

THE CHARITY WORKFORCE IN POST-BREXIT BRITAIN

**IMMIGRATION AND
SKILLS POLICY FOR
THE THIRD SECTOR**

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SUMMARY

The charity sector is far from immune from the effects of Brexit. As the UK leaves the EU and imposes restrictions on the free movement of people, parts of the charity sector – particularly social work and residential care – risk facing a ‘perfect storm’ of high employee churn, skills shortages, low pay, and increasing labour demand.

The number of EU nationals in the UK charity sector’s workforce has grown substantially over the past two decades, more than doubling from 14,000 to 31,000 since 2000. They are largely concentrated in sectors such as social work, residential care, education and membership organisations, and tend to be young and highly qualified. While EU nationals currently make up a small proportion of the total charity workforce – around 4 per cent – in some key parts of the sector, such as social care, there is expected to be growing labour demand in the coming years.

The imposition of immigration controls post-Brexit could lead to a dramatic shift in employers’ ability to recruit from the EU: our estimates suggest that if the government applies the rules that currently exist for non-EU nationals on the current EU charity workforce, around 82 per cent of EU charity employees would not be eligible. This rises to around 87 per cent for EU employees working in social work and residential care. Falling net EU migration since the referendum result suggests that an impact could be felt even before any changes to free movement rules are introduced.

Moreover, our research suggests that charity employers are unprepared for this change in our labour market. Our analysis of a survey of 100 charity representatives, conducted by Charity Finance Group, found that nearly half of respondents thought that it would be even more difficult to recruit for hard-to-fill vacancies after the end of free movement, and 62 per cent had no experience of using the visa system for recruiting non-EU nationals. The most common stated response to restrictions on free movement was to increase efforts to recruit locally, but few said they planned to improve wages or invest more in training.

In fact, a lack of funds to provide staff with training leaves the charity sector particularly exposed to restrictions on freedom of movement. Evidence from the Employer Skills Survey indicates that, while charity employers tend to be more likely to offer skills training than average, they are particularly likely to cite financial limitations as a reason for not providing more training. More than half of charities (55 per cent) state that they would have committed to more training in the past year if they could have done, higher than any other sector, with two thirds of these charities citing a lack of funds as a barrier to additional training.

The government and the charity sector therefore need to work together to put a robust plan in place now to prepare for the implications of the end of freedom of movement. This should comprise two interlinked strands of policy development: immigration policy and skills policy.

IMMIGRATION POLICY POST-BREXIT

In the short-to-medium term, the government and the charity sector need to send a strong signal of goodwill to EU nationals living in the UK. The government should do this by **guaranteeing their free movement rights in full** and ensuring **a light-touch system to gain settled status documentation**. For their part, charity

employers should support their current EU staff by **offering appropriate assistance with their settled status application** and by **supplying the expected small fee** (no more than the cost of a UK passport) for acquiring the documentation.

In the longer term, the Home Office should introduce a new system for EU nationals that meets the needs of the charity sector, as well as the wider economy. As IPPR argued in our recent ‘shared market’ proposal, the UK should seek a form of **quasi-alignment with the free movement of people** that allows greater controls over immigration while nevertheless respecting the underlying principle of freedom of movement – e.g. via a mechanism to introduce temporary controls under exceptional circumstances or a Swiss-style local preference system.

Failing this, if the government does replace free movement wholesale, then it should consider introducing a new **Trusted Sponsor Scheme** that enables employers who meet a set of criteria on responsible work practices to be eligible for an increased range of visa benefits – including the ability to recruit a wider array of skilled workers (e.g. carers) than the Tier 2 system for non-EU nationals currently allows. This would provide a route for charity employers to hire a greater range of migrant workers, particularly in the social work and residential care sectors, while incentivising employers to uphold high employment standards.

SKILLS POLICY POST-BREXIT

The government and charity employers should work together to develop a **skills and training strategy for the charity sector**.

A central plank of this strategy should be to **expand the government’s apprenticeship levy into a wider skills levy**, set at 0.5 per cent of the payroll for employers with at least 50 employees and 1 per cent for employers with at least 250 employees. This would raise around double the amount of the current apprenticeship levy. Contributions from the largest employers would be top-sliced for a regional skills fund, which would be devolved to local areas. This fund could then be used at the local level to support training and skills investment for smaller charities.

At the same time, given the limited funds for training within the charity sector, the government should introduce **greater flexibility** into the system by making levy funds redeemable against the cost of high-quality training, beyond simply apprenticeships. The government should also help to keep funds within the sector by **raising the 10 per cent cap on transferring levy funds to other employers**, so that a greater level of funds can be transferred to partner organisations if the levy-paying employers cannot spend the funds themselves.

Given the concentration of EU charity workers in social work and residential care, specific action should also be taken to prepare the social care sector for the end of free movement. In particular, we highlight three priorities for social care: developing a **sustainable funding settlement for social care** to allow for wage growth; **enforcing effective minimum standards of training** by making the care certificate a legal requirement; and giving new powers to the Care Quality Commission to **tackle exploitation and poor working conditions** within the sector.

1. INTRODUCTION

The UK's departure from the EU is set to bring about a major transformation in our immigration system. The government has said that it will end the free movement of EU workers, a central pillar of current policy, and is in the process of developing a successor system. The home secretary has asked the independent Migration Advisory Committee to carry out a full review of the labour market impacts of Brexit and of how the immigration system should be aligned to the new industrial strategy. And the decision to leave the EU is itself already having a considerable effect on the ground, with increasing numbers of EU nationals now choosing to leave the UK.

In light of these changes, there has been considerable analysis of reductions in EU migration for the private sector, particularly for those sectors likely to be most exposed to the end of free movement – such as hospitality, agriculture, and manufacturing – as well as for the public sector – notably for the NHS, which has a strong reliance on overseas workers. But there has been very little consideration of how the end of free movement will impact on the charity sector. In this report we will explore the role of EU nationals in the sector and how charity employers can best adapt to a post-Brexit labour market.

Irrespective of the effects of ending free movement, the charity sector faces an unpredictable few years ahead. While the sector has seen considerable employment growth over the past decade, it is caught within a challenging policy environment. Significant cuts to central and local government have squeezed budgets at the same time as increasingly urging charities into service delivery roles. The increase in the national minimum wage and, for the larger employers, the introduction of the apprenticeship levy, could place additional pressure on charity finances. In the context of the potential wider effects of Brexit for charities – including both the direct impacts of losing access to EU funding streams and the possible indirect economic consequences of EU withdrawal – the prospective change to the current free movement rules comes at an uncertain time for the sector.

In this report we will examine the potential implications of Brexit on the charity sector labour market and consider how the government and the sector can work together to ensure the charity workforce thrives after the UK leaves the EU. In the next chapter, we will argue that some parts of the charity sector are likely to face new recruitment pressures after the UK leaves the EU, and in chapter 3 we will explore the current priorities and concerns of charity employers for their workforce in the run-up to Brexit. In the final chapter we will set out a series of recommendations for how the future immigration system should meet the needs of the charity sector and the wider labour market, and for how the government and the charity sector should prepare their skills and employment policy now to account for the expected changes to the immigration rules after Brexit.

2.

HOW WOULD THE END OF FREE MOVEMENT AFFECT THE CHARITY WORKFORCE?

What impact might Brexit have on the charity sector workforce? In this chapter, we will argue that the scale of the impact will depend on five core considerations.

1. The **profile** of the current EU charity workforce.
2. The **future immigration system** for EU nationals.
3. The **immigration choices** of EU nationals.
4. The **future demand** for EU charity workers.
5. The **alternatives for charity employers** if they are unable to recruit from the EU.

1. THE PROFILE OF THE CURRENT EU CHARITY WORKFORCE

The expected changes to the EU immigration rules post-Brexit could have a profound effect on employers across the economy, including the charity sector. But the extent of any impact on the charity sector depends not only on what these rules are, but on the current shape and nature of the charity sector's EU workforce.

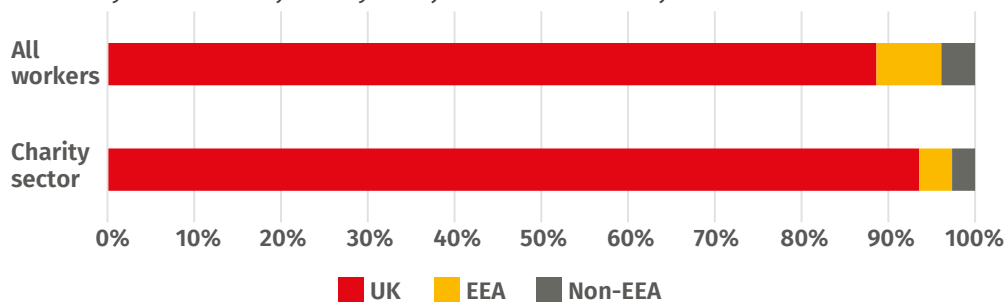
In order to build a comprehensive picture of the role EU workers currently play in the charity sector, we have aggregated multiple recent rounds of the UK Quarterly Labour Force Survey. This is the most reliable source of data we have on the share of EU nationals in the charity sector and their overall socio-demographic profile.¹

Our analysis indicates that approximately 6.5 per cent of the charity workforce are non-UK nationals and 3.8 per cent are EU nationals. While this is a notably smaller share than the average figure of 7.5 per cent EU nationals for the UK workforce as a whole, there has been a significant increase in absolute numbers over the past two decades: the number of EU workers in the charity sector has more than doubled from 14,000 to 31,000 since 2000. This expansion of the EU workforce has taken place at a significantly faster rate than the growth of the charity sector as a whole.

¹ We have used the latest available data (at the time of analysis) from the Labour Force Survey: Q1 2015 to Q2 2017 (ONS 2015-17). For some of the analysis we have taken the last four quarters and aggregated; for the more fine-grained analysis we have taken the last 10 quarters and aggregated. (We have also applied the same analysis to an aggregate of the previous 12 rounds and found very similar results.) We have classified migrants based on nationality rather than country of birth, in line with recent ONS publications (ONS 2017a). For our definition of EU citizens, we have included EEA and Swiss citizens, as they also have free movement rights in the UK. We have also included relevant overseas departments and territories, as per ONS publications. The 'charity sector' is defined as those working in a "charity, voluntary organisation or trust." We have only included 16-64 year olds in the analysis. For earnings analysis, employees only are included. We have checked our results against other analysis of the charity labour force (see NCVO 2017) and our findings are broadly similar.

FIGURE 1.

Nationality breakdown of charity workforce and total workforce

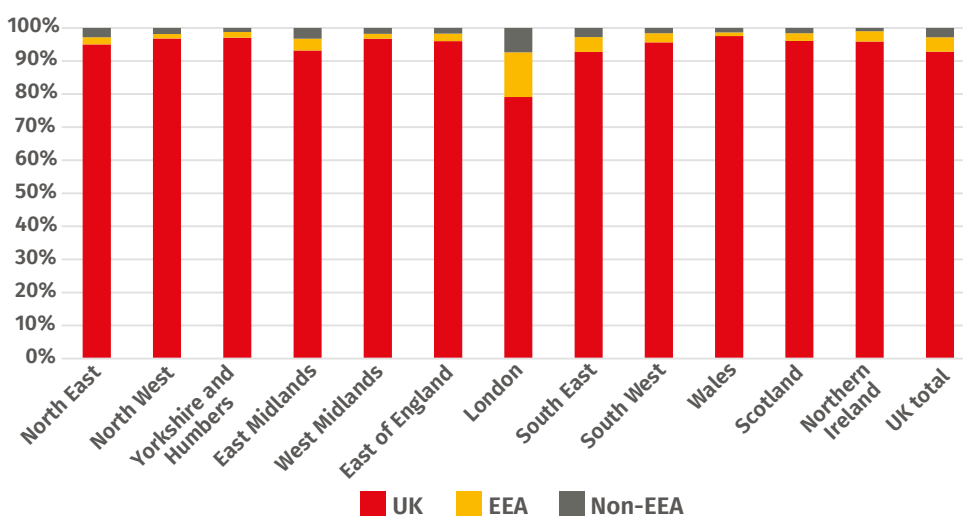


Source: IPPR analysis of Labour Force Survey (Q3 2016–Q2 2017)

Moreover, our analysis shows that EU charity workers are unevenly distributed around the country. In particular, the EU charity workforce is concentrated in London – around half of EU charity workers are London-based, and around 14 per cent of charity workers in London are EU nationals, compared to the national average of 4 per cent.

FIGURE 2.

Nationality breakdown of charity workforce in each region/nation



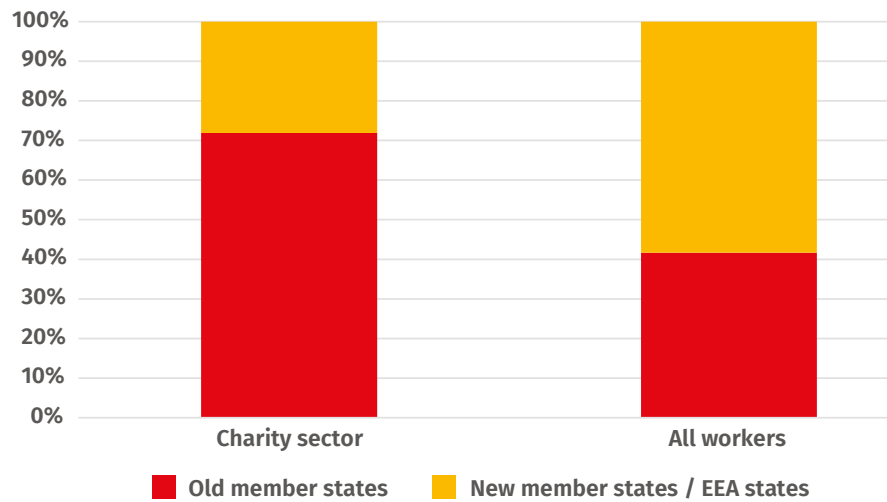
Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

A more detailed breakdown of EU workers in the charity sector suggests that a large majority are from the ‘old member states’ – i.e. countries in Western Europe.² Approximately 72 per cent of EU workers in the charity sector are nationals of the EU14 member states – the pre-2004 accession countries – compared to 42 per cent of EU nationals in the UK workforce as a whole.

² The full list of EU14 countries (‘old member states’) includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Republic of Ireland, Spain and Sweden. The full list of new member states / EEA states includes the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia, Romania, Bulgaria, Croatia, Cyprus, Malta, Norway, Iceland, Liechtenstein and Switzerland.

FIGURE 3.

Breakdown of EEA citizens in charity workforce and total workforce



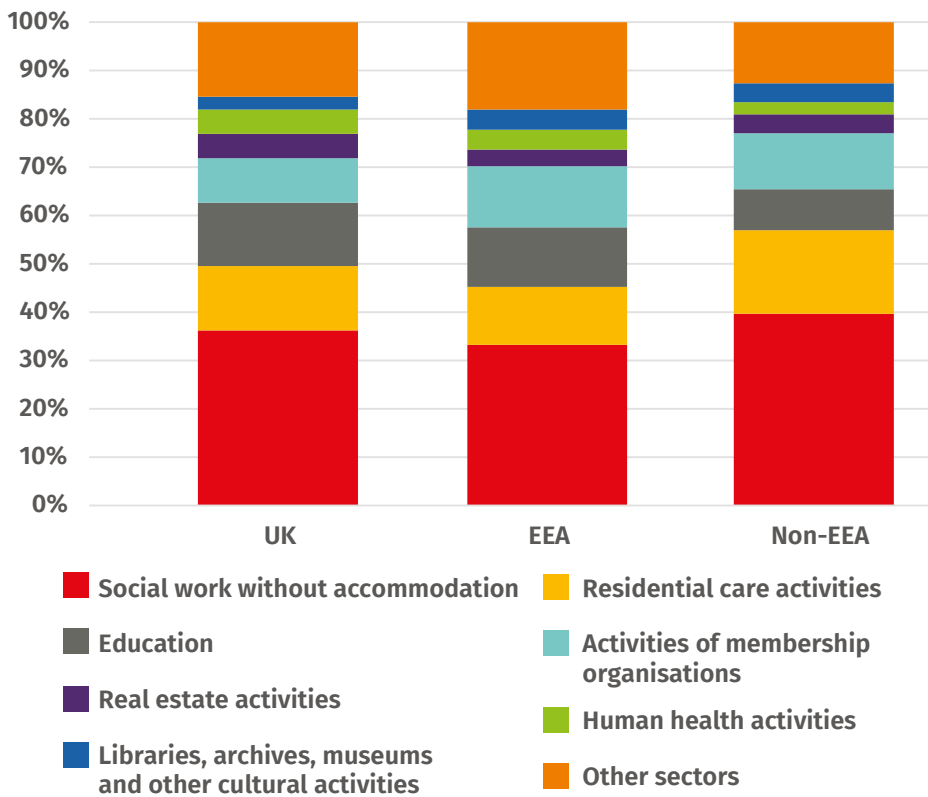
Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

The charity workforce is largely concentrated in only a handful of sectors: social work, residential care, education and membership organisations. The distribution of EU workers largely reflects the distribution of the charity workforce as a whole: 33 per cent work in social work; 13 per cent in membership organisations; 12 per cent in residential care; and 12 per cent in education. The remaining 30 per cent are distributed among other sectors: notably, human health (4 per cent), libraries, archives, museums and other cultural activities (4 per cent), and real estate (3 per cent). In total, nearly half of all EU charity workers are in the social care sector.³

³ We define the social care sector as including both social work activities (without accommodation) and residential care activities.

FIGURE 4.

Sectoral distribution in charity workforce by nationality

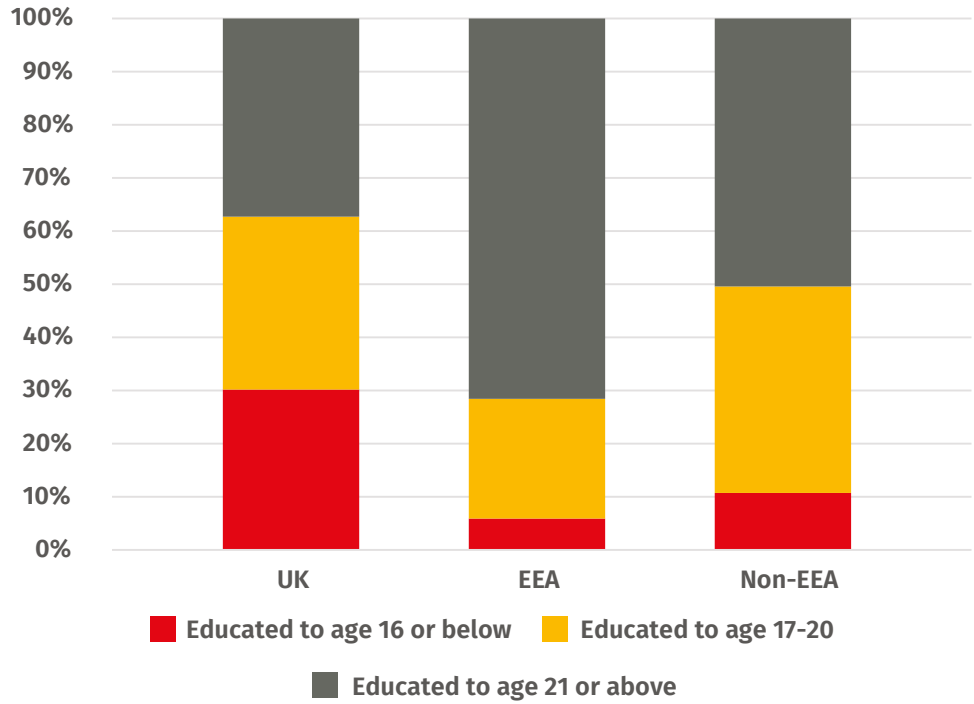


Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

In the UK workforce as a whole, EU nationals tend to be highly qualified but concentrated in lower skilled and lower paid work. 47 per cent of EU nationals are educated to age 21 or above, compared to 28 per cent of UK nationals – yet EU nationals are far more likely to work in elementary occupations and are on average paid nearly £2 less per hour than UK workers. In the charity sector the trend is somewhat different. EU nationals are much more highly qualified than average – nearly three quarters of EU nationals in the charity sector are educated to 21 or above, around double the share of UK nationals (37 per cent) in the sector. Moreover, they are also in jobs with a slightly higher pay and skill level as UK nationals. The difference with the national picture is likely to be in part due to the nationality composition of EU nationals in the charity sector: EU nationals from the old member states tend to be better paid and in more skilled occupations than EU nationals from the new member states (ONS 2017a).

FIGURE 5.

Education level distribution in charity workforce by nationality

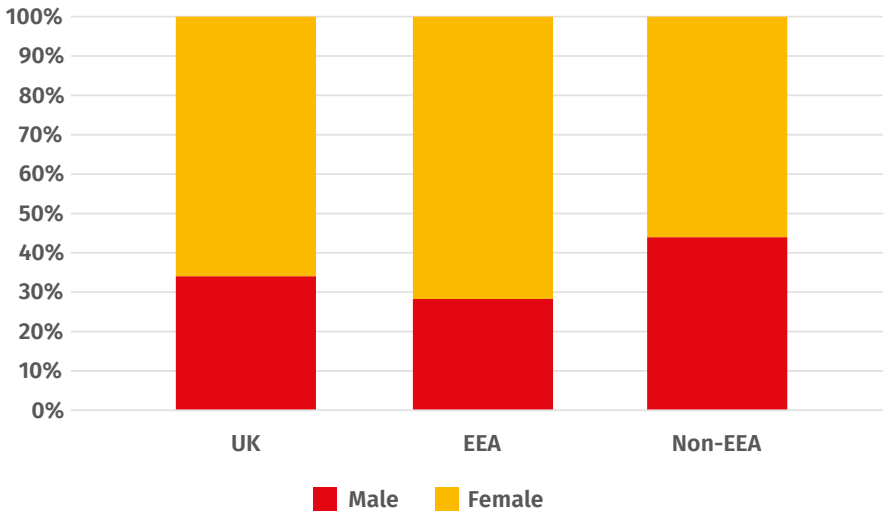


Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

The charity sector as a whole is largely made up of female workers, and the composition of EU workers in the sector reflects this trend. Around 72 per cent of EU nationals in the charity workforce are women, similar to the charity workforce average (66 per cent).

FIGURE 6.

Gender distribution in charity workforce by nationality

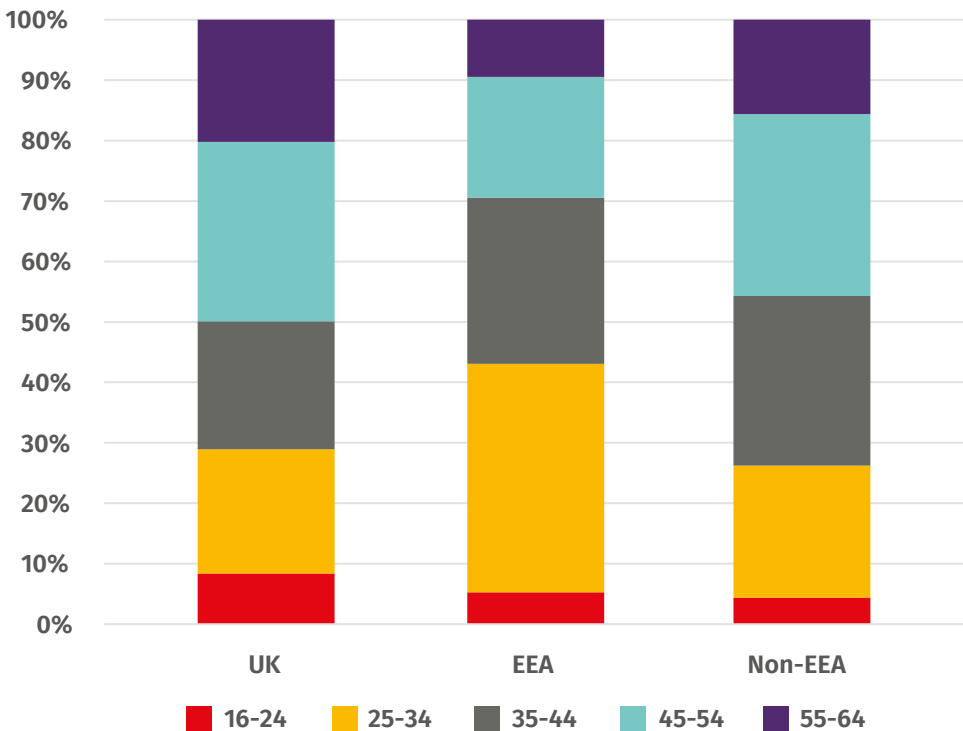


Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

In the workforce as a whole, EU nationals tend to be significantly younger than their UK counterparts, and the EU charity workforce is also younger than average. A total of 43 per cent of EU nationals in the charity sector are aged 34 or younger, compared to 29 per cent of UK nationals.

FIGURE 7.

Age distribution in charity workforce by nationality



Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

Our overview of the EU charity workforce highlights that EU nationals in the charity sector are young, highly qualified, and occupied in a range of skilled positions.

But this does not mean that EU nationals will be left unaffected by future changes to immigration policy post-Brexit. The current system for non-EU nationals applies stringent controls, affecting even well-qualified employees in well-paid roles, because it requires applicants to meet demanding criteria such as high salary thresholds. In order to understand the potential impacts of Brexit on recruiting EU nationals, we therefore need to compare the rules now in place for EU immigration with potential future options.

2. THE DETAILS OF THE FUTURE IMMIGRATION SYSTEM FOR EU NATIONALS

The current system of freedom of movement guarantees the right of EU citizens to live and work in the UK and receive equal treatment to UK citizens (Council and Parliament Directive 2004). The system has a three-tier structure: for the first three months, EU citizens have a largely unrestricted right to live and work in the UK; beyond this, EU workers, the self-employed, job-seekers, students, 'self-sufficient' people such as retirees, and family members continue to have free movement rights in the UK; and after five years of continuously living in the UK, EU citizens are automatically granted permanent residence. Charity employers are therefore free to recruit EU nationals in the same way they recruit UK nationals currently, with no additional bureaucratic burdens.

Once the UK leaves the EU, the government has committed to ending the current free movement rules. This does not mean that free movement will end overnight, for two reasons. First, restrictions on free movement will only apply to future EU citizens coming to the UK. The withdrawal negotiations – provisionally agreed in December 2017 – will for the most part secure continued free movement rights for all EU citizens who have already moved to the UK (European Commission 2017). Second, the UK and the EU have agreed a transition period where free movement will continue – effectively on the same terms as now – for just under two years after the UK leaves the EU, from March 2019 to December 2020. The Home Office has announced that EU citizens arriving during this 'implementation period' will face no new constraints and will be able to settle in the UK for the long term after the transition ends (Home Office 2018).

After the transition period, the government plans to change the current rules and adopt a more controlled system for EU nationals. We have modelled four potential changes to EU immigration rules if the UK carries out its plan to end freedom of movement: extending the Tier 2 system for non-EU skilled workers to include EU nationals; extending the Tier 2 system but at the same time relaxing the current skills and salary thresholds; introducing a points-based system that admits EU nationals on the basis of their skill level, rather than the skill level of the job they are being sponsored for; and a system of partial free movement for 'high-demand' occupations, such as in healthcare and social work (see Morris 2017 for more details).

Under each of these proposed changes, significant numbers of EU employees currently working in the charity sector would be ineligible post-Brexit. Under the most restrictive proposal – which simply transfers over the rules for non-EU Tier 2 rules onto EU nationals – approximately 82 per cent of EU employees in the sector would be ineligible. This indicates that, if these changes were introduced for EU nationals entering the UK to work in the future, they would prevent the vast majority from taking up jobs within the charity sector.

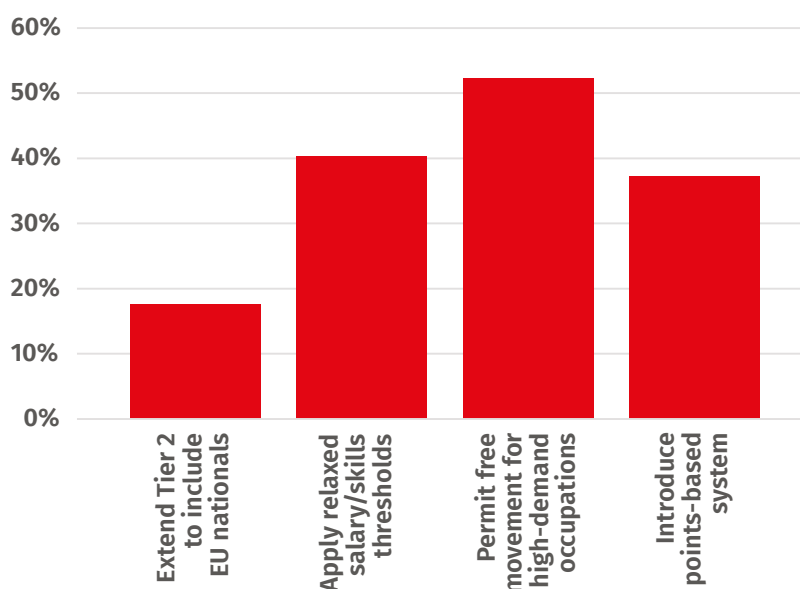
However, even the more moderate policies would also signify a marked change in our current immigration system for charity employers. Lowering the salary and skills thresholds would increase the eligibility rate from 18 per cent to 40 per cent, given the significant number of EU charity workers on middle incomes and in mid-skilled roles, but more than half would still be ineligible. The points-based system would translate to an eligibility rate of 37 per cent: this is because the criteria are relatively lenient – focusing on qualifications and age, rather than the salary and skill levels of the jobs they are doing – and, as our analysis has shown, EU nationals in the charity sector are young and highly qualified. Nevertheless, nearly two-thirds would not meet the criteria. Permitting free movement for high demand occupations is the most generous option, with an eligibility rate of 52 per cent: this is in part because care workers would be considered a priority under the proposed system.

It is also helpful to contrast the impacts of restrictions on social work and residential care charity workers with the remainder of the charity workforce, given each of these represent groups with different socio-economic make-ups. Our analysis indicates that EU social work and residential care charity workers are on average less well-paid than the remainder of the EU charity workforce and are more concentrated in occupations that are not considered highly skilled under the Tier 2 system. As a result, this translates into a more restrictive impact for this sub-sector under the Tier 2 rules: around 87 per cent of EU social work and residential care charity employees would be ineligible under an extension of Tier 2 rules, compared to around 79 per cent of other EU charity employees.

Of course, these scenarios are inherently speculative, as the UK government has not yet decided what type of policy it plans to introduce. Nevertheless, with the current Tier 2 system as the natural benchmark, our analysis makes clear that, unless the new system departs radically from the current Tier 2 rules for non-EU nationals, charity employers would face a dramatic tightening of their access to EU workers.

FIGURE 8.

Eligibility rates of current EEA charity employees under different post-Brexit immigration systems



Source: IPPR analysis of Labour Force Survey (Q1 2015–Q2 2017)

The limits of the Tier 2 system become clearer when evaluating how the top five most common charity jobs would fare under Tier 2 sponsorship. Out of the top five occupation groups (according to the Labour Force Survey) – care workers and home carers, miscellaneous welfare and housing associate professionals, miscellaneous administrative occupations, miscellaneous functional managers and directors, and NGO officers – four out of five would be completely ineligible for a Tier 2 visa, and the remaining occupation type (miscellaneous functional managers and directors) would be only eligible for sponsorship at a salary of at least £38,000 (Home Office 2016).⁴ Moreover, recent salary surveys of the charity and not-for-profit sector suggest that median salaries for most non-managerial roles in smaller charities fall below the Tier 2 £30,000 minimum salary threshold for experienced workers (Harris Hill 2017). The Tier 2 system would therefore clearly make it far harder for charity employers to hire EU nationals.

Moreover, this analysis does not account for the administrative barriers facing those charities who would have to navigate a new EU immigration system in order to sponsor migrants. The Tier 2 system for non-EU skilled workers is a case in point. To sponsor a worker under Tier 2, typically an employer must apply for a Tier 2 licence (including a fee of £536 for a charity sponsor), assign a restricted certificate of sponsorship through the Sponsorship Management System (including a further fee of £199), advertise the job for at least 28 days to demonstrate it is not possible to hire within the UK (the ‘resident labour market test’), ensure the job meets relevant skills and salary thresholds, pay an immigration skills charge (£364 for a charity sponsor for the first year), and continuously monitor compliance (including timely reporting of significant changes of circumstances to the Home Office). For a small charity, the expense and bureaucracy attached to recruiting through this route may make the Tier 2 option simply unviable.

Importantly, this is not simply a characteristic of the Tier 2 visa: unless the new policy for managing EU immigration aligns closely with the current free movement rules, most systems for managing EU immigration are likely to require processes for registration, sponsorship, and monitoring compliance. While other options might be less costly or time-consuming, it is likely that any system will require new safeguards and enforcement processes, and that it will fall to employers to carry these out in practice.

This does not mean, of course, that charities will be unable to hire EU nationals altogether post-Brexit. Even if the Tier 2 route for skilled workers – or something similar – is not viable for most charities, there will be other routes for hiring EU workers, just as there are other routes now for hiring non-EU workers. Employers will be able to hire those EU workers who have a legal right to live and work in the UK that is not dependent on employer sponsorship.

Most notably, EU nationals who have ‘settled status’ due to their pre-Brexit residence in the UK, as well as eligible family members, will (provided that the withdrawal agreement is finalised) have full access to the UK labour market. As long as EU nationals currently in the UK choose to settle, they will constitute a continued, albeit limited, pool of workers from which charity employers will be able to recruit. This demonstrates that the impact of Brexit on the charity workforce does not simply rest on the nature of future immigration rules: it also depends on the choices of EU nationals and the attractiveness of the UK as an immigration destination.

⁴ New entrants would be eligible at a lower salary of £25,900.

3. THE EFFECTS OF BREXIT ON EU NATIONALS' OWN IMMIGRATION CHOICES

While the UK government's new EU immigration policy will have an important role in demarcating employers' future access to EU nationals, it is not the only consideration for charity employers looking to recruit EU nationals post-Brexit.

Future recruitment will also depend on the choices of EU nationals themselves, in two important ways. First, increasing numbers of EU nationals may choose not to immigrate to the UK after Brexit. This means that, even with a liberal immigration system for EU nationals, the number of EU nationals coming to the UK to work may well fall over time. Indeed, even during the transition period, where immigration rules are expected to largely remain as they are now, EU immigration levels could fall simply because fewer EU nationals choose to come to the UK. Second, those EU nationals already in the UK could choose to leave in greater numbers. The granting of 'settled status' by no means guarantees that EU nationals will in fact choose to settle.

Indeed, there is already initial evidence that, since the referendum result, net EU migration to the UK has slowed – in part because of falling EU immigration, in part because of an increasing number of EU citizens already here choosing to leave. Net EU migration in the year ending June 2017 (i.e. the year following the EU referendum) was 107,000, a fall of 82,000 compared to the previous year, down to both a statistically significant fall in EU immigration (54,000) and a statistically significant increase in EU emigration (28,000) (ONS 2017).

Of course, migration flows are notoriously unpredictable and many factors, including social and economic conditions within the rest of the EU, play a role in influencing movements. But current trends indicate that Brexit is having a material impact on migration decisions already and could continue to do so. Therefore, even if there are no immediate legal changes to the current EU rules, UK employers could find it harder to recruit EU nationals in the short-to-medium term.

4. FUTURE DEMAND FOR EU LABOUR IN THE CHARITY SECTOR

What would happen if employers could no longer easily recruit from the EU? At first we would expect to see greater difficulties in recruiting workers – particularly in sectors with high turnover and projected employment growth.

But as the Migration Advisory Committee (MAC) suggests in its recent interim report on EU migration, a reduction in the supply of labour should see a corresponding fall in demand for labour over the long term, as employers scale back their operations. This means that restrictions in migration will simply lead to lower employment growth and output, rather than a rise in unfilled vacancies, over the long run. The MAC suggests that in some sectors this may not be a problem for overall public welfare (MAC 2018).

This analysis does not necessarily apply to the charity sector, given it is not-for-profit. But even if it does, while lower employment growth may not be a problem in all sectors of the economy, in the case of the charity sector it could have a serious impact: the sector provides vital services with considerable social value in a number of areas, and demand for these services is increasing.

This is most strikingly the case for social care, where demand is increasing due to the UK's ageing population. The UK Commission on Employment and Skills labour market projections indicate that there will be a growth in demand for workers in social work and residential care over the next five years (UKCES 2016b). Workforce forecasts by Skills for Care predict that, as the population ages and the number of people aged 65 and over increases, an estimated 500,000 jobs in the adult social care workforce would be required by 2030 (an increase of 31 per cent) (Skills for

Care 2017). Employers could be increasingly likely to need to recruit from abroad due to rising demand for care.

5. THE ALTERNATIVES FOR CHARITY EMPLOYERS IF THEY ARE UNABLE TO RECRUIT FROM THE EU

Even if employers find it harder to recruit from the EU post-Brexit, they might be able to find alternative strategies for managing with limited access to EU workers. The extent of the challenge for charity employers therefore depends on the array of alternative options available to them. We have identified three main alternatives open to charity employers.

1. Retaining and training up staff they already employ, in order to reduce the need for recruitment abroad.
2. Recruiting alternative groups to meet labour demand.
3. Investing in automation and new technologies to replace the need for workers altogether.

We consider each of these options in turn.

Staff retention and training

One way to reduce the need for recruitment is to hold on to staff already working in the sector. Of course, this could not remove the need for recruitment altogether: if employers require a larger workforce, then new workers will be needed from somewhere, and even if retention rates are very high, at some point workers will need to be replaced. But high retention could mitigate the effects of Brexit on the sector – and, conversely, high employee turnover could significantly exacerbate the impacts. Similarly, high levels of good-quality training would reduce the need for charity employers to rely on recruiting skilled workers from abroad, while low levels of poor-quality training could leave the sector exposed to serious skills shortages.

The available evidence suggests that, as a whole, the charity sector does not have a particular staff retention problem, but there are significant challenges concentrated in social care. The UKCES Employer Skills Survey suggests that charities face similar levels of difficulty retaining staff compared with the national average (7 per cent of charity employers have jobs in which there are difficulties retaining staff, compared to 8 per cent on average). These difficulties are largely concentrated in caring occupations: 28 per cent of charity employers with staff retention difficulties say these are for retaining caring, leisure and other services jobs, higher than any other occupation group (UKCES 2016a).

This may simply reflect the concentration of caring roles in the charity sector. But further research from Skills for Care indicates that turnover in social care is a growing problem for the sector: they estimate that the staff turnover rate in the adult social care sector has steadily increased over the past five years (they are now at 28 per cent), and is much higher in the independent sector than in local authorities (Skills for Care 2017).⁵

The reasons for staff churn in the charity sector are in large part due to low pay. According to the Employer Skills Survey, 44 per cent of charity employers with staff retention difficulties say these are down to lower wages than those offered by other organisations – higher than the average of 34 per cent (UKCES 2016a). This indicates that charities struggle to compete with other employers to pay sufficient wages in order to retain and recruit staff.

⁵ The independent sector includes both private and charity providers.

On the face of it, training levels within the charity sector are relatively high: the share of employers who have supported staff training in the past year in the charity sector is 78 per cent, significantly higher than the 66 per cent average (UKCES 2016a). However, this is almost certainly down to the profile of the sector, which is concentrated in industries such as education and social care, where training is often required. More concerning is that charity employers are particularly likely to cite financial limitations as a reason for not providing training: 17 per cent of those charities that don't train say that "no money" is a reason, compared to 7 per cent of employers on average. More than half of charities (55 per cent) state that they would have committed to more training in the past year if they could have done, higher than any other sector, with two thirds of these citing lack of funds as a barrier to additional training (ibid). Similarly, the Small Charity Sector Skills Survey highlights that the main causes of skills shortages for small charities are a lack of funds and a lack of time for training opportunities (FSI 2017).

Our analysis therefore suggests that, while as a whole the charity sector is not especially underperforming from a retention and training perspective, some parts of the sector – notably social care – face particular problems with turnover that could exacerbate the labour force effects of Brexit. Moreover, the key reasons preventing improved retention rates and greater investment in training in the sector are connected to poor wages and limited funds. As we will discuss in the following chapter, there are steps the government and the sector could jointly take to address these issues, help improve retention and training, and thereby mitigate potential skills shortages post-Brexit.

Recruitment from other groups

If restrictions are imposed on immigrating EU nationals post-Brexit, could charity employers look to other sources from which to recruit? The indications are that there will be limited sources of alternative labour. Levels of employment are at near record highs, and unemployment is at 4.3 per cent, its joint lowest rate since 1975 (ONS 2018). Within the social care sector, the high turnover and large numbers of unfilled vacancies indicate that employers already face serious labour shortages (Skills for Care 2017). While charity employers may find they have to recruit from inactive groups post-Brexit – for instance, students or retired workers – the indications are that the pool from which to recruit is limited. Given other sectors – notably hospitality and manufacturing, as well as related sectors such as healthcare – are expected to also face challenging restrictions on EU migration post-Brexit, competition over this small pool of workers is likely to increase (Morris 2017). In some key areas charity employers will have limited options to increase wages – for instance, social care is largely state funded – and so could struggle to compete with other sectors.

An alternative source of workers could come from outside the EU post-Brexit. Indeed, even now the social care sector relies on a greater number of non-EU than EU carers, and EU withdrawal could become the catalyst for a more liberal system for non-EU immigration over the coming years. However, the restrictive rules for recruiting skilled migrant workers from outside the EU make this option currently unviable for most vacancies, and there is little prospect of a dramatic shift in non-EU immigration in the short-to-medium term.

In any case, even if charity employers are able to recruit more actively from workers already settled in the UK, without corresponding investment in training, they could still struggle to find the relevant skills they need. As we highlighted in the above section, charities are currently held back from skills development due to limited funds and resources.

Scope for automation

Another much-discussed alternative for employers is to invest in new technologies as a means of replacing workers altogether. But the distribution of occupations within the charity sector indicates that, in contrast to other sectors, there is relatively little scope for automation in the short-to-medium term. Social care and education jobs, which predominate in the charity sector, are some of the occupations with the lowest probabilities of automation (PwC 2017). It is therefore far from clear that automation would be a viable alternative for charity employers post-Brexit.

CONCLUSIONS

Our review of the evidence suggests that, in some parts of the charity sector, a combination of new migration restrictions, increasing levels of EU emigration, and growing labour demand could place new recruitment pressures on employers. If government controls on EU immigration are stringent, if the trend of falling net EU migration continues, and if demand for labour continues to rise, then in some sectors the risk of a substantial impact is high. The evidence indicates that it is in social work and residential care where the impacts are likely to be greatest, given these sectors already face shortages and could have limited recourse to EU workers under a future immigration system.

Our analysis also shows that while charity employers are more likely to train their employees than average, more than half would have provided more training if they could have – higher than both the private and public sectors. Limited funds for training in the sector are holding charity employers back. The free movement of people within the EU has to some degree masked this trend, but with the end of easy access to EU workers post-Brexit the lack of funds for training could seriously exacerbate skills shortages. In the final chapter of this report, we will turn to this question in more depth.

3.

WHAT ARE CHARITY EMPLOYERS EXPECTING POST-BREXIT?

To complement our analysis in Chapter Two, we have also conducted our own survey of charities, in order to understand their perspective on the workforce implications of Brexit. The survey was run by Charity Finance Group through an online platform and targeted charity employers. In total it received 100 responses (excluding empty and mostly incomplete responses). While the survey cannot claim to be fully representative of the sectoral and regional breadth of the charity sector, it does give some indications of the priorities of charity employers as the end of free movement approaches.

The charities who responded to the survey covered a range of sectors, though more than half were either concentrated in health (14 per cent), culture and recreation (10 per cent), social services (9 per cent), environment (9 per cent), international (7 per cent), and education (6 per cent). Most said they were based in either Greater London (42 per cent), the South East (15 per cent), or the West Midlands (11 per cent). The size of the workforce within the charities that responded ranged from none (i.e. the organisation was run entirely by volunteers) to more than 1,000. Accordingly, there was considerable variation in the share of EU/EEA nationals within each charity: for some charities more than 20 per cent of their staff were EU/EEA nationals, while others had no EU/EEA staff at all (the average was approximately 7 per cent).

The survey results contain three major sets of findings: on how charity employers engage with EU nationals currently, on skills and training, and on how they plan to respond to potential changes to freedom of movement in future.

First, most of our charity respondents said that the number of EU/EEA workers in their organisation had either stayed the same (45 per cent) or increased (28 per cent) in the past five years. For those whose numbers had increased, we asked whether this was simply due to the growth of the charity, rising numbers of EU/EEA applicants, the skill level of EU/EEA workers, the work ethic or flexibility of EU/EEA workers, skills shortages among UK workers, or a lack of interest in vacancies among the UK workforce. The most common reasons given were related to the growth of the charity, the greater availability of EU/EEA workers, and the higher skill level of EU/EEA workers; on the other hand, very few respondents said that EU/EEA workers had a higher work ethic. This accords with our evidence from the previous chapter: given that the charity workforce has grown in general over recent years, and given that availability of EU/EEA workers has increased since the 2004 accession, it is to be expected that charity employers would increasingly hire from a growing pool of skilled EU workers.

Second, we found that the extent of hard-to-fill vacancies within the charities that responded to our survey varied considerably; some charities – particularly those with fewer employees – had no hard-to-fill vacancies at all, while others had upwards of 30 hard-to-fill vacancies per year. Generally, the number of annual hard-to-fill vacancies in our survey was somewhere between 0 and 20 per cent

of total staff numbers. When asked why vacancies were hard-to-fill, by far the most common response was related to skills shortages: around 82 per cent of respondents with hard-to-fill vacancies said they had low numbers of applicants with the required skills. At the same time, while most charities (84 per cent) said they facilitated basic on-the-job skills training, and most (66 per cent) said they facilitated technical on-the-job skills training, very few offered apprenticeship programmes (14 per cent), work experience opportunities (20 per cent), or traineeships (10 per cent). This is unsurprising given the size and limited funds of many charity employers, but it does highlight the broader skills challenge in the sector, particularly in areas that require specialist skills.

Third, nearly half (46 per cent) of our charity respondents said that they were either concerned or very concerned about recruiting future workers if free movement ends post-Brexit, while 27 per cent said they were either relaxed or very relaxed and a further 27 per cent said they were neither relaxed nor concerned. Similarly, 49 per cent thought that ending free movement would make their hard-to-fill vacancies even harder to fill, while 41 per cent thought it would make no difference. This division in views is to be expected given the different composition of the charities we surveyed; those with significant EU/EEA workforces were more likely to be concerned about the implications of ending free movement. When asked how they would respond, the most common answer given (52 per cent) was that they would seek to recruit locally. But when asked how they would do this, few respondents who answered that they would recruit locally said they would improve pay or invest more in training; two thirds (67 per cent) said they would seek different recruitment channels, while another 28 per cent said they simply didn't know how they would recruit more locally.

Perhaps most worryingly of all, around 62 per cent of respondents said they had never used the immigration system for non-EU workers before, and a further 27 per cent thought that using the system was difficult or very difficult. Even when looking at only those respondents concerned about the end of free movement, 47 per cent had never used the non-EU immigration system and 42 per cent thought that using the system was difficult or very difficult. This suggests that, of those charities that are exposed to changes to free movement post-Brexit, few have plans in place to mitigate any potential impacts.

Our survey of charities largely confirms our analysis in the previous chapter. The charity sector is highly diverse and the survey results reflect this: while some charities do not rely on free movement at all, others – both large and small – do recruit EU nationals in considerable numbers. Those charities that do have a large EU workforce will have limited options to resolve skills shortages post-Brexit, and many charities are unfamiliar with the Tier 2 system for non-EU nationals. Moreover, while many charities do provide basic and technical skills training, they are in many cases too small and poorly funded to invest in wider training programmes, such as apprenticeships and work experience opportunities. Therefore, in order to plan for a labour market without freedom of movement, the government and the charity sector will have to now develop an ambitious strategy on both immigration and skills policy post-Brexit.

4.

PROPOSALS FOR THE POST-BREXIT LABOUR MARKET

This report has found that, as the UK prepares to leave the EU, there is a risk of new recruitment pressures in some parts of the charity sector, driven by future restrictions on EU workers and falling levels of net EU migration. The risk is particularly high in the social work and residential care sectors, where there are already shortages and retention problems. We have also found that, regardless of Brexit, financial pressures have meant that the charity sector has been unable to invest as much as it would like in staff training. With the end of free movement now approaching, inadequate levels of training now risk being exposed. In this final section, we explore how the government and the charity sector can work together to manage the risks of ending free movement and ensure that, as the sector prepares for the post-Brexit labour market, there is the necessary level of investment in training and skills to meet the long-term labour force challenges ahead.

There are two key interlinked strands for a future policy framework for the charity workforce post-Brexit: immigration policy and skills policy.

IMMIGRATION POLICY POST-BREXIT

Short-to-medium term: 'settled status' and transition

In the short-to-medium term, we expect there to be no significant change in government policy on EU immigration. The withdrawal agreement will largely guarantee the rights of EU nationals currently living in the UK, and the transition agreement will maintain freedom of movement – in close to its current form – until at least the end of 2020.

Yet, as we have emphasised, this does not preclude an increase in difficulty in hiring EU nationals, if a fall in net EU migration comes about as a result of the choices of migrants themselves. This places an onus on both the government and charity employers to demonstrate that EU nationals are welcome in the UK – and, in particular, are welcome in the UK's charity sector. The government should actively seek to encourage EU nationals settled in the UK pre-Brexit to stay, by **guaranteeing their free movement rights in full** and ensuring **a light-touch system to gain settled status documentation** over the course of the grace period.

For their part, charity employers should at a minimum support their current EU staff by **offering appropriate assistance with their settled status application** and by **supplying the expected small fee** (no more than the cost of a UK passport) for acquiring the documentation. Where they can, charities should also go further and offer additional integration support to EU employees – e.g. by providing advice on how to apply for UK citizenship, or by helping with English language tuition where appropriate.

Longer-term: future arrangements for replacing freedom of movement

In the longer term, the UK government will need to outline its future policy for EU nationals post-Brexit. This decision will be critical both for ensuring a system that

works for the charity sector and the wider labour market and for reaffirming the UK as an attractive destination for EU workers.

We have previously proposed that, as part of the wider Brexit negotiations, the UK should seek a compromise with the EU that agrees **'quasi-alignment' on freedom of movement** (Kibasi and Morris 2017). This could be delivered through either a Swiss-style 'local preference system' or a mechanism that allows the UK to impose new sectoral or regional controls on freedom of movement during periods of exceptional levels of EU inflows.⁶ Such a system could help to significantly lessen the impacts of Brexit on the EU charity workforce, while giving the option for the UK to impose controls on EU migration in circumstances where the government judged it necessary. While it could impose some additional administrative costs for charity employers – as they could face temporary controls limiting their access to EU workers – these would be time-limited and could be targeted in such a way to protect vulnerable sectors, such as social care.

However, we recognise that the government's current stated position is to impose greater levels of control on EU immigration post-Brexit. Therefore, under the circumstances where the free movement of people ends in entirety, we propose an alternative immigration policy for EU nationals. Rather than transferring across the current Tier 2 system for non-EU skilled workers – which was designed to complement EU freedom of movement, and so would not be appropriate if applied to all non-UK nationals – we propose a **new 'Trusted Sponsor Scheme'** (Griffith and Morris 2017). This scheme would provide employers with access to a greater range of EU (and potentially non-EU) workers provided they met core criteria for responsible recruitment and employment practices.

The Trusted Sponsor Scheme would operate alongside the current Tier 2 scheme, offering an additional route for all employers, including within the charity sector. To qualify for the scheme, employers would need to demonstrate:

- a strong track record of socially responsible employment practices (e.g. offering the national living wage to all employees)
- a commitment to investing in and harnessing domestic skills (e.g. via apprenticeships, traineeships, paid internships, internal development schemes)
- a commitment to taking responsibility for supporting the integration of migrant workers (e.g. offering employment-based English language tuition).

Employers who fulfilled each of these conditions and participated in the scheme would be eligible for a range of visa advantages, including visa fast tracking, a reduced immigration skills charge, and lower salary thresholds. Most importantly for the charity sector, participating employers would be granted access to an expanded 'Shortage Occupation List'. This would allow employers to sponsor EU (and non-EU) nationals for occupations that do not meet the stringent Tier 2 salary thresholds and that are not considered 'skilled' because they are not categorised as graduate level. Instead, the Shortage Occupation List would waive the salary threshold and broaden the definition of skill level to allow employers to recruit in some low-paid but socially critical sectors, such as social work and residential care.

This system would continue to provide a route for charity employers to hire migrant workers, particularly in the social work and residential care sectors, while incentivising employers to uphold high employment and recruitment standards. It would have to come at a cost: charity employers would be required to navigate additional administrative hurdles compared to the status quo. But, unless the free movement of people continues, some new administrative barriers are in any

⁶ A Swiss-style 'local preference system' would give UK-based workers a head start in applying for job vacancies in regions and sectors of the economy where unemployment rates are particularly high.

case unavoidable, since immigration is largely managed through labour market controls. While ending free movement will make it impossible to completely avoid additional burdens for employers, our proposal for a ‘Trusted Sponsor Scheme’ aims to balance the priority of government to secure greater control over EU immigration with the needs of employers in the charity sector and the wider labour market to continue to recruit from overseas after the UK leaves the EU.

SKILLS POLICY POST-BREXIT

Regardless of the immigration policy introduced for EU nationals to replace freedom of movement, the government and the charity sector should begin to make preparations now for a post-Brexit labour market. The combined potential for significantly tighter immigration rules and reduced net EU migration due to the choices of EU nationals means that there is a significant risk of a more challenging recruitment environment ahead.

Our analysis in Chapter Two of this paper highlighted that the parts of the sector most at risk were those with lower retention rates and current skills shortages. In the charity sector, the evidence suggests that much of the retention and recruitment difficulties are driven by relatively lower wages. In social work and residential care in particular, there is a risk of a ‘perfect storm’ of high employee churn, skills shortages, low pay and increasing labour demand in line with our ageing population.

As we argued earlier in the report, one of the main impediments for charity employers seeking to adapt to the post-Brexit labour market is a lack of investment in adequate training. We therefore propose that the government and charity employers work together to develop **a skills and training strategy for the charity sector**.

As a central plank of this strategy, the government should seek to explore how the apprenticeship levy can be better used to support training in the sector. IPPR has previously called for **expanding the apprenticeship levy into a wider skills levy**. The skills levy would apply to all organisations with at least 50 employees and would be set at 0.5 per cent of the payroll, increasing to 1 per cent for organisations with at least 250 employees. According to our estimates, the skills levy would raise more than £5 billion in 2017/18 – nearly double the amount of the current apprenticeship levy (Dromey and McNeil 2017). Contributions from the largest employers would then be top-sliced and combined into a regional skills fund, which would be devolved to local areas to support investment in vocational training (ibid).

The skills levy should help to direct greater resources to the charity sector to invest in training. For the most part, the burden of the levy would not fall on charities, which on average tend to have low incomes and few employees: only 7 per cent of charities have an income of more than £500,000, which suggests that few charities would meet the 50 employee threshold for paying the levy, and even fewer would meet the 250 employee threshold for paying the higher rate (Charity Commission 2018). At the same time, the regional skills fund would redistribute levy funds from larger employers to local areas, who in turn would be able to support training and skills development for smaller charitable groups.

While increasing investment in skills and training is essential for preparing for the post-Brexit labour market, under the current system charity levy payers have highlighted that in some cases they will not be able to afford to use returned levy funds within the two-year deadline to train apprentices, as they will struggle to pay for additional wage and expense costs. As the amount they can transfer to

other organisations is capped at 10 per cent, this means that the unspent funds will return to the Treasury (Strickson 2017).

To help boost opportunities for charity skills training and to keep more of the apprenticeship levy funds within the sector, we recommend a number of specific proposals. These proposals should apply across the economy, but are likely to have a particularly significant impact for the charity sector.

- First, **the apprenticeship levy should be made more flexible**: funds should be redeemable against the cost of high-quality training, beyond simply apprenticeships. Other uses of funds could include basic skills training, fundraising training, IT training, and management and leadership interventions. This should make it easier for levy-paying charities to spend apprenticeship funds.
- Second, **the 10 per cent cap on transferring funds to other employers should be raised**, in order to give charity employers and others more opportunities to transfer funds to organisations within their supply chain and to other partner organisations. Given that charities face particularly limited resources for training compared to the private and public sector, such a move would have an especially positive impact for charity employers in maximising the value of their levy funds.
- Third, given the strategic importance of the social care sector for the UK, **employers within social care should be able to collectively pool levy funds**. This would allow smaller charities to benefit from accessing the levy contributions of larger providers, while keeping funds within the social care sector.

Given the evidence suggests that social work and residential care are most at risk from future immigration changes – and indeed comprise nearly half of the entire charity workforce – we focus our final recommendations on the social care sector. There are three priorities for addressing the sector’s skills shortage challenge in the context of a potentially more restrictive immigration system.

First, government needs to develop a sustainable and long-term funding settlement for social care. The financial pressures on social care have had direct implications for independent voluntary social care providers, as the majority of their funding comes through local government. This in turn has restricted wage growth – social care is one of the lowest paying industries – and is likely to have exacerbated retention and recruitment problems.

Second, the government should enforce effective minimum standards of training in the care sector. Low levels of training in the sector have contributed to its recruitment and retention challenges. The care certificate introduced by the government in 2015 should become a legal requirement, robustly enforced by the Care Quality Commission (CQC) (Cory et al. 2017)

Third, more needs to be done to tackle poor employment practices within the sector. An improvement in working conditions should help to boost employee satisfaction and strengthen staff retention. The CQC should be given a new duty to tackle the exploitation of workers in the social care sector, in order to ensure that employers pay the national minimum wage and do not engage in illegal employment practices (ibid).

Further recommendations on social care will be included in the forthcoming Lord Darzi Review of Health and Care, supported by IPPR.

CONCLUSIONS

This report has explored the impact of Brexit on recruitment and employment within the charity sector. The charity workforce as a whole is diverse and encompasses a range of disparate sectors, and the implications of Brexit for charities will be correspondingly varied. But our analysis suggests that for some parts of the charity sector – most notably, social care – the expected end of free movement could leave employers highly exposed to a recruitment crunch, given they already face a challenging combination of skills shortages, high employee churn, low pay, and increasing labour demand.

Given the extent of the potential risks, now is the time for the government and the charity sector to work together to develop a plan for charities in the post-Brexit labour market. This means both ensuring that the new immigration system for EU nationals meets the needs of charity employers, while at the same time developing an ambitious strategy for guaranteeing sufficient levels of investment in training and skills across the sector.

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