The business impact of the Brexit vote: a view from housing associations

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Following the Brexit vote, housing associations are now faced with a number of uncertainties regarding funding, workforce supply, regulation and the very future of their business. ***Lucy Pedrick*** *from the National Housing Federation outlines the four key themes organisations are currently considering.*

Housing associations are independent, not-for-profit social businesses set up to provide affordable homes for people in need. And like every other organisation in the UK right now, housing association boards and senior teams are grappling with the question of what the implications of the vote to leave the EU will be for their businesses.

They are employers and landlords and service providers whose business interests straddle the private, public and not-for-profit sectors. Some are private developers in their own right. Many procure social care provision. Associations are dependent on their relationships with local authorities, the NHS, the construction industry, the social care sector and a wide range of other partners in order to deliver their business plans. This diversity and breadth of character make them a fascinating case study for the business impact of the vote to leave the EU.

Funding

For every £1 of government investment they receive, housing associations raise £6 of private finance on the capital markets. Since the referendum, it has been widely reported that the vote has had a significant impact on the economy – with a fall in the value of Sterling and the downgrading of the UK economy as just two key indicators.

But Brexit hasn't happened yet. The true impact of the Leave vote on housing association finance will depend on what the EU—UK relationship looks like moving forward, and on individual business models. While this policy framework will not directly affect the viability of private finance, the economy will be influenced by stakeholder responses to the direction of travel.

Public finance, however, will absolutely depend on the new relationship. Why? Because membership of the European Union, or of the European Economic Area (to a lesser extent), requires budget contributions and entitles the Member States to apply for funding from a number of sources.

Social housing in the UK has benefitted from £5.5bn of finance from the European Investment Bank (EIB) in its history, and European Structural and Investment Funds (ESIF) enable housing associations to deliver innovative regeneration and employment and skills schemes through the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

Chancellor Philip Hammond has committed to attaching a government guarantee to all ESIF funding which is agreed ahead of the Autumn Statement. The more closely the new EU—UK relationship resembles full EU membership, the greater the potential for future access to these funds. In relation to access to EIB funding, the UK negotiating position is strengthened by our status as a 16.11% shareholder State in the bank.

Of course outside the EU similar or new and innovative domestic funding sources could be made available. But for individual organisations whose business plans have anticipated finance from the EU or from the private sector, the need to know which and how much funding will be available after 2020 is immediate.

People and materials

The four fundamental freedoms which underpin the EU treaties tie the free movement of goods, capital, services and the free movement of workers together. Future trading and migration relationships have the potential to alter business models.

Housing associations are employers with diverse workforces, including EU nationals. Like other employers, the ability of housing associations to continue to deliver their services for the communities in which they operate will be impacted by the future immigration status of both existing and potential future EU employees.

If EU migrants already in the UK are not allowed to stay or are required to apply for visas or work permits, employment costs might increase. Across their often very widespread supply chains, associations work with a wide range of contractors and suppliers which also employ EU nationals as part of their workforces. If employment costs for these organisations increase, the cost of their services to housing associations could rise too.

In addition to employing EU workers, the UK imports many materials from Europe. According to ONS figures, the total value of net imports of building materials and components from the EU was £4.9 billion in 2015. Pending a new free trade agreement with the EU, after the two-year negotiation period under Article 50 elapses, these imports will be subject to trade tariffs and the cost of construction will increase.

Housing associations have an ambition to significantly increase their output of new homes over the coming years, and to deliver homes and services which improve the lives of people in their communities. To achieve this, they need skilled workers and to be able to buy materials. Who these workers are and where these materials come from might change after the UK has formally left the EU. But continued access to skills and materials will inevitably influence their ability to deliver.

Regulation

One of the key arguments of the Leave campaign during the EU referendum was that outside the EU, the UK would have new freedom to shape its own regulatory landscape. Many government departments are already consulting with their stakeholder organisations to understand which key deregulatory measures would most quickly and effectively be of benefit – after we have formally left the EU.

Depending on the relationship model which is adopted moving forward, the UK might continue to be bound by a proportion of EU rules. Nonetheless, the limbs of EU regulation which could potentially be reshaped range across procurement law, employment law, environmental law, VAT rules and data protection (among others).

The moment of Brexit will not itself be a deregulatory act, but might spark a conversation about and a process of deregulation. This is because the vast majority of EU regulatory rules have been transposed (translated) into UK domestic law. They will, therefore, remain in place until each instrument is individually revised or repealed. This process is likely to take time, but the opportunity is now there to lobby for deregulation.

Market

The final theme which many housing associations are considering in light of the vote to leave the EU is their market – their customers and the environment in which they do business.

It has been widely speculated that the vote to leave is reducing house prices and that this trend could continue through the Brexit process. If housing associations borrow against the value of their properties, a fall in house prices could make it more difficult for them to access finance to build homes and deliver services. Many associations are stress-testing their business plans against this possibility in order to ensure that they have appropriate mitigations in place.

The referendum and its aftermath have highlighted tensions which exist across the UK and within communities. As community-rooted organisations, this environment poses challenges for many housing associations. Future migration rules across the UK and Europe could lead to new fluctuations in the UK population and demography, and housing associations and other businesses should be poised to respond to the changing lives of their customers.

So what now?

The only thing anyone can really say for sure about the vote to leave the EU is that things are going to change. Businesses across the country are working hard to consider what those changes might look like, and what they would mean for their organisation and ability to deliver against their business plan. Key themes for the housing association sector are funding, people and materials, regulation and the market. There are now opportunities to engage in a dialogue with the government about what we want from our new environment. It's time to seize that opportunity. The futures of our businesses and communities depend on it.

This post represents the views of the author and not those of the LSE Brexit blog. Image credit.

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