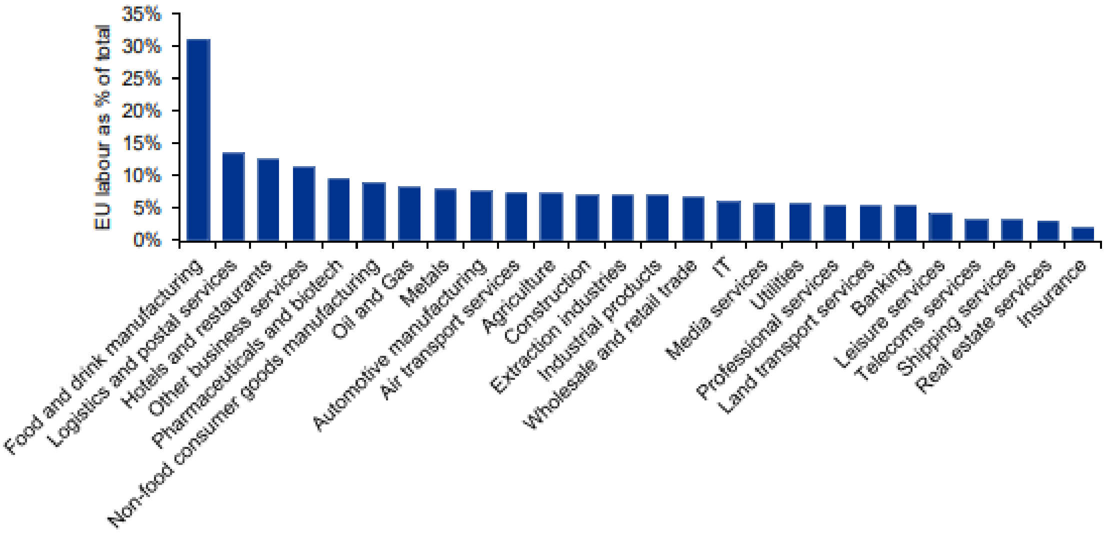


Figure 4 – dependence on EU labour by sectors (source: KPMG)

A loss of EU workers will mean businesses will need to recruit from a market that will have long terms barriers to employment, which is something they won't be used to with the existing supply of EU workers. This will present challenges to business and JCP/DWP as they prepare these people for work. In the SCR, long-term health conditions and ill health will be the main barrier for people to overcome to be work ready.

In 2016, the CBI found that two-thirds of manufacturing companies anticipated recruitment issues post-Brexit. There is a long-standing skills gap in the manufacturing sector and companies have often relied on EU workers to fill these gaps.

There could be issues in recruiting low-skilled jobs that are often temporary. This is prevalent in the SCR in sectors such as manufacturing, construction and logistics. These temporary jobs are frequently difficult to recruit domestically and often filled by low-skilled migrants from the EU. This could lead to increased labour costs and possibly businesses looking at locating elsewhere. In the longer-term, it is likely that migration could drop due to the UK being seen as less desirable. Also, changes to these sectors are coming, particularly as automation progresses, which could see less people employed. The SCR has a pivotal role to play in supporting businesses to innovate and helping workers prepare for future jobs by equipping them with the necessary skills.

For high-skilled jobs, there are a number of EU workers employed in industries such as advanced manufacturing, health and higher education. Part of this is due to skills shortages domestically. Retaining these high-skilled EU workers will be important and the SCR needs to recognise this. There is a role to work with local businesses to retain their high-skilled staff, and there is also a need to upskill the SCR labour market and align skills with local demand.

Oxford Economics (2017) forecasted the employment impacts of Brexit on sectors in the SCR:

Sectoral and source of change in jobs (000s), SCR, 2015 to 2019

	Post-Brexit	Pre-Brexit	Estimate: data revision	Estimate: Brexit impact
Agriculture, forestry & fishing	-0.4	0.0	-0.5	0.1
Mining & quarrying	-0.3	-0.3	0.0	0.0
Manufacturing	-1.7	-3.9	2.7	-0.5
Electricity, gas & steam	0.0	0.1	0.0	-0.1
Water supply; sewerage, waste management	0.0	0.0	0.0	0.0
Construction	3.0	3.6	1.5	-2.0
Wholesale & retail trade	3.2	0.9	2.3	0.0
Transport & storage	1.3	2.2	-0.6	-0.3
Accommodation & food	1.1	1.5	-0.3	-0.2
Information & communication	0.9	1.2	0.2	-0.4
Financial & insurance	-0.1	-0.2	0.1	0.0
Real estate	0.4	0.4	0.1	-0.2
Professional, scientific & technical	2.6	3.2	0.4	-1.0
Administrative & support	3.2	5.2	-0.3	-1.7
Public administration & defence	-4.2	-3.3	-0.6	-0.3
Education	0.3	-2.0	2.0	0.2
Health & social work	-2.1	0.3	-2.0	-0.4
Arts, entertainment & recreation	0.6	0.8	0.0	-0.2
Other services	1.2	0.5	1.0	-0.2
Total	**8.9**	**10.1**	**6.0**	**-7.2**

Table 11 – predicted change of jobs in SCR by sector (source: Oxford Economics, 2017)

The SCR sectors that have the main employment impact by 2019 are likely to be construction and administrative & support. Oxford Economics expect that these will continue to grow, but to a lesser extent than in their pre-Brexit forecasts. A consequence of this is that in relative terms the city region becomes more dependent on employment growth from other sectors including wholesale & retail trade and professional, scientific & technical.

5.2 Education and skills

Sheffield Hallam University and the University of Sheffield play an important role in the SCR economy. The reliance on these institutions is higher than in some city regions due to a relatively small private sector base. Higher education is vulnerable to the effects of Brexit as there are concerns about the supply of students, teaching staff and academics, depending on what post-Brexit migration rules are implemented. A reduction in government funding for research is another big concern as this could be a threat to the research and innovation base, which would threaten the universities' ability to attract talent. Moreover, a lot of teaching staff are from the EU.

Research and innovation are key regional strengths so any threat to this funding is extremely concerning for the SCR economy. Nurturing innovation is at the heart of the Global Innovation Corridor plan, so a reduction in innovation funding adds importance to the proposals but is also a threat to its success.

There is also a concern about fewer international students choosing to study in Sheffield as they provide significant benefits to the SCR economy. There are over 10,000 international students studying at both universities and approximately 4,000 international students join Sheffield's universities each year. They directly contribute over £360 million to the local economy during the course of their studies. Oxford Economics found that international students contributed 10% of the inward investment into the city region. The report also noted that international students were especially important in key areas such as engineering and computer science where there are skills shortages in the region. Moreover, any significant loss of EU staff would disproportionately impact on key subjects like STEM courses, where universities are heavily reliant on EU staff to deliver these subjects.

A no-deal scenario is very concerning for the education sector. EU students could be re-classified as international students, therefore being charged higher fees and denied access to student support. This could have major impacts on the attractiveness of UK courses to the EU student market. In the event that the UK is granted 'third country status', the universities will no longer be eligible for major Horizon 2020 grants. A reduction in EU funding post-Brexit, would negatively affect the ability to fuel innovation across SCR.

Summary	
1.	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.
2.	Higher education is vulnerable to the effects of Brexit as there are concerns about the supply of student, teaching staff and academic numbers, depending on what post-Brexit migration rules are implemented.
3.	In the event that the UK is granted 'third country status', the universities will no longer be eligible for major Horizon 2020 grants. A reduction in EU funding post-Brexit, would negatively affect the ability to fuel innovation across SCR.

6. The impact of Brexit on transport, infrastructure and housing in the SCR

6.1 Transport

Like many other sectors, transport benefits from EU funding streams, and so the threat of Brexit impacting this is a concern. Vehicle manufacture and supply could be impacted as some vehicles are produced and tested in Europe, including trams and trains. This could have customs and supply-chain implications. As mentioned previously about the logistics case study of the impacts of a no-deal, Brexit could impact pressure on the existing road network in SCR. It could increase the need for lorry parking, which is already an increasing issue in the SCR in terms of the availability of suitable facilities.

More technical impacts of Brexit on transport for the SCR include standards. Currently, the SCR transport team works to EU limit values for the establishment of Clean Air Zones and AQMAs. Brexit could impact this and the regulatory position surrounding their status and designation.

The likely impacts of Brexit are not just focused on the road network. There are potential implications for the airline industry, particularly in the instance of a no-deal situation. If an exit deal is not agreed then the UK will leave the EU common aviation area, which will restrict flights to and from 44 countries. This would have a big effect on Doncaster Sheffield Airport (DSA), especially given their eastern European flight schedules. Many of the Eastern European flights serve migrant labour coming into work in factories and farms in Lincolnshire. If that demand falls, then the need for that many flights may well decrease affecting the DSA's growth aspirations. There could also be an impact on air-borne freight coming into DSA. If there is reduced traffic through DSA this not only risks damage to a major regional asset whose main routes are with the EU, but it will impact business and leisure visitor numbers. Subsequently, it will affect the ability of the use of DSA to demonstrate to investors that the SCR is a good place to do business.

6.2 Infrastructure and Housing

Brexit has caused uncertainty which has led to a lack of confidence resulting in an unwillingness to develop new homes and increased potential for 'land banking'. Similarly, there is uncertainty and a lack of confidence to invest in speculative and non-speculative commercial development, which in turn impacts on jobs and GVA growth. There is more vacant floorspace due to a lack of confidence in business growth, and there is lower private sector indigenous investment in development and job creation.

Brexit is impacting on the labour market, particularly in lower numbers of low-skilled EU workers, meaning that there is a lack of construction trades to progress existing and new schemes. Subsequently, this means increased labour costs and possibly affecting the success of a scheme and its chances of progressing; for example, currently SCR research suggests that around 50% of all housing schemes currently have a viability gap, so this figure will undoubtedly increase if labour and material costs increase. There is concern over national funding for housing being redirected to higher demand areas in the South to seek to maximise national housing delivery, at a time when housing scheme viability gaps will be increasing as a result of Brexit. The Key Cities and Core Cities Group analysed the Government's announcement of £7bn of housing investment for the next five years. They found that 80% of allocated funds are to be directed at areas of "highest affordability pressure", which are largely in the South and East in England, as illustrated in their map:

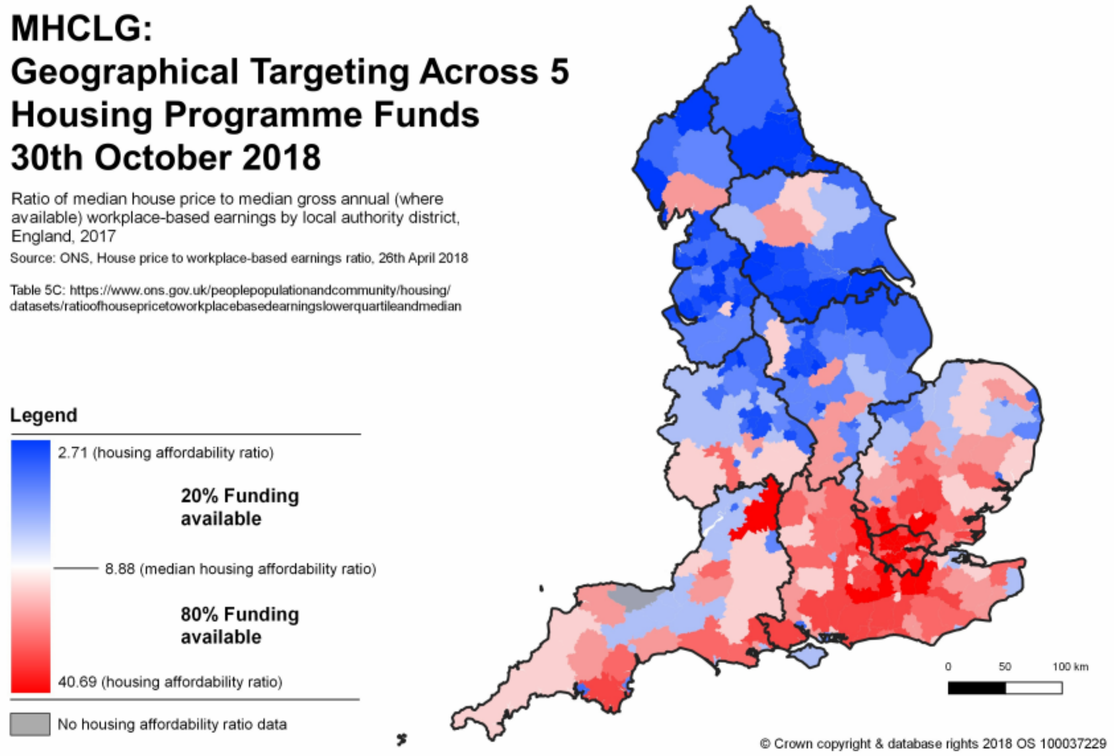


Figure 5 – Housing programme geographical allocation (source: Key Cities)

Other costs include such as inflation impact on existing and new schemes could lead to cost overruns and delivery uncertainty. A failure of supply chains to deliver goods/services in line with project 'just-in-time' requirements, which is more at risk depending on the Brexit deal, will delay delivery timescale and increase costs. Schemes may stall or be delayed to such an extent that intended benefits or returns on investment won't be delivered. There could be the need for more public investment to cover the viability gaps as development costs rise, which means that securing funding through the UKSPF is critical for the SCR region.

Summary	
1.	If an exit deal is not agreed then the UK will leave the EU common aviation area, which will restrict flights to and from 44 countries. This would have a big effect on DSA, especially given their eastern European flight schedules.
2.	There is uncertainty and a lack of confidence to invest in speculative and non-speculative commercial development, and there is more vacant floorspace due to a lack of confidence in business growth.
3.	There are concerns over a lack of construction workers as migration reduces and skilled workers are attracted to higher paid areas in the South (as happened post the 2008 downturn). The cost inflation on construction materials and skilled workers will likely result in development being slowed due to suppliers not being able to continue to meet 'just-in-time' requirements.

7. Opportunities that could arise out of Brexit

In the future it is likely that there will be fewer EU workers, which creates a challenge for businesses that are dependent upon EU labour to fill vacancies; however, it also creates an opportunity for local residents to enter the labour market. Businesses have a pivotal role to play in helping build the local skills base post-Brexit. The SCR needs to support businesses to recruit from the local labour force, which could involve filling employment gaps by trying to reach harder to reach groups and people who are currently quite far from the labour market.

The weaker pound should help boost exports and could be an opportunity to uncover better ways of operating. Businesses may need to reassess supply chains, look at their recruitment and how they train existing staff. The SCR has a role to play in helping to support increased local innovation.

Trade relationships are likely to change post-Brexit and an opportunity is potentially more trade with emerging markets like India and China. The SCR has already been on trade missions to both of these countries but there is a role for the SCR to forge new and strengthen existing partnerships with emerging markets.

Brexit will affect a range of industries with some possibly seeing benefits. There is a chance that northern ports could become more prominent so the Hull port could be busier, which could be an opportunity for SCR to tap into. Some industries like the rail industry are Brexit-proof in terms of investment. The HS2 College at Doncaster means that the SCR could help nurture rail investment in the region. Brexit will likely increase the importance of building up SCR as a region to invest for advanced manufacturing and digital, placing more emphasis on the SCR's Global Innovation Corridor plans.

Brexit's impact can vary even within a given industry because each company's supply chain is different. Associated British Foods, which produces more than two million tonnes of sugar annually from sugar beet factories in the UK and Spain, would be hit hard if a no-deal triggers a shift to WTO customs duties on sugar beet. By contrast, Tate & Lyle Sugars, one of Europe's largest sugar manufacturers, currently pays high EU tariffs on sugar cane imports from Brazil, and its UK operations were unprofitable in 2015. If the UK agrees after Brexit to the more favourable WTO tariff structure on non-EU sugar cane imports, Tate & Lyle Sugars would benefit by being to import and produce at a lower cost.

Summary	
1.	The weaker pound should help boost exports and could be an opportunity to uncover better ways of operating.
2.	Trade relationships are likely to change post-Brexit and an opportunity is potentially more trade with emerging markets like India and China.
3.	Some industries like the rail industry are Brexit-proof in terms of investment. The HS2 college at Doncaster means that the SCR could help nurture rail investment in the region.

8. Potential mitigation measures that the SCR could implement

The Local Industrial Strategy will be the key policy document for the SCR to try to make the city region more resilient and more able to weather adverse economic shocks such as Brexit. Kitsos (2017) outlined the following steps to increase local economic resilience:

- Recognise and promote the role of anchor institutions such as universities for increasing skills locally.
- Identify the importance of amenities for attracting talent in different areas.
- Motivate university-industry collaborations and cross-industry innovation
- Create a place-based industrial strategy that will use local assets and pursue resilience enhancing growth.
- Fund further research on resilience and promote the creation of local plans that explicitly address resilience.
- Provide leadership guidance and foster effective institutions to cope with external shocks.

The findings of the 100 resilient cities programme for economic resilience suggest that the community could act as a backstop, which could tie in with Mayor's manifesto commitment to deliver a more integrated and co-operative economy in the SCR.

8.1 Short-term practical actions

Lobbying

- The Mayor to lobby government ministers on the importance of a good Brexit outcome for the SCR, particularly stressing the importance of avoiding a no-deal.
- The Mayor to lobby along with other Northern Metro Mayors for greater devolution powers and flexibility to continue to attract foreign investment; for example, tax-raising/spending powers, greater control over local trade and investment budget, air passenger transport duty removal.
- The Mayor to lobby prospective investors on SCR's short-list.
- The Mayor to lobby government to deliver a UKSPF that at least doesn't see a reduction in funding for SCR and is top-sliced and devolved to MCAs.
- Try to secure additional devolved funding for commercial, infrastructure and housing investment.

Marketing

- Trade promotion to target emerging markets, especially due to lower sterling value. The SCR has already arranged trade trips to China and India. These relationships need to be strengthened and new ones forged with other countries.
- New marketing tactics for foreign investment promotion in target markets (for example, Weibo, WeChat).
- Ensure that the SCR is still open for business by building relationships with other international cities.

Business support

- Initiate a match-funded voucher scheme to support Brexit resilience planning.
- Run a workshop on preparing for Brexit, including practical advice from experts.

- Implement future export support programmes targeted at increasing non-EU trade in support of market diversification activity.
- Support local exporters to get Authorised Economic Operator authorised with some financial support through the SCR.
- Expand foreign-owned company KAM programme.
- Plan for the future of BIF to support more investment projects. The SCR has already reviewed the fund to re-profile the programme budget, broaden its scope and do more to stimulate demand.
- Offer relocation packages for existing investors if they consider leaving the SCR.
- Ensure local businesses have adequate support to address new administrative costs.

The SCR needs to ensure that it helps prepare local businesses for the effects of Brexit. The size of a business is important. Big companies have the capacity and funding to appoint Brexit advisors to help them prepare for Brexit. Furthermore, they can afford to stockplie supplies to help mitigate impacts if there is a no-deal. SMEs often operate at a more hand-to-mouth model so do not have the resources to prepare for Brexit like large companies. This is even more relevant to the SCR which is made up of lots of SMEs, especially in manufacturing. Targeting these companies to plan for Brexit by giving them the information to help them is crucial. The SCR could offer support and guidance to try to help businesses plan, assess risk and implement methods to mitigate – and possibly take advantage of – the impacts of Brexit.

The HMRC has produced its own Brexit pack. This pack provides a high-level guide to customs processes and procedures that are likely to apply in a no-deal scenario. There is guidance for businesses that import and/or export with the EU and non-EU countries, plus specficic guidance for haualge companies; freight forwarders; express courier industry and postal services; businesses supplying services to the EU; tour operators; ports and airports; customs warehouses; temporary storage operators; and businesses selling duty-suspended alcohol, tobacco or fuel in the UK.

SCR has commissioned work to deliver a Brexit tool to help SCR businesses prepare for Brexit. Based on their responses, it provides businesses with a tailored report on the things they need to be thinking about for Brexit and directs them to resources to help them prepare, including the HMRC Brexit pack. This tool should be on the SCR website in January 2019. This should be a useful tool but it is recommended that the SCR does more than this. Organising a workshop for local businesses could be an effective way to raise awareness of the need for businesses to prepare for Brexit and to promote what support is available from the SCR. There have been discussions with Sheffield City Council who are keen to partner on an event to promote the importance of businesses preparing for Brexit.

Helping prepare businesses for Brexit is imperative and has been a major theme throughout this document. Additionally, the SCR has a role to play with key institutions within the region to see what support can be offered to help them prepare for Brexit. Conversations could be initaited with the unviersities and Doncaster Sheffield Airport.

8.2 Long-term strategic review

If there is a no-deal, or the Brexit deal severely harms the economy, then there could 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. There might be a need to prepare for a potential economic decline. Strategies such as the Local Industrial Strategy and 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.

The SCR LEP runs a Policy Advisory Group for local academics and other senior policy makers in sectors such as health. The idea of a regional observatory has been discussed, which could strengthen the SCR's policy role in scenario planning and regional economic forecasting. Working closer with anchor institutions could be a method to improve understanding of the SCR economy and help mitigate the negative effects of Brexit.

An avenue to potentially explore to increase local resilience could be to drive progressive procurement in the Sheffield City Region. Preston and Manchester have been successful in recent years of increasing the proportion of local spend. The Sheffield City Partnership has started this in Sheffield. SCR could look at exploring the idea of progressive procurement for all of the city region. There is a possibility that after Brexit, depending on the exit deal, it could be easier for public institutions to select local suppliers over international ones. The Withdrawal Agreement states that public procurement under the transition period will follow EU procurement rules but after this it is uncertain.

Summary	
1.	Lobby government to deliver a UKSPF that at least doesn't see a reduction in funding for SCR and is top-sliced and devolved to MCAs.
2.	Promote the commissioned Brexit tool that will be on the SCR website in January 2019.
3.	Organise a workshop about the importance of preparing for Brexit and what support is available from the SCR.

9. Recommendations

1. Speak to the Mayor about lobbying activities on Brexit

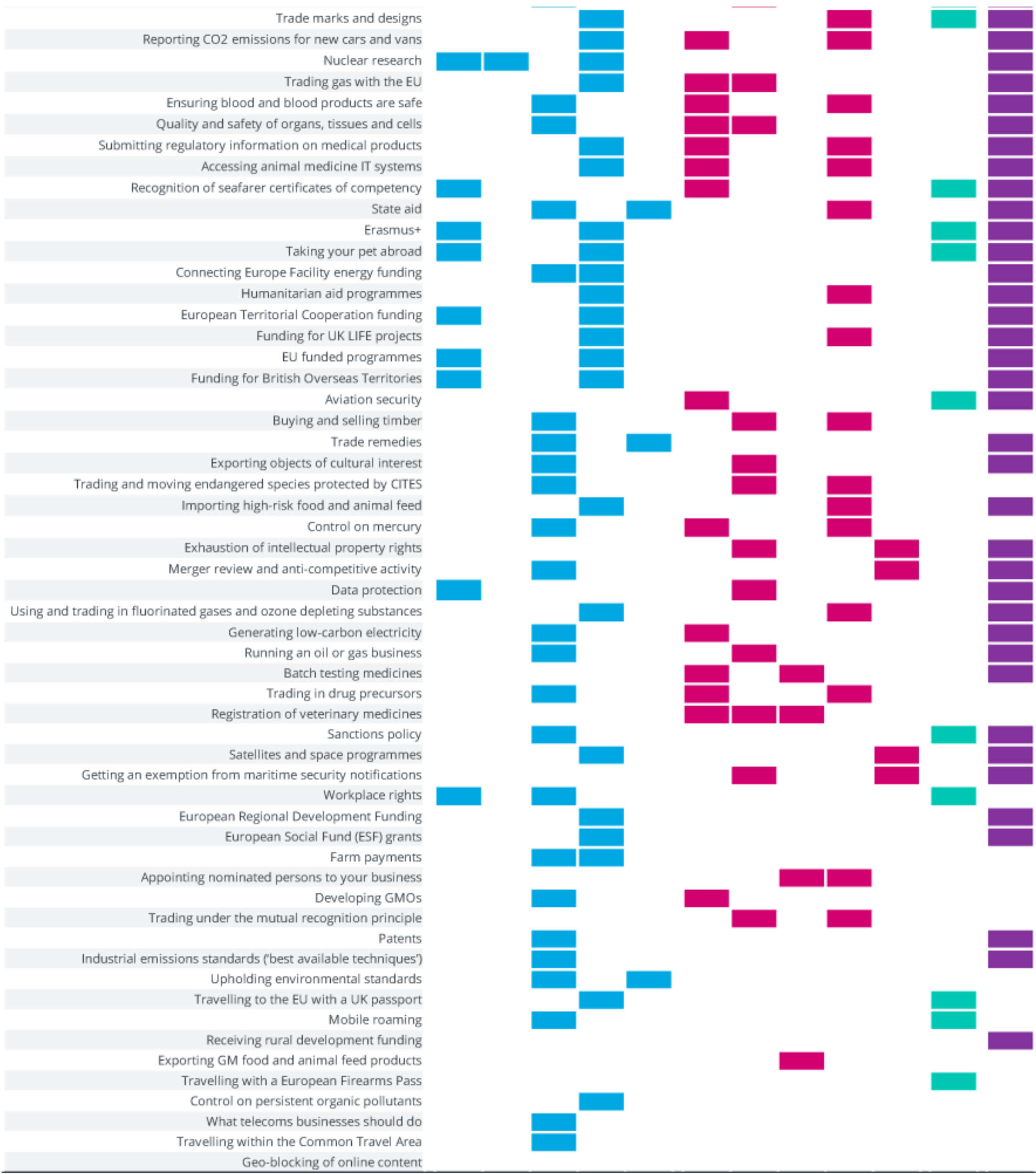
2. Organise a workshop for local businesses about the importance of preparing for Brexit and what support is available from the SCR

3. Promote the SCR Brexit tool via social media accounts and the SCR website

4. Initiate conversations with the University of Sheffield, Sheffield Hallam University and Doncaster Sheffield Airport about Brexit planning

Annex 1

	UK Government intends to...					UK businesses need to...						
	Negotiate agreement with EU/EU countries	Negotiate international agreement	Pass further legislation	Establish new systems/processes	Create new or expand capacity of existing UK body	Reregister/reauthorise product or service in EU	Change process to maintain existing market access	Establish EU presence	Comply with different UK process	Consider seeking professional advice	UK citizens face additional burdens	Notice indicates further engagement required
Commercial road haulage in the EU	■	■		■	■	■	■		■		■	■
Exporting animals and animal products	■			■	■	■	■	■	■			■
Providing services including those of a qualified professional			■	■		■	■		■	■	■	■
Structuring your business			■	■	■	■	■	■		■	■	
Banking, insurance and other financial services	■		■	■	■	■		■			■	■
Trading electricity	■		■	■		■	■		■		■	■
Classifying your goods in the UK Trade Tariff	■		■	■			■		■	■		■
Regulating chemicals (REACH)			■	■	■	■		■	■			■
Regulating biocidal products			■	■	■		■	■	■			■
Civil nuclear regulation	■	■	■	■		■			■			■
Regulation of veterinary medicines			■	■		■	■	■	■			■
Taking horses abroad	■			■		■	■		■		■	■
Aviation safety		■	■		■	■					■	■
Operating bus or coach services abroad	■	■				■	■				■	■
Meeting rail safety and standards	■		■			■			■		■	■
Regulating pesticides			■	■	■	■	■					■
Commercial fishing		■	■	■		■	■					■
Plant variety rights and marketing of seed and propagating material	■	■		■		■	■					■
Importing animals and animal products				■	■	■		■	■			■
Trading with the EU		■	■				■		■	■		■
Producing and labelling food			■			■	■	■	■			■
Protecting geographical food and drink names		■		■		■	■		■			■
Classifying, labelling and packaging chemicals			■	■	■		■		■			■
Accessing public sector contracts	■	■	■	■					■			■
Consumer rights			■	■			■		■		■	■
Driving in the EU	■			■	■						■	■
Flights to and from the UK	■	■				■					■	■
Rail transport	■		■			■					■	■
Exporting controlled goods			■	■		■			■			■
Importing and exporting plants				■		■	■		■			■
Labelling tobacco products and e-cigarettes			■	■			■		■			■
Producing and processing organic food			■	■		■			■			■
Export and import of hazardous chemicals				■		■	■		■			■
Accounting and audit			■			■	■		■		■	
VAT for businesses				■		■	■		■			■
Meeting climate change requirements			■			■	■		■			■
How medicines, medical devices and clinical trials would be regulated			■		■			■	■			■
Horizon 2020	■			■					■			■
Vehicle insurance	■						■				■	■
Manufacturing and marketing fertilisers				■		■		■				■
Breeding animals				■		■	■					■
Handling civil legal cases that involve EU countries		■	■							■	■	
Maintaining the continuity of waste shipments	■					■	■					■
Existing free trade agreements	■	■					■					■
Trading goods regulated under the 'New Approach'			■	■		■						■
Vehicle type approval				■		■			■			■
Health marks on meat, fish and dairy products				■			■		■			■
Broadcasting and video on demand						■		■		■		■
Copyright			■				■				■	■



Source: Institute for Government