

Briefing:

Brexit – key challenges for housing associations

24 January 2019

Summary of key points:

We know there will be a series of steps housing association leadership teams will be discussing with their board, and financial advisers, to ensure businesses are robust in preparation for potential changes ahead.

To support our members with this, this briefing sets out:

- key issues facing housing associations ([skip to](#))
- what the Federation is doing to help mitigate these ([skip to](#))
- five things housing associations can do to prepare for the future ([skip to](#))
- the Government's guidance on preparing for No Deal ([skip to](#)).

Introduction

In the next few months, decisions relating to Brexit have the potential to deliver significant change to the political and economic context we are all operating in. We know that housing associations are united by an ambition to deliver good quality, affordable homes for everyone. Whatever the final outcome, the sector will continue to deliver the homes and services that people need.

However, the current uncertainty – both around the long-term outcome and the short-term risks – in itself makes the operating environment for housing associations more difficult.

We're being clear about this in our conversations with the Government and making the case for as much certainty as possible. We're also calling for a replacement for European funding and investment streams, and for support with access to materials and labour, in particular around the social care workforce. Finally, we are keeping in contact with the Government around their preparations for a No Deal exit, and passing on the concerns of housing associations.

We know there will be a series of steps housing association leadership teams will be discussing with their board, and financial advisers, to ensure businesses are robust in preparation for potential changes ahead.

To support our members with this, this briefing sets out:

- key issues facing housing associations
- what the Federation is doing to help mitigate these
- five things housing associations do to prepare for the future
- the Government's guidance on preparing for No Deal.

Key issues facing housing associations

Soon after the vote to leave the EU, the Federation worked with members to map the possible long-term impacts of Brexit on housing associations. We identified three main issues:

- The importance of economic certainty and frictionless trade to securing the finance and materials for new housing development.
- The risk of losing access to investment from the European Investment Bank, and funding from European Social Fund and the European Regional Development Fund.
- The risk of shortages in both skilled and unskilled labour in construction and social care.

Until there is more clarity over the long-term outcomes of Brexit, and any opportunities or threats they may bring, managing uncertainty remains the short-term priority for housing associations, particularly the uncertainty around the possibility of a No Deal exit at the end of March 2019.

What the Federation is doing

Over the last two years, the Federation has worked with ministers, opposition politicians, officials and other stakeholders to draw attention to the potential impacts listed above and explore solutions. We have:

- Met with ministers, shadow ministers and officials to highlight the potential impact on housing associations of skills shortages and lost EU investment, and proposed solutions including in our 2018 Budget submission. This has included holding a roundtable at Number 10 to discuss the impact of Brexit on skills.
- Ensured housing remains at the top of the domestic political agenda even when Brexit has consumed so much time in the Government, securing new funding and commitments to social housing in the midst of difficult Brexit negotiations.
- Through our Great Places Commission, argued for a sustainable replacement to the European Social Fund and other EU funding streams. More broadly, we have also begun to make the case for serious investment in rebalancing the economy and delivering place-based regeneration to help bring the country back together.

We will continue to make the case that solving the housing crisis must remain a priority for the Government, and that support for housing associations remains one of the best ways to deliver the new homes and strong communities needed, whatever the outcome of the Brexit negotiations.

In particular, our work on the Comprehensive Spending Review this year will focus on the role housing associations can play in solving the housing crisis, and the investment needed in a range of economic circumstances, to ensure the sustainability of delivery and service.

The Federation will also continue to implement a strategic stakeholder engagement programme, informed by political uncertainty. We are ensuring that the relationships we are forming are broad, to ensure that the housing association story is heard not just by current leaders, but also by whoever may come to hold positions of power and influence.

Five things housing associations can do to prepare for the future

Given the short-term uncertainty around Brexit, housing associations will be planning for a range of scenarios, including the possibility that a No Deal has severe short-term impacts and wider economic consequences. Issues housing associations will want to consider when planning for these risks include:

1. Support impacted tenants

A No Deal exit and/or associated economic downturn could have a significant impact on tenants' circumstances, employment and incomes. Housing associations might need to provide more support for tenants struggling with sudden changes in circumstances, as well as plan for potential increases in voids, arrears and bad debts. Communication with tenants will be important, particularly if a No Deal impacts services provided by housing associations or others.

2. Mitigate the risk of material unavailability

Disruption at the border could cause shortages of supplies that are traded with the EU. Housing associations may want to speak to contractors and suppliers about how they plan to mitigate against this risk. This is particularly important for repairs or maintenance materials, or for items only imported occasionally, such as spare parts for critical infrastructure including lifts or water systems.

3. Understand liquidity and funding

A disorderly Brexit could impact currency and interest rates, which would feed through to the bond and housing markets. Housing associations will need to understand their liquidity needs and interest rate exposure to minimise risks, as well as stress test their business plans. Finance teams need to consider how they would reduce the impact of any market fluctuations, for example by having more cash available than usual, or avoiding the need to raise any funds in the 12–18 months after Brexit.

Mitigating risk also involves a clear understanding of your organisation's contractual obligations, and understanding what spend is committed but not contracted for yet.

4. Model development costs and revenue changes

Ongoing uncertainty or a No Deal Brexit could exacerbate inflation in materials and labour costs, potentially accompanied by a fall in house prices. This combination would put pressure on development programmes, which would need to be mitigated quickly. Housing associations are already modelling development risk scenarios, and combining multiple risks will be necessary.

You may also want to think about any early warning signs that would alert you to upcoming issues, such as delays in development completions, higher cost of sales, or reduced sales rates or values.

5. Consider care and support staff shortages

Significant and rapid curbs on new immigration from the EU, accompanied by a less welcoming environment for workers already in the country, could see a shortage of care and support staff in particular. Even where housing associations do not employ large numbers of EU workers, their private sector competitors might well do. This could put rapid pressure on wages.

Summary of the Government's No Deal guidance

While emphasising that its priority remains gaining parliamentary approval for a deal secured with the EU 27, the Government has published [guidance for businesses and individuals](#) in the event of a No Deal Brexit. Most of the direct impacts are likely to be on businesses that trade with the EU or have operations there, which should not affect most housing associations. However, some of the key pieces of the guidance that might be relevant to housing associations include:

- [EU funding schemes](#): The Government has guaranteed to fund all projects that would have been funded by the EU under the 2014–2020 programme period, including European Social Fund projects.
- [VAT](#): The Government has said that the VAT rules relating to domestic transactions will remain as they are now. There will be some changes to VAT rules for transactions between the UK and EU member states.
- [Public sector contracts](#): The Government will make available a UK-specific e-notification system for public procurement to replace the OJEU/TED.
- [State Aid](#): The EU State Aid rules will be transposed into UK legislation.
- [EU citizens living in the UK](#): The Government has confirmed that in the event of a No Deal Brexit, EU citizens residing in the UK by 29 March 2019 will continue to have the same rights as they do now, under the EU Settlement Scheme.
- [Workplace rights](#): The Government has confirmed that all existing legislation on workplace rights will continue to apply.