

## Briefing: preparing for Brexit

September 2019

### Introduction

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In January, we released a briefing for housing associations to help them prepare for Brexit. This is an updated version of that briefing, reflecting the latest information available.

In such a fast-changing political environment, it is likely that government advice and No Deal preparations will continue to change. We will keep members up to date via email, at events and webinars in the lead up to Brexit. Members can sign up for email updates [here](#).

Housing associations are united by an ambition to deliver good quality, affordable homes for everyone. They are uniquely positioned to keep doing this, with the right support from the Government, whatever the final outcome of the Brexit process.

However, the current uncertainty 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 over investment and support. We're calling for a replacement for European funding and investment streams, and for support with access to materials and labour. Finally, we are keeping in close contact with senior officials and ministers about their preparations for a No Deal exit, and passing on the concerns of housing associations.

Housing association leadership teams will have been working with their boards and financial advisers for many months now 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 could do to prepare for the future
- the Government's guidance on preparing for No Deal Brexit.

### The key issues facing housing associations

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Soon after the vote to leave the EU, the Federation worked with members to map the possible longer 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 Brexit. The Government recently published its [Operation Yellowhammer](#) “Reasonable Worst Case Planning Assumptions” which detail the possible impacts across all sectors.

In the event of a No Deal Brexit, particular issues facing housing associations could include:

- **Impacts on tenants** struggling with sudden changes in their financial circumstances, needing to secure their immigration status, or affected by rising prices, shortages of key goods, or failures in wider services.
- **Short term shortages of key materials for repairs and maintenance**, if stockpiling by contractors, suppliers or housing associations themselves has not been possible. We know members have particular concerns about spare parts for lifts and heating systems which are often spot-purchased from other EU countries as needed. The knock-on impact on service provision could impact tenants, and wider stakeholders.
- **Liquidity and funding risks** from exposure to interest rate and currency fluctuations if a No Deal Brexit causes significant economic turbulence.
- **Significant impact on development programmes** if a housing market downturn affects market and shared ownership sales, and construction costs rise as a result of skills shortages and materials inflation.
- **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, which might be exacerbated by rising costs more generally.

## **What the Federation is doing**

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Over the last two years, the Federation has worked with ministers, opposition politicians, officials, and other stakeholders to draw attention to these potential impacts and explore solutions. We continue to do this with the new Government. We have:

- Met with ministers, shadow ministers and officials in MHCLG, the Regulator and Number 10, to highlight the potential impact on housing associations of Brexit and particularly a No Deal Brexit. We have emphasised the sector’s unique ability to continue delivering for tenants and communities after Brexit, with the right government support.
- Worked to keep housing on the domestic political agenda even when Brexit has consumed so much time in Government. We have secured new funding and commitments to social housing in the midst of difficult Brexit negotiations, put forward a comprehensive case for new investment in the spending review, and engaged proactively with new ministers.

- Argued for a sustainable replacement for the European Social Fund and other EU funding streams, and made the case for serious investment in rebalancing the economy and delivering place-based regeneration to help bring the country back together.
- Organised member meetings and secured funding to deliver member-specific briefings, which we will continue to do while the uncertainty continues.

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.

## What housing associations can be doing

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

**Impact on tenants:** Housing associations might need to plan to provide more support for tenants struggling with sudden changes in circumstances, including supporting them to cope with unemployment, to secure their immigration status, or to access essential goods if there is disruption. Housing associations might also need to plan for potential increases in voids, arrears and bad debts. Communication with tenants will be important, particularly if a No Deal exit impacts on service provided by housing associations or others.

**Materials availability:** Housing associations may want to speak to contractors and suppliers about how they plan to mitigate against the risk that materials cannot be sourced from the EU in the short term. This is particularly important for important repairs or maintenance materials, or for items which are only imported occasionally, such as spare parts for critical infrastructure like lifts or water systems. Housing associations might also want to plan for how they will communicate with tenants and key external stakeholders in the event of serious disruption to services.

**Liquidity and funding:** We know that the Regulator has engaged extensively with housing associations over this issue, and members have already put in place significant mitigation measures. These have included understanding liquidity needs and interest rate exposure to minimise risks, as well as stress testing business plans. Finance teams have considered 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 an organisation's contractual obligations and understanding what spend is committed but not yet contracted for.

**Development costs and revenue:** 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. They may also have agreed early warning signs which would alert them to upcoming issues, such as delays in development completions, higher cost of sales, or reduced sales rates or values. For funded programmes, early and ongoing communication with Homes England and/or the GLA will be important.

**Staff availability:** Housing associations have been planning for how to mitigate the impact of a potential shortage of staff, particularly in care and support. This could include supporting EU citizens to apply for settled status, and liaising with the local authority and other partners over ongoing service provision.

## Summary of Government's No Deal guidance

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The Government has published guidance for [businesses](#) and [individuals](#) on how to prepare for a No Deal Brexit. We have picked out some of the key pieces of guidance that might be relevant to housing associations but consult [www.gov.uk/Brexit](http://www.gov.uk/Brexit) for full and up-to-date guidance specific to your organisation.

### Employees and tenants

- Tenants: the Government has published guidance outlining [EU citizens' rights to access social housing and homelessness support](#) in the event of a No Deal Brexit. EU citizens already living in the UK, and people arriving until 31 December 2020, will continue to have the same rights as now, but will be required to apply for either Pre-Settled Status, Settled Status, or European Temporary Leave to Remain.
- Employing EU citizens: the requirement to conduct right to work checks on EU citizens [will continue to operate as it does now](#) until January 2021. Employers will not need to check whether the employee was living in the UK before Brexit.
- Existing employees who are EU citizens will need to apply to stay under the EU Settlement Scheme. The Government has produced an [Employers' Toolkit](#) to help employees do this. New employees who are EU citizens and move to the UK after a No Deal Brexit will be able to stay for up to three months and then [need to apply for European Temporary Leave to Remain](#).
- [Workplace rights](#): the Government has confirmed that all relevant existing legislation on workplace rights will continue to apply.
- Under the Government's Settled Status scheme, EU citizens who already live in the UK [will need to apply for settled status](#).

### Funding and finance

- [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 procurement](#): The public procurement regulations will remain largely unchanged after a No Deal Brexit, but a UK-specific e-notification system called Find a Tender will replace the OJEU/TED system.
- [State Aid](#): the EU State Aid rules will be transposed into UK legislation.
- [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. Existing [European Investment Bank project contracts](#) are also protected.

## Construction

- The Government has published [specific guidance for the construction industry](#) in preparing for Brexit, including [guidance on construction products regulation](#) in the event of a No Deal Brexit.