POST-BREXIT LABOUR SUPPLY AND WORKFORCE PLANNING:

Key questions for policymakers

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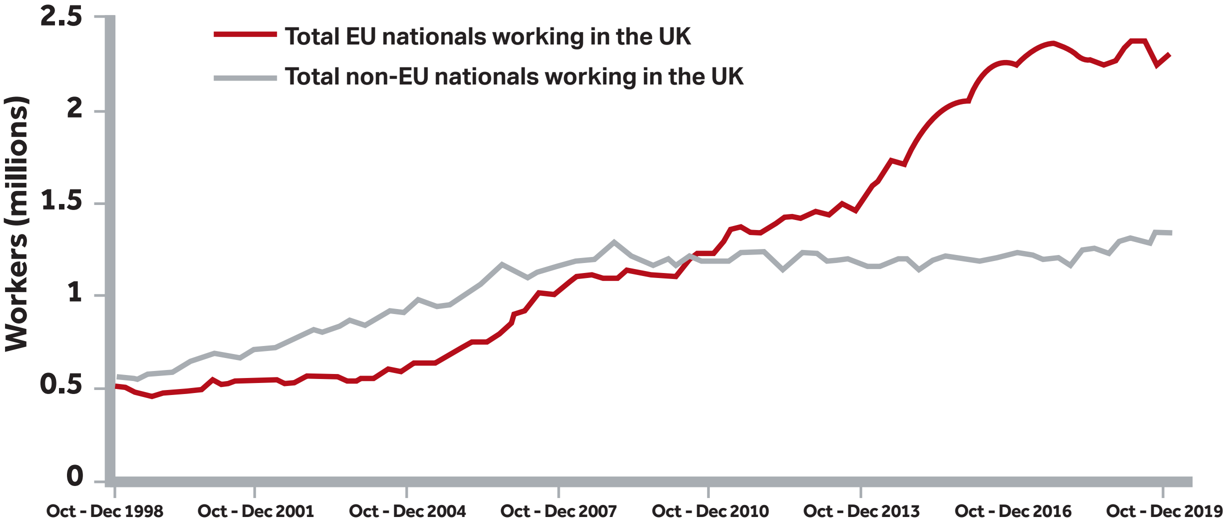
Introduction

After 47 years, freedom of movement with Europe is coming to an end. This transformational change will take place at a time when the COVID-19 pandemic continues to cause substantial disruption to economies all across the globe, and where in the UK, there remain significant uncertainties regarding the nature and strength of economic recovery we are likely to see in the year ahead.[1]

UK employers have long been able to easily recruit European workers to address skill and labour shortages, and as a result, EU workers have come to play a vital role in the UK labour market, and the wider economy.[2] Indeed, between October and December 2019, EU workers equated to 7% of the total workforce.[3]

Clearly as freedom of movement ends, the availability of and reliance on EU workers within the UK labour market will change. Indeed, migratory patterns have already started to change since the 2016 referendum, with the growth of EU workers coming to the UK slowing down even before new immigration rules take effect. According to ONS figures, the number of EU nationals working in the UK generally increased over the last 20 years, but as Figure 1 below indicates, this trend has flattened since the latter half of 2016, and has hovered at around 2.3 million over recent years.

Figure 1: Non-UK Nationals (aged 16 years and over) working in the UK (not seasonally adjusted)



Source: Office for National Statisitcs, Labour Force Survey

In 2021 the UK will move to a new points-based immigration system that will give the same consideration to European and non-European migrants. This will not see the ending of EU migration to the UK as a whole, but rather, EU workers will be subject to new rules and thresholds that will determine their eligibility to do so, meaning they are more likely to have to compete with workers from the rest of the world to come to the UK. Furthermore, thousands of EU workers currently in the UK have already been refused the right to stay under the new settlement scheme[4], and many remain sceptical of the security that settled status will provide them in the future.[5]

This will have particular implications over the short and medium term for certain sectors of the economy. Although EU migration currently encompasses a range of workers with different skills and backgrounds working in different sectors, European workers play especially important roles in sectors where there are labour or skills shortages. However, as a result of new earnings and skills thresholds, there will no longer be a general route for employers to recruit at or near the minimum wage when freedom of movement ends.[6]

The new system will lead to significant changes in flows of EU workers to the UK. This paper explores those potential shifts, with a focus on social care and hospitality – workforces where EU workers have played a pivotal role, and which are facing distinct challenges through the current crisis.

Overall, our analysis has found that up to 160,000 EU workers who arrived in the UK over the last three years (55% of all recent arrivals) would not have been eligible to live and work in the UK had the new immigration rules been in place during this period.[7]

Similarly, had the new rules been in place over the last three years, up to 40,000 EU workers who have arrived and worked in hospitality and up to 11,000 of those who arrived and worked in health and social care would also have been unlikely to pass the new immigration criteria.

Over time, this new immigration regime could fundamentally change the profile of the EU workers participating in the UK labour market, arguably concentrating competition for jobs in higher skilled roles, and leaving labour shortages in those sectors that have tended to rely on EU workers most.

It is therefore vital that Government works closely with sector bodies, employers and local decision makers to understand the impact that these changes are likely to have, and how proposed interventions in the UK skills system, together with wider investments to support jobs growth can help alleviate the challenges they present.

What will the ending of free movement mean for the UK labour market?

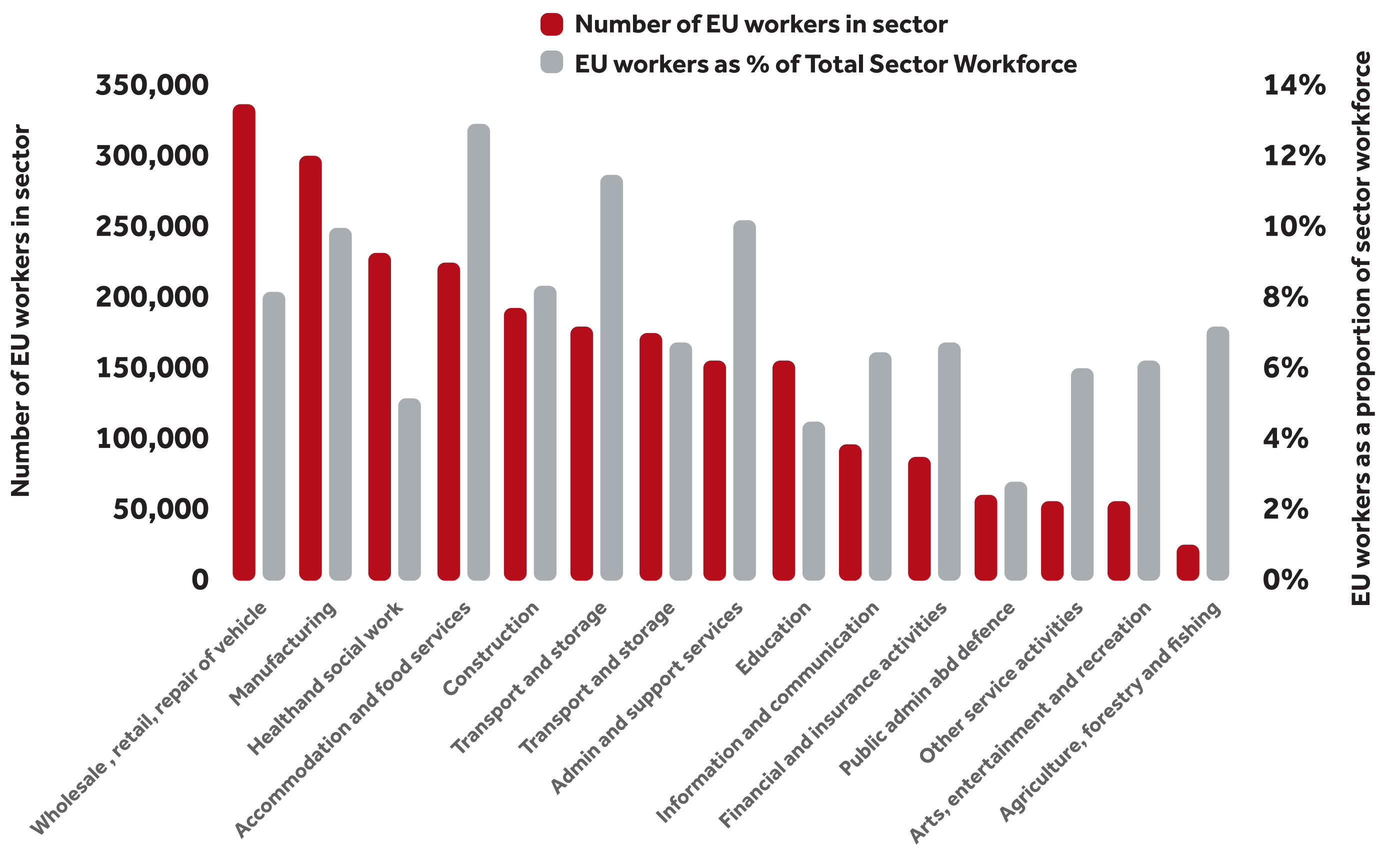
While all sectors will be affected by the ending of free movement, some will face more acute challenges than others. Our analysis in Figure 2 below considers the volumes and proportions of EU workers in each sector immediately prior to the COVID-19 crisis. Hospitality businesses employ the highest proportion of EU workers (13%), followed by transport and storage (12%) and administration and support services (10%),[8] In other sectors, the number of EU workers is particularly high, for example wholesale and retail (344,374) and health and social work (235,227), reflecting the scale of the workforce.

Over time, this picture is likely to significantly change under the terms of the new immigration regime. EU migrants currently working in the UK will not have to leave when freedom of movement ends, but must apply for the EU Settlement Scheme to continue to have a right to live and work in the UK.

Under the terms of the new points-based immigration system, most EU workers entering the UK after will come via the new Tier 2 'skilled worker' route, meaning they must hold a job offer from an employer willing to sponsor them before they can apply for a visa. Eligible jobs must require skills at level 3 or higher and provide a salary of at least £25,600.

Some exemptions to the above criteria have already been negotiated. These include people holding PhD qualifications, and specific roles where there is a shortage of applications, as well as workers in specific sectors including seasonal

Figure 2: EU Nationals Working in the UK by Sector, 2019



Source: Office for National Statisitcs, Quarterly Labour Force Survey, October - December 2019

Note: the sector 'health and social work' includes the care workforce, medical professionals and social workers.

agricultural work creatives on short term contracts. There will also be a Health and Care Worker visa, which will allow nurses, doctors, social workers and some other health professionals with a confirmed job offer to come to the UK.

To better understand the potential implications of this new system, we have estimated the number of EU workers who recently moved to the UK who wouldn't qualify for a visa through the new routes. The new system's emphasis on higher skill levels coupled with a new earnings threshold mean that sectors where large numbers are paid lower wages will face acute shifts in labour supply over the months and years ahead.

Our analysis found that up to 160,000 EU migrants currently living and working in the UK who wouldn't qualify to move to the country under the new immigration rules. Within this overarching estimation, there are three distinct groups of workers, reflected in boxes 1 through 3 in the figure below. Those in low skilled work earning below the salary threshold would be highly unlikely to be eligible to enter the UK after the end of freedom of movement. Additionally, workers earning above the salary threshold in low skilled work, and those earning below the threshold in high skilled work would also be unlikely to be granted entry. It is highly likely that those earning above the salary threshold in high skilled roles would be granted entry. The table below provides an overview of these four categories.

Figure 3: Recent EU Migrants Who Would Be Ineligible to Work in the UK under New Immigration Rules

	Skill Level	
Income	**Low Skill**	**High Skill**
<£25,600	**(1)** **Low income and low skills: highly unlikely to be granted entry** **83,000**	**(2)** **High skill but low income: unlikely to be granted entry** **8,000**
>£25,600	**(3)** **Low skill but high income: unlikely to be granted entry** **73,000**	**(4)** **High income and high skills, highly likely to be granted entry.** **58,000**

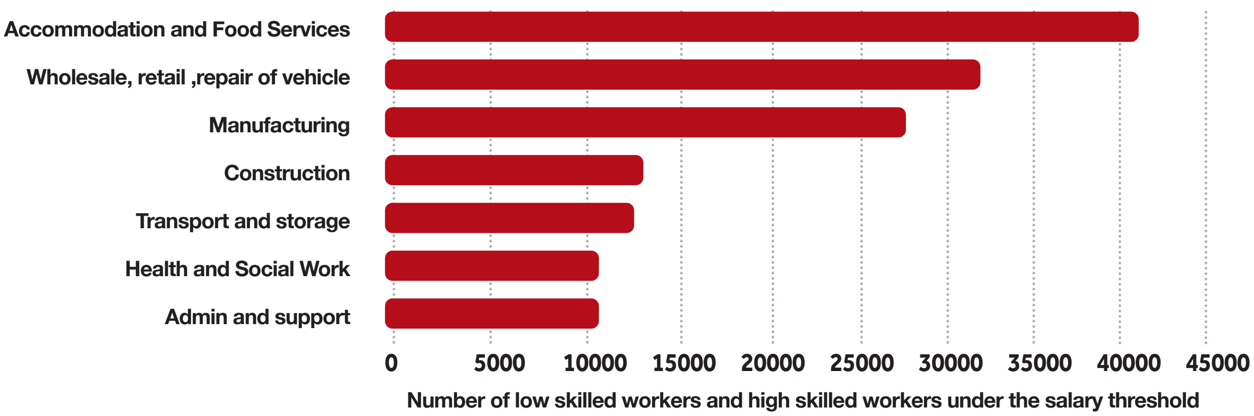
Source: Annual Population Survey, April 2019 – March 2020

Note: The number of workers in each category has been rounded to the nearest 1000. The interval estimate provided for the total number of ineligible EU migrants reflects the uncertainty in estimating the number of exceptions among categories 1, 2 and 3 in figure 3, due to challenges in estimating the number of low skilled workers using broad Standard Occupational Classification (SOC) categories. Approximately 30% of jobs within SOC Category 5 'Skilled Trades' would qualify as higher skilled, and its inclusion therefore slightly overestimates the number of low skilled workers. We did not have access to data with the level of granularity required to estimate how many EU workers would qualify for the shortage occupation list.

The workers who wouldn't qualify to move to the UK under the new immigration rules are largely concentrated in hospitality, retail and manufacturing.

While the picture over recent years has been predominantly one of European workers filling low skilled and low paid roles, going forward this is highly likely to change, and sectors that currently rely on this type of EU labour are going to have to develop new workforce strategies in order to meet demand. Below we look at two prominent examples in more detail to highlight the particular labour supply issues each could face – social care and hospitality.

Figure 4: Recent EU Migrants Who Would Be Ineligible to Work in the UK, by Sector



Source: Annual Population Survey, April 2019 – March 2020

Note: the sector 'health and social work' includes the care workforce, medical professionals and social workers. While some will be eligible for the Health and Care visa, this isn't applicable to those working in social care.

Social Care: acute short-term labour supply challenges

The NHS and social care sectors have faced long-term challenges in attracting, recruiting and retaining staff. Turnover and vacancy rates, are high across the four nations.[9] On the surface health and social care appear to be less reliant on EU workers (representing just 5.2% of the workforce across both sectors), but their size means the number of health and care workers from EU countries is particularly high at more than 230,000.[10]

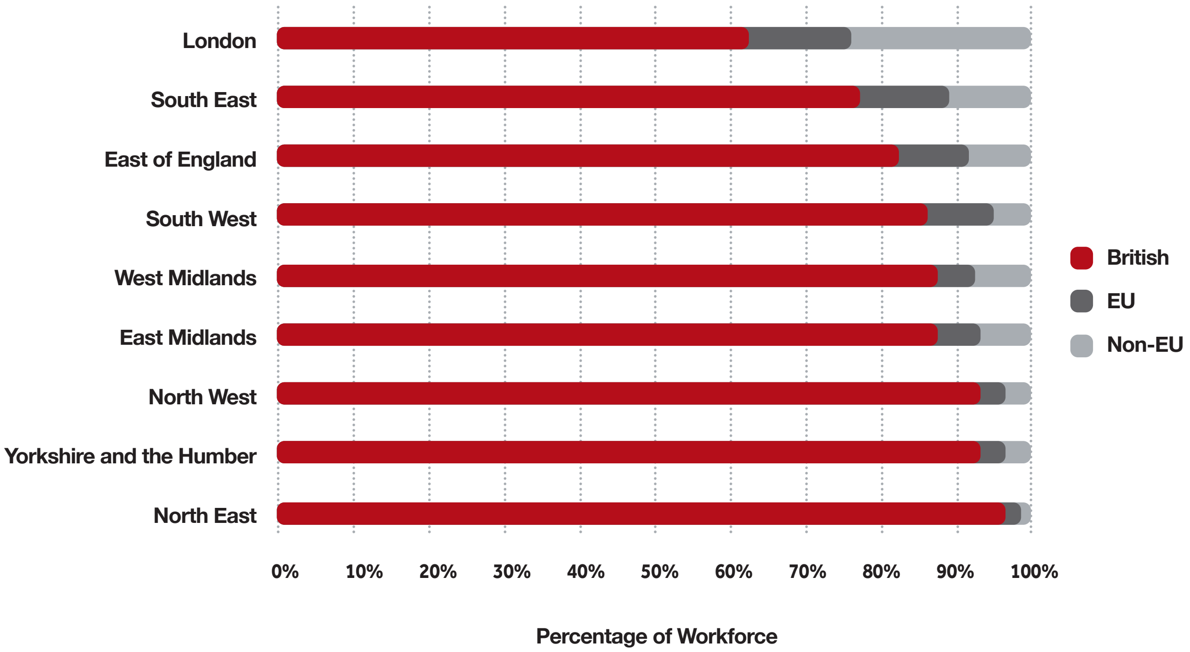
The social care sector has also faced severe challenges in responding to COVID-19. Care workers are largely women, and many were navigating childcare or other family responsibilities with frontline work at the onset of the crisis. Sickness rates are currently three times higher than pre-pandemic levels[11], but a high prevalence of casual contracts means that a significant proportion of the social care workforce are not eligible for sick pay. With an ageing population and a sector already under strain, new pressures catalysed by the pandemic mean the sector could soon reach breaking point, with Skills for Care projecting that an additional 520,000 new jobs will be needed in England alone by 2035.[12]

The Health and Care visa, an exemption to the new points-based immigration system excludes care workers, meaning it will not make it easier to recruit care workers from abroad[13]. A sharp reduction in European workers joining the sector stands to exacerbate staff shortages and churn across the UK, with greater risks in some regions. As figure 5 indicates, prior to the pandemic, London and the South East had the highest proportion of European care workers. [14]

However, given current vacancy rates, even minor disruptions to the workforce could exacerbate existing pressures and have significant impact in local areas across the country[15].

In addition, the impact of any new employment support programmes in addressing skill and labour shortages in the sector could be limited in the short term, given many employers may opt to reduce the risk of infection by limiting staff numbers over providing work experience placements in the coming months.

Figure 5: Proportion of EU Social Care Workers by Region (England)



Source: Skills for Care (2020), Adult Social Care Workforce Data Set

Faced with these issues, a new approach is likely to be required. In its 2020 review of the Shortage Occupations List, the Migration Advisory Committee noted that while migration is often a sensible response to a labour shortage that cannot rapidly be met by hiring domestic workers;

"migration alone cannot solve the care crisis in the UK more substantially… because migration will not solve underlying problems with pay and incentives that are fundamental to placing the social care sector on a sustainable footing." [16]

Given the increased demands on health and social care, Government and employers within the NHS and social care sector should work to develop a long-term strategy to improve attraction, retention and development of staff. In other words, making these jobs more attractive to UK workers is going to be vital for the sector to cope with increased demand. This should be centred on establishing parity for social care workers with those in healthcare, both in terms of the perceived status of roles as well as pay and opportunities for progression.

Currently, NHS workers performing similar roles to those in social care are likely to be better rewarded with clearer routes of progression and clear pay bands. In contrast, social care consists of thousands of employers operating in a highly competitive market and each setting their own terms and conditions. While many care workers are employed by private companies, the Government still has a pivotal role to play in funding and commissioning services. Investing in care through targeting funding to local authorities could support and improve work in this vital sector during and beyond the crisis.

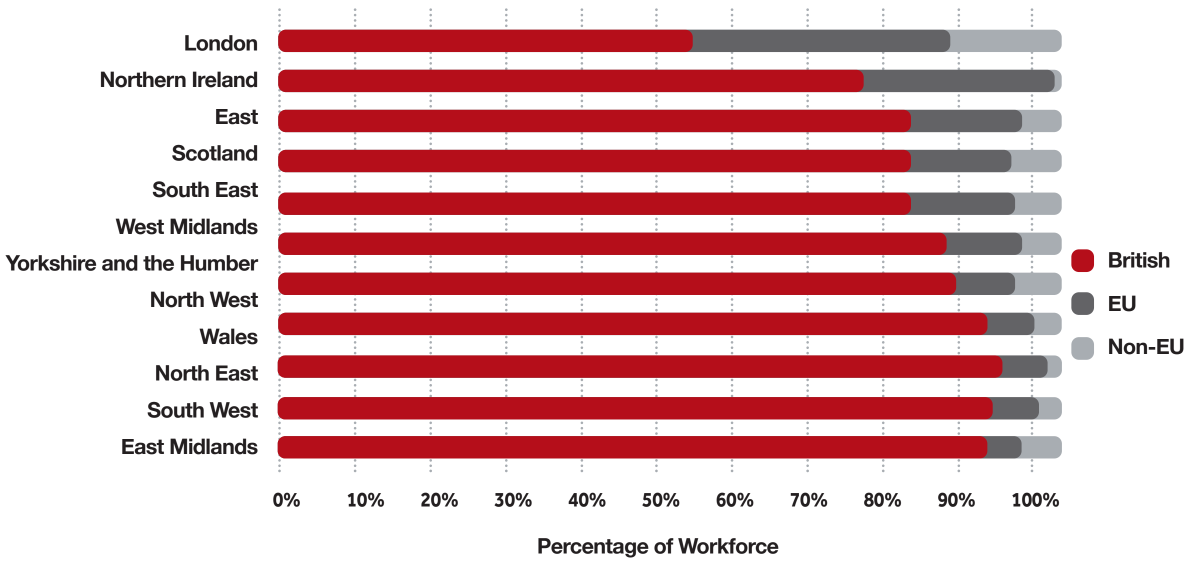
Hospitality: longer term labour supply shifts

Prior to the COVID-19 crisis, the hospitality sector was ambitious to grow and develop more opportunities for career progression within the sector. In their Workforce Commission 2030 report, UK Hospitality highlighted that the sector aimed to create 66,000 additional jobs and up to 200,000 new apprenticeships by 2024.[17] Despite the challenges that this year has brought the sector, this ambition to upskill the workforce is continuing through CareerScope, an industry-led initiative providing free training, resources and support for hospitality workers.[18] The sector was recognised as part of "one of the country's most important industries and the third largest service export" by the Government in the 2019 Tourism Sector Deal, and as restrictions on social gatherings ease, it stands to play a key role in our economic recovery.[19]

EU workers are particularly important to hospitality, comprising 13.1% of the workforce[20], compared with 7% across the UK. But the emphasis that the new immigration system places on earnings and qualifications means that is going to shift dramatically from next year. While the earnings threshold under the new system is £25,600, this is a sector with a high proportion of entry level roles, and a quarter of workers (24.4%) earn the minimum wage.[21] Our analysis has found that had the new immigration system been in place over the last three years, more than 40,000 EU migrants who arrived in the UK and worked in hospitality over this period (2.7% of the current workforce) would have been ineligible to do so.[22]

Workers in hospitality have been significantly impacted by the economic impacts of COVID-19. This sector saw the highest take-up of the Coronavirus Job Retention Scheme, with 73% of workers furloughed through the scheme at the peak of the pandemic, equating to more than 1.6 million people. [23] Furthermore, there has been a total shutdown of the night-time economy, with live events cancelled and nightclubs closed indefinitely.

Figure 6: Proportion of EU Hospitality Workers by Region



Source: Office for National Statisitcs, Quarterly Labour Force Survey, October - Decemeber 2019

From limiting weddings and other group gatherings to changes in practices at bars, pubs and restaurants, the sector is facing increased pressures as a result of the pandemic. Alongside this, localised restrictions, limits on international travel and policy incentives mean consumer demand has been extremely volatile. According to data from OpenTable, after extended closures during spring 2020, restaurants saw seated reservations increase by 216% on the final day of the Eat Out to Help Out scheme, compared with the same day last year. However, bookings sharply dropped again shortly afterwards.[24]

Workforce planning in this context is particularly challenging. The return to a lockdown and a tiered system mean that demand will limit trade in the run up to Christmas and over the New Year, usually one of the busiest periods for the sector. In addition, it is quite possible that ongoing barriers to international travel will drive increases in UK based holidays, with tourism experiencing peaks to areas of the country where restrictions are limited. Rapid access to workers to manage sudden increases in demand will be key.

In light of the wider pressures on the sector and the steep reduction in vacancies and high levels of redundancies among hospitality roles, labour supply may not present an immediate issue. If forecasts predicting a sharp increase in unemployment over the year ahead prove correct, employers may find a growing pool of UK nationals looking for temporary work. Instead, effective workforce planning is likely to be the major concern for employers in the sector over the coming months. However, over the longer term, the new immigration system will drive a seismic shift for hospitality: the sector won't be able to draw on European workers in the same way as it has done previously, and the make-up of employment within the sector is likely to look significantly different.

Key findings and next steps

Our analysis has found that there are there are up to 160,000 EU migrants currently living and working in the UK who wouldn't qualify to move to the county under the new immigration rules. These workers are largely concentrated in sectors such as hospitality, retail and manufacturing.

Over time, the new earnings-based immigration system will drive substantial changes for the UK labour market, and will present distinct challenges for different sectors.

Social care is a sector under immense pressure, and with demand set to grow exponentially coupled with the longstanding challenges in attraction, recruitment and retention of workers, the end of freedom of movement marks a significant risk for the sector. There is the need for a strategic approach to workforce planning social care going forward. Early monitoring and engagement with the social care sector should be prioritised following the introduction of the new immigration system. Alongside this, Government should focus on improving working conditions for existing and future workers to enable the Social Care to grow sustainably in line with demand.

The hospitality sector is the largest proportionate employer of EU workers. However, the end of freedom of movement will mark a significant turning point for the sector, and employers in the sector won't be able to draw on European workers as they have done in the past. While the current economic circumstances mean that Brexit likely won't cause a sudden labour supply crisis in the sector over the shorter term, in the longer term hospitality will recover, but then could experience difficulties unless remedial actions are taken.

Methodology

Within this briefing, we estimate the potential number of EU citizens who would be ineligible for entry into the UK under the rules of the new points-based immigration system, by applying these rules to recent EU arrivals already living and working in the UK using the Labour Force Survey and Annual Population Survey. We isolated EU citizens who arrived in the UK between 2017 and 2019 (and refer to them as 'recent' EU arrivals), are aged 18 to 65 and are not in full time education.

Our approach follows the Migration Advisory Committee in using broad Standard Occupational Classification (SOC) codes within our datasets to differentiate low skilled jobs (SOC 4, 5, 6, 7, 8 and 9) from higher skilled jobs (SOC 1, 2 and 3). Because the points-based system also sets a minimal earnings threshold of £25,600 per annum, we set this as a cut-off point for eligibility by estimating workers' annual earnings from their gross weekly pay.

Acknowledgements

We wish to extend our thanks to the following individuals and organisations for informing and supporting this work;

- Will Fenton and Annette Baines, Skills for Care
- Mark Spilsbury
- Kathy Dyball, Caterer.com

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