

Assessing the impact of Brexit on the charity, higher education and social housing sectors

The people of the UK have made a decision to leave the EU. What happens next and the implications for not for profit organisations operating in the UK or EU market is unclear.

However, before the UK can formally leave the EU some actions are certain. Firstly, the UK will have to negotiate its exit terms with the EU's remaining 27 member states, which seems unlikely to happen before late 2018 at the earliest. Separately, the UK will want to negotiate its future relationship with the EU, including trading relationship, and maybe trading relationships with those countries which have trade agreements with the EU (which on leaving the EU the UK would not be party to). Some experts suggest a comprehensive trade deal with the EU could take ten years or more to finalise.

In the face of volatility and ambiguity, it is important to stay calm, review contingency plans and assess the possible implications for your organisation and the risks and opportunities it creates.

The not for profit sector is very varied, there is no one-size fits all and a wide range of relationships exist internationally and with the EU. The sector benefits hugely from the free movement of talent, increased connectivity and access to funding that EU membership brings and will want to protect those relationships or mitigate against the risk of losing these resources.

The charity sector currently faces a serious challenge to rebuild trust after a series of fundraising scandals and therefore, as a priority, it will want to ensure that it retains access to a full range of funding streams.

The higher education (HE) sector is the most internationally connected element of the UK's education system with well-established international collaborations. It has become increasingly dependent on a diverse population of students and staff.

The social housing sector in the UK is likely to experience the impact of Brexit differently from region to region and between organisations depending on the reliance on overseas investment, labour from Europe and the exposure to market sales. The sector is market sensitive and relies heavily on funding from the institutional financial system and, more recently, the European Investment Bank (EIB).

At Grant Thornton we see our role as helping you navigate and shape this environment. Our international advisers are well placed to help you achieve your ambitions and we have set out some considerations in this viewpoint. We will be sharing further insights over the coming months as the implications for not for profit organisations become clearer.

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Assessing the impact

Whilst it's business as usual following Brexit, this is no time for sitting still. Now is the time to mitigate risk and prepare for opportunities and impending changes between now and 2018. Use these considerations below when you analyse the challenges ahead.

Every sector benefits from the free movement of talent and increased connectivity that EU membership brings. And most political commentators agree it's unlikely that five million EU citizens will be repatriated when employment and residence rights change.

EU citizens on existing periodic contracts and secondments will most likely serve them out. When it comes to renewal, much depends on whether the UK government introduces work permits. This could be similar to the system used for non-EU citizens, which limits entry to skilled workers in professions with shortages.

The situation for students also looks stable in the medium-term. According to the Student Loans Company, financial assistance will be available to EU students for the duration of their courses. This includes students starting study in Autumn 2016.

Charities

Around £200m of direct grant funding comes from the EU. Organisations more dependent on these direct grants must identify alternative sources to EU funding soon, because they take longer to establish. The negative, short-term economic impacts of Brexit might also increase demand for charity services creating resource pressures.

Not for profits with endowment funds will see them diminish as a result of the fall in financial markets. Markets were 'surprised' by the leave vote and therefore hadn't factored expectations into pricing. Given that endowment funds aren't typically used for day-to-day operations, charities can wait for their positions to recover but may have to phase their own grant making activity. Analysts speculate that most volatility will be near-term, so taking no action now gives markets time to settle.

Education

The HE sector is increasingly dependent on a diverse population of students and staff.

The UK currently benefits from 16% of the EU's grant funding for research, whereas only 7% is awarded to EEA countries. This means that the UK is unlikely to receive the same amount of funding from the EU in future as it does now.

Although only 11% of UK universities total research funding comes from the EU, there are 18 UK institutions which rely on the EU for more than half of their research funding. These institutions will need to consider alternative schemes unless the UK government replaces this funding. There's also a risk that talent will follow funding in the medium to long-term as grant programmes finish. Whilst

some institutions may gain funding from commercial providers, non-scientific research institutions face a challenge. For example, research in education, law and philosophy is heavily reliant on EU funding.

In 2014/15 there were approximately 64,000 first year students from the EU studying at UK institutions. These students can access the government funded student loans system to pay tuition fees, just as UK students can. When we formally leave the EU, the country may hold less appeal for EU students, although this might be partially countered by the UK's strong educational reputation and the advantages offered by a three year course with a high probability of securing a degree. It is likely that there will be fewer EU students attending UK HEIs in the medium term, however the fee per student will increase as HEIs are likely to charge them the international fee rate.

Similar to student loans, the Erasmus+ programme will be protected in the short-term. But the UK's longer-term participation will be part of wider negotiations.

Greater competition means institutions now put more emphasis on improving the student experience with extensive capital infrastructure programmes. It has accessed low cost capital markets, and has proved attractive to the EIB. Whilst the EIB said it won't withdraw from existing arrangements, future funding is now subject to exit negotiation and any economic volatility will affect capital development costs.

Social housing

The UK government has a target to build one million homes by 2020, with most activity driven by privately owned and funded builders. Yet some large players in the social housing market, partially driven by other policy decisions, have been building for sale to fund their proportion of the target.

In April 2016 the EIB committed an additional €1bn to the sector (for a term of 30 years). Although the demand for housing stock remains high and the appetite to fund the sector has the potential to stay strong, any downgrades of the UK's credit rating are likely to affect the pricing of finance, at least in the short-term. And we've already seen the first international bank (Singapore) halt loans for London homes. This is unlikely to have an immediate effect on social housing, though it may affect the pricing of market sales.

Housing associations have become increasingly nimble and sophisticated in their operations, structures and finances. Prudent associations will already be considering scenario planning and the implications for refinancing and restructuring.

Considerations

To keep moving forward in the post-Brexit environment, organisations must anticipate the changes it will bring and adapt to meet them. In looking at the threats and opportunities the Brexit poses for your business, and in planning how you can create and protect value, you should:

People and talent

Short term:

- Assess how many of your UK employees are of EU or non-EU origin
- Consider what to communicate to them and what reassurance you can give
- Assess the impact of exchange rate fluctuation on global talent.

Medium term:

- Review employment contracts and take steps to protect your non-UK talent
- Are your UK partners reliant on EU staff and are they considering scenarios to respond to changes in their status?
- Assess the impact on any outsourcing or teams in other EU jurisdictions.

Long term:

- Consider your current location. Where is the best place to operate to achieve your not for profit objectives?
- Plan for the longer term impact on talent recruitment, development and pensions.

Strategic ambitions

Short term:

- Consider what to communicate to stakeholders
- Review your existing strategy and immediate impacts.

Medium term:

- Review potential M&A transactions and due diligence
- Identify transitional market, customer and beneficiary opportunities.

Long term:

- Identify whether your UK partners will be looking to form partnerships outside the EU that might be beneficial.

Finance growth

Short term:

- Consider what to communicate to funders
- Assess the impact on any immediate refinancing on your UK operations.

Medium term:

- Review the impact on sources of funding for programmes already started or being planned
- Assess the opportunities and risks around re-financing.

Long term:

- Assess the funding requirements for future strategy
- Identify future capital markets and investors.

Master risk

Short term:

- Consider which customers, beneficiaries or suppliers might be affected by short-term volatility
- Review the risks and opportunities across the organisation.

Medium term:

- Assess the impact on business risks including issues such as working capital management and financial reporting

Legal:

- Assess the impact on existing legal contracts and mandates, and cross border data management
- Identify what documentation will need to be changed.

Long term:

- Assess the longer term plans for business risks including tax structure and pension structures
- Review your strategies for mitigating fraud, bribery and corruption risks.

Optimise operations

Short term:

- Consider what to communicate to customers, beneficiaries and suppliers
- Identify your current and future exposure to interest rate and foreign currency exchange rate fluctuation.

Medium term:

- Assess the impact on processes and control
- Future regulatory compliance
 - Identify which regulations critically impact your business
 - Consider the likely timescale for any change in these business critical regulations.

Long term:

- Review your operational effectiveness and efficiency including back office and cost base
- Review new regulatory structures as the UK signs new trade deals with countries around the world and the EU to make sure your in country operations are as efficient as possible.

Contact us

As you face a more uncertain and volatile environment we can help you work through the issues and develop and action the best plans for your organisation.

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