



Preparing for a No Deal Brexit – October 2019

Background:

Since the EU referendum in 2016, the Welsh Government's policy has been to oppose leaving the European Union without a deal, and they have regularly outlined the impact they believe a 'No Deal' situation would have on the economy and public services more widely. The Welsh Government's "[Preparing Wales for a no deal Brexit](#)" website outlines the impact across a number of sectors.

Due to the extension of the original 29th March deadline, the UK is currently set to exit the European Union on the 31st October 2019. However, the European Union (Withdrawal) (No. 2) Act 2019 – *the Benn Bill* – that recently became law may now potentially block the UK leaving the EU on this date without a deal. Although this makes a no deal scenario less likely, the possibility still remains and preparations should still be made.

The impact of No Deal presents challenges across a number of areas of a housing associations' business, and the impact will be felt across a range of industries in Wales. While the housing sector is unlikely to be the hardest hit, Welsh Government and colleagues in local government are keen to work with the sector to understand the impact and how we may mitigate challenges that arise.

The UK Government was recently compelled to release the '**Operation Yellowhammer**' document by Parliament. This document outlines what the



UK Government foresees as worst-case scenarios in the event of a No Deal Brexit.

Subsequently, the Welsh Government has published its own No Deal action plan, presenting the actions being taken to manage the main risks for Wales, and responds to the assumptions set out in Operation Yellowhammer. Full details of the action plan can be found [here](#).

The following briefing has been updated with relevance to the UK Government's Yellowhammer document and the Welsh Government's No Deal action plan.

1. Settled Status

It is important to note in this section the unstable and changeable political situation from week to week. Therefore, some of the factual information in this briefing may become invalid. This relates in particular to the advice on eligibility for housing and homelessness services.

In the event of either a No Deal or a Deal Brexit, the Home Office has implemented the EU settlement scheme, which requires EU migrants to the UK to apply for settled status. This means that they have the right to remain living and working as before in the UK. When the settlement scheme was first announced there was a fee involved for application, but it has since been announced that this will be removed and refunded for those who have already paid it, requiring legislation. This will impact on both employees across housing associations and tenants housing association properties. The Home Office has devised a toolkit for employers about the EU Settlement Scheme which can be found [here](#). There is also a similar toolkit for community leaders which may be helpful when advising tenants. This is available [here](#).

It is very important that tenants and employees from EU countries check their current status in relation to the EU settlement scheme as soon as possible.

To raise awareness of the Settlement Scheme, funding has been provided for a 'Settled' Wales coordinator, as well as an immigration law service to provide legal Welsh Government advice in complex cases. Furthermore, Citizens Advice have also been awarded funding recently to provide both specialist and generalist advice in the area of Settled Status requests, and are keen to work with housing associations to reach those in need of support. Further information on this can be found [here](#).



Currently in Wales, housing associations house a number of EU nationals and it is likely that a No Deal Brexit will impact on the eligibility of new applicants to social housing. At the time of this briefing, it is still unknown what the regulations will state until there is an immigration white paper/bill from the UK Government.

Questions to consider:

- What role can housing associations play in helping those that may no longer be eligible for social housing?
- How would any changes to the eligibility criteria impact on housing associations allocation systems?
- What will the implications be for housing association staff and how will housing associations manage settled status for their EU national employees?

2. Labour and Workforce

In the event of No Deal, the free movement of people between the European Union and the United Kingdom will cease. It has been confirmed that the Home Office intends to allow EU nationals already residing in the UK to apply for settled status, meaning they have the same rights as citizens.

The Home Office has also stated that its default position will be to allow people to remain rather than refusing settled status applications. However, despite this assurance, the limitations of the application process and future insecurity around this may mean that residents choose not to stay in the UK, and there has been some anecdotal evidence of those in low paid jobs returning to other EU countries already. This may also be influenced by the fall in the value of sterling making the UK a less attractive place to work for EU nationals. There is also anecdotal evidence that suggests that young people are looking for more opportunities to work abroad (outside of the EU) as they no longer see the UK as a place of opportunity after Brexit. This could exacerbate any staff shortages to the UK workforces which could already be stretched without EU workers.

Within Wales, EU migrants have a higher overall employment rate (79%) than the general working age population (71%) and most work in occupations such as administration, social care or skilled trades (e.g. in construction) which means that housing associations staff are likely to be affected by a



No Deal situation. A reduction in migration into the country is likely to impact on the workforce in two key areas for housing associations:

- **Construction:**

The construction workforce in Wales currently already has a significant number of unfilled or hard-to-fill vacancies, which are as of a result of skills shortages and an ageing workforce. The gaps in the workforce are likely to be worsened by the impact of a No Deal Brexit, with 2% of the workforce being of EU nationality.

However, it is worth noting that Wales has a lower overall proportion of EU construction workers than other parts of the UK, which due to the typically mobile nature of construction workers means that there is a significant risk of losing substantial proportions of the workforce to more lucrative jobs in South East England as has been seen in previous economic downturns. Further to this, there have been a number of large infrastructure projects in Wales, including Wylfa Newydd, the Swansea Bay Tidal Lagoon and the M4 relief road which have faced significant uncertainty in recent years and bring workforce planning challenges for those involved in construction.

- **Social Care and Support Workers:**

Another industry where housing associations are expected to be affected by a No Deal Brexit is that of the health and social care sector. In March 2019, the Welsh Government published research on the implications of Brexit on the social care and childcare workforce. An estimated 6.4% (3,730 maximum) of staff within registered social care settings and 4.5% (1,100 maximum) of staff within registered childcare services in Wales are non-UK EU nationals.

While this is likely to be at a lower level than some areas of the UK, due to lower overall levels of EU migration in Wales, these sectors already face significant recruitment and skills challenges which will be exacerbated by any restrictions on migration. The research highlights that 58% of registered social care respondents and 47% of childcare respondents expressed difficulties in recruitment within the last year.

There are currently approximately 43,000 EU workers overall in Wales, which is less than 2% of the approximately 2.3m in the whole of the UK. However, similarly to the construction industry, reliance on EU migrant workers is likely to be at a lower level in Wales than in some areas of England due to lower overall levels of EU migration to Wales which may mean that many of the same issues apply to health and social care workers, Wales isn't overly reliant on EU workers to maintain care and support services but there is a chance that both British and EU workers who currently work in Wales may be drawn



elsewhere by better wages and other prospects which may be on offer in the rest of the UK if they are struggling significantly due to lack of EU workers.

For an already financially fragile sector, according to the Yellowhammer document any rise in inflation will increase staff and supply costs to adult social care. This may lead to provider failure from anything between 2 to 6 months, due to an increase in staffing and supply costs.

The impact of this may be that housing associations struggle to maintain the staffing levels which allow them to provide the additional services, such as care, that are so vital to tenants, especially the elderly or vulnerable.

In the event of significant increases in staffing or supply costs, the Welsh Government is considering options for system-wide support and is working with social care commissioners and providers to assess potential vulnerabilities.

Questions to consider:

- What impact would the immediate end of free movement of labour have on contractors and sub-contractors in the above industries?
- How can housing associations and partners work to attract and retain skills into the above industries to support our ambition to deliver?
- Are there sufficient training and progression opportunities for UK resident workers to fill the skills gaps identified?
- Could investment in alternative forms of service delivery (i.e. more technology in social care, modern methods of construction) alleviate workforce challenges in the short or medium term?
- How will Brexit (and related policies) increase or decrease labour costs?
- What additional skills or resources would be necessary in your organisation to continue delivery at the same level after a No Deal Brexit?



3. Trade

In the event of No Deal, the default position is that trade with the EU would revert to the World Trade Organisation arrangement, meaning that there would immediately be tariffs and charges in place when importing goods from the EU to the UK rather than the free trade that is currently in place.

However, recent reports have suggested that the UK Government is considering cutting its tariffs to zero in the event of a No-Deal Brexit. Under WTO rules, this would mean that all trade (not just that with EU nations) would be subject to zero tariffs, and there are concerns that this would significantly damage UK markets.

Yellowhammer details the EU mandatory controls imposed by France on UK goods on Day 1 of No Deal (D1ND) across the channel strait route. The flow rate of HGV's could decline to 40-60% of current levels due to the lack of readiness by traders and the inability of French ports to 'hold' goods in French ports. An improvement to 50-70% would be expected after 3 months. A worst case scenario is a 1.5 – 2.5 days delay in HGV's crossing into Europe.

- **Construction:**

The Welsh construction industry has long been reliant on EU imports, in particular bricks from Belgium and Denmark, timber from Sweden and Estonia, glass from Italy and materials for pre-fabricated housing from Germany and the Netherlands. Of construction imports to the UK, 59% come from within the EU, so any change in trading relationship is likely to bring significant challenges to supply chains. We have already become aware of individual construction companies increasing the cost of materials.

Questions to consider:

- How resilient are suppliers and contractors to any delays or disruption in the supply of construction materials?
- What impact would an increase in the costs of construction materials have on development ambitions in a) the next 12 months, b) the next 3 years?
- Are there any opportunities for modern methods of construction or encouraging the use of home-grown supply chains?



4. Housing Market

Across the UK, there is evidence that the housing market has slowed in recent months, with economic uncertainty and Brexit attributed as likely causes. Data from RICS has shown that the average length of sale in the UK has reached four months – the longest since 2016 – while they predict that the number of sales will fall in each of the first three months of 2019. The Bank of England's assumptions for a chaotic No Deal Brexit include a 35% decrease in house prices over a three year period.

There is some evidence to suggest that were house prices to drop by a third or more, a grant rate of at least 50% of building costs would be required to ensure viability. While current grant rates for social rented homes in Wales stands at 58%, a number of other factors, including the costs and availability of finance, would impact on the viability and ambition of developments. Further, the overall availability of grant and any subsequent pressures on public finances as a result of an economic downturn would feature heavily in the consideration of housing association boards around development.

English housing associations have reported increased incidences of private developers selling homes to them at a discount as a result of a market downturn, with some reporting discounts of up to 15%, and *Sovereign Housing Group* reporting up to eight deals of this type. This comes alongside reports that London's largest housing association - *L&Q* - has reduced its surplus projections by more than 50% (£170m) as a result of market downturn and cost rises.

While housing associations in Wales have considerably less exposure to outright sales, a number of associations deliver a range of home ownership options which would be impacted by any changes to the market. Wider market conditions are also likely to impact on the confidence of contractors and lenders to invest in homes.

Questions to consider:

- How would a significant decrease in house prices affect your a) overall development ambition, b) your financial resilience and c) your appetite to develop homes for sale?
- What role could housing associations play in supporting private home builders in the event of a no deal Brexit leading to a significant



downturn in the market? In particular what might be in the impact on smaller builders?

5. Funding for Housing Associations

The current debt level of Welsh housing associations stands at £2.7bn, with a productive ongoing relationship between housing associations and a number of lenders, including banks and institutional investors.

However, one of the premier credit ratings agencies – *S&P* – has indicated that most associations rated by the agency would be downgraded by one notch post-Brexit, with those which are more reliant on income from market sales likely to be downgraded a further notch. While the majority of Welsh housing associations have not sought ratings from external ratings agencies due to their scale, this is indicative of the concern in the financial sector of the impact of Brexit on the funding environment.

The Bank of England's No Deal scenario planning for a *Disruptive Brexit* and a *Disorderly Brexit* envisage inflation reaching 6.25% and sector interest rates (with increased bank margins) reaching 9% combined with a fall in house prices of up to 35%.

Such scenarios are likely to see increased emphasis from the regulator on the need for stress testing and contingency plans.

Further to this, Welsh housing associations currently have access to a number of existing funds made available by the European Union:

- **European Investment Bank:**

In the decade before the referendum, the EIB had pumped over £1bn into Wales, across a range of sectors including social housing. Loans from the EIB offer significantly lower interest rates than many commercial banks, meaning that housing associations ultimately have more funding available to invest in building and providing services. However, following lengthy negotiations, an ongoing negotiation to secure significant funding for Welsh housing associations stalled in 2017 following the triggering of Article 50.

A House of Commons sub-committee on EU Financial Affairs found that in the event of No Deal, any existing “privileges and immunities” that apply to EIB lending shall continue to apply to loans made before the end of any transition period, and that in the event of No Deal, the EIB's operating rights are preserved through the EU Withdrawal Act 2018, meaning that “existing project



contracts should be protected and organisations do not need to take any action.”

- **European Structural Funds:**

Following a No Deal Brexit, Wales will no longer have access to the European Regional Investment Fund as well as other funding covering everything from development to training services. There have been assurances that existing contracts will be honoured and the UK Treasury has provided a guarantee for projects approved before December 2020. Discussions over the UK Government’s Shared Prosperity Fund, which is due to replace EU structural funds, are ongoing.

- **State Aid:**

State Aid is a public authority granted advantage to organisations that have the potential to distort competition and trade within the EU. The rules can be applied to any body that is involved in commercial activities, including not-for-profit organisations (including housing associations) and work to encourage growth. The application of state aid within the UK has previously been restricted by the EU state aid rules which will no longer be the case after the 29th of March 2019, meaning the Competitions and Markets Authority (CMA) will be solely responsible, rather than the European Commission. There are two possibilities for state aid regarding a No Deal Brexit:

1) Any state aid that has been approved by the European Commission before the 29th March 2019 will not need to be approved again by the CMA. This will be the case for aid that has been approved or denied.

2) For state aid of which the European Commission has been notified of, but by 29th March 2019 has not yet made a decision on, will need to be re-notified to the CMA for approval.

Further Information

In June 2019, the Welsh Government announced a £50m investment in social housing due to the potential threat of further substantial cuts to devolved public spending. The Welsh Government will be making further in-year capital allocations shortly to support the Welsh economy.

Questions to consider:



- How would any changes in the credit ratings agencies' assessment of housing associations affect the cost of and access to lending more broadly?
- What impact would significantly increased interest rates have on your business plan?
- How would any significant changes in access to mortgages impact the market for home ownership products provided by your association?
- Does your organisation have any existing EIB funding? Have you discussed the impact of a No Deal Brexit with the EIB in relation to this funding?

6. Funding for Wales

Welsh Government confirmed that it will provide an extra £1.2 million funding to the WLGA to continue their Brexit programmes. This will mean up to £45,000 will be available to each Local Authority in Wales, as well as an additional £200,000 from the WLGA. This money ensures that each local authority is able to undertake the preparatory work for Brexit, including planning for a No Deal scenario.

In addition to this pre-Brexit funding, on the 4th of March, UK Secretary of State for Housing, Communities and Local Government, James Brokenshire MP announced £1.6bn for a “Stronger Towns Fund” to create new jobs, help train local people and boost growth in English towns after the UK leaves the EU. He has since confirmed that there will be a Barnett consequential for this money, but there is no confirmation over the timescales or the amount to be received by Welsh Government.

The UK Government funding is intended to help develop the towns most affected by No Deal, as well as working to mitigate some of the impact of a reduction in EU funding in this areas. Alongside this, the UK Government is also planning to deliver a UK Shared Prosperity Fund, with promises before the referendum that Wales would not receive a lower amount of funding in the event of a vote to leave.

Questions to consider:

- What impact could a lower level of overall funding for Welsh public services have on your housing association and its tenants?



- How will your association be affected by changes to regional funding policy?

7. Fuel Shortages

Yellowhammer warns that regional traffic disruption around London and the south east of England could lead to localised fuel shortages. However, it highlights the danger of customer behaviour in leading to local shortages elsewhere, and the redacted section of the Yellowhammer documents has been widely reported as warning of refinery closures and job losses which could have further knock on impacts on supply.

Any fuel shortages would likely impact on the ability of housing associations, service providers and contractors to operate fleet vehicles, as well as having potential knock-on effects on staff and tenants' ability to travel to work and appointments.

Questions to consider:

- How would fuel shortages affect business continuity? How would your business reach vulnerable tenants and/or service users in the greatest need?
- What impact would fuel shortages have on the availability and mobility of staff, particularly those working remotely?
- What would the impact be on maintenance services and the ability of contractors to respond to business needs?

8. Data transfer

It is important for organisations to be aware of their current data processing arrangements post-Brexit and implement a secure strategy to maintain compliance with UK GDPR regulations.

After the UK's exit from the EU, data transfer of information (e.g. employee information) would be deemed as a 'restricted' transfer in any instance where:

- The UK version of the GDPR applies to the processing of the personal data you are transferring



- The UK GDPR does not apply to the importer of the data, usually because they are located in a country outside the UK (which may be in the EU, the EEA or elsewhere).
- The sender of the personal data and the receiver of the data are separate organisations (even if you are both companies within the same group).

Restricted transfers can be made when an adequate data protection regime is in place. The UK Government intends to recognise the EU adequacy decisions which have been made by the European Commission prior to the exit date. This will allow restricted transfers to continue to be made to most organisations, countries, territories or sectors covered by an EU adequacy decision.

If there is no adequacy decision for a restricted transfer, the transfer may be able to occur subject to 'appropriate safeguards', which are listed in the GDPR.

In a no-deal scenario, the UK government has confirmed that when the UK exits the EU transfers from the UK to the EEA will not be restricted.

Further information about the safeguards and the transfer of data can be found [here](#).

Questions to consider:

- Is personal data being held by a provider operating outside of the UK?
- Would the transfer of data between the UK and the provider be considered as restricted?
- Is an adequate data protection regime in place?
- If the transfer cannot occur through the appropriate safeguards, what measures are being taken by the organisation to ensure continued access to essential data?

9. Food supplies

There have been numerous warnings over food supplies in relation to a No Deal Brexit, with any delays on key trade routes likely to impact on the import



of food from the European Union and further afield. Furthermore, any additional tariffs are likely to increase the price of food supplies for both commercial customers and everyday consumers.

Meanwhile, major food suppliers to care homes and hospitals, including *Apetito* and *Bidfood*, have said they are holding extra inventory in case of supply chain problems in the event of No Deal.

The Yellowhammer document states that there will be a likely decrease in fresh food supplies, but that this will not cause a UK food shortage. As a result of this, costs will increase on products in short supply and negatively impact those on lower incomes the most. The Trussell Trust has warned that **any form** of Brexit could increase food bank demand, with those already struggling to put food on the table likely to face further destitution.

Questions to consider:

- Are local support agencies, such as food banks, prepared for any increase in demand from tenants and clients?
- Are care homes, extra care facilities etc. taking steps to ensure sufficient food supply in the event of No Deal?

10. Medical supplies

There are concerns that vulnerable tenants, such as the elderly, those with chronic illnesses or disabilities or refugees will be more at risk. Earlier this year, the Welsh and UK Governments confirmed that they are taking steps to ensure that supplies of medication and equipment do not run short, including stockpiling an extra 6 weeks (or more for some products, such as vaccines, insulin and blood products) of medication and equipment to compensate for any delays. They are continuing to recommend that people, individual care homes and other care facilities do not stockpile themselves as it could cause disruptions to supply. They should be reassured that there *is* a stockpile available for them and to continue as normal.

With 75% of medicines entering the UK via the Channel strait route, there could be up to six months disruption to supplies in a worst case HGV flow rate scenario (as low as 40% D1ND). However in this instance, industries will not be able to match the level of stockpiling that took place earlier in the year. The Department of Health & Social Care is currently taking special measures to mitigate these risks as outlined in Yellowhammer.



Action has been taken by the Welsh Government to increase resilience in the Welsh NHS and social care services by procuring additional storage capacity with a 12 to 15 week supply of products.

Questions to consider:

- How will care homes, extra care facilities and other health related support mitigate any shortages in medical supplies?

11. Energy

Yellowhammer assures that the demand for energy will continue to be met and that there will be no disruption to electricity or gas interconnectors. However in the following year's post-Brexit, electricity prices are likely to soar for businesses and domestic consumers.

For housing association tenants already struggling to manage personal finances, this is likely to exacerbate their current situation if bills are to increase.

Questions to consider:

- What impact will energy price rises have on tenants and their ability to meet other commitments and bills?
- In the long-term, is there scope for involvement in community-owned renewable energy to reduce energy costs for tenants and in addition reduce carbon emissions?

12. Water supplies

There is a low likelihood of failure to the chemical supply chain (affecting up to 100,000 people). Urgent action may need to be taken if this occurs to maintain essential access to clean water. Water companies are well prepared for any disruption with extensive monitoring of chemical supply chains and significant stock of chemicals if needed.

Questions to consider:



- How will your housing association provide additional support to any households if affected?

13. Community Cohesion

As with the UK as a whole, the result of the referendum has divided communities in Wales, which voted to leave by 52.5%, with a majority voting to leave in all local authorities except Ceredigion, Gwynedd, Monmouthshire, Cardiff and the Vale of Glamorgan. With reports of increased instances of hate crime since Brexit and further concerns over food and medical shortages, the community work that Housing Associations perform is vital.

Yellowhammer suggests that community tensions may intensify further in the event of a no deal Brexit. Protests would also take up a significant amount of police time and resources.

To improve community cohesion, the Welsh Government's No Deal Brexit action plan outlines:

'Regional community cohesion coordinator teams have been expanded and brought together by Welsh Government in September. The Hate Crime Minority Communities Grant scheme, which is focused on tackling hate crime, will be awarded in September. The Welsh Government has expanded the National Hate Crime Report and Support Centre (Victim Support Cymru) to support victims of hate crime.'

A further concern for housing association is the likelihood of increased demand on their services. For example, a significant change to interest rates, employment numbers or further wage stagnation, could result in a large group of people (notably the home-owning middle classes who have previously had little experience of support services) finding themselves needing to access financial support, benefits or housing. This may put a further strain on the systems that are currently in place.

Questions to consider:

- How will housing associations cope if there is an increased level of need in their community?
- What role can housing associations play in bringing communities together and preventing increase instances of hate crimes?

