# Cost Benefit Analysis of Brexit for charities

## Executive summary

As the UK government enters the final phases of negotiations with the European Union, civil society has the opportunity to consider what impact Brexit might have on our sector. More importantly, it allows us to make clear asks on what we would need to see from a final deal to create a good Brexit outcome for charities.

When we consider the issues which are of greatest concern to charities; tax reform, funding, public procurement, state aid and workforce, as they stand, we cannot have confidence that Brexit will deliver for civil society. This report provides recommendations for government on each of these policy areas to address these concerns. Charity Finance Group's six-point plan provides an overview of what we would need to see from a final deal to offer assurances to our sector.

### Charity Finance Group's six-point plan for charities on Brexit

**A good Brexit outcome for charities would see:**

1. A deal where the UK has complete freedom to change VAT rules. This would include creating new zero-rates, options to tax and a comprehensive rebate mechanism.
2. The UK government to commit, at a minimum, to fund services currently funded by the EU at the same level, and also make improvements in delivery of funding.
3. A deal where the UK is still able to flexibly pool resources to access EU funds in key areas such as international aid.
4. A deal which allows the reform of state aid so that it focuses on enforcing competition in real markets rather than tying up charities and social enterprises in red-tape working in broken or non-functioning markets.
5. Greater flexibility on public procurement so that more grants and contracts are awarded on the full social, economic and environmental value that could be created, not just on cost.
6. An immigration system which is flexible and enables charities to continue to hire the workers they need in order to carry out their objectives.

There has also been renewed focus on the possibility of the UK failing to reach an agreement with the EU. Based on the potential negative impact this might have on the wider macro-economy, a no-deal scenario provides too great a risk for our sector, and as such should be avoided by government.

## About this report

Last year, Charity Finance Group produced a report on the risks and opportunities that charities face through Brexit. This report, entitled *A Brexit that works for everyone,* highlighted a number of concerns for charities including:

- Tax reform
- Funding
- Public procurement
- State Aid
- Workforce
- Cross-border operations
- Economic volatility

The first phase of the negotiations has now passed, and the government has offered a white paper outlining their preferred post-Brexit relationship between the UK and the EU. While it is far from clear that the European Union will accept the UK government's proposals,, we believe that this provides a good moment to take stock of the situation at present and evaluate whether the identified costs or risks of Brexit outweigh the benefits of leaving the EU.

It is important to make clear that Charity Finance Group has not taken a position on the merits or otherwise of Brexit. We believe it is our role, however, to present the opportunities for the sector that could be secured if negotiations give due consideration to the impact of social change organisations. Similarly it is our job to highlight those areas where the government is failing to mitigate risk and is exposing the sector to potential harm.

CFG treats its political and policy independence seriously. Our aim is to get the best outcome for charities because, in general, supporting the charity sector is the best way to support the beneficiaries of charities.

This analysis considers the issues that we raised in our previous report, takes into account the government's progress on these issues so far, and then constructs a "scorecard" to assess the extent to which they have been resolved favourably for charities.

We use stated government policy[1] where available to make our judgements. If that is not available, we use publicly available statements or information. If that is not available, we then interpret information from government that we have gained through direct engagement.

We have considered risk based on the concerns that have been raised to us by our members through a survey that we conducted in 2017. This survey received over 140 charity responses and has guided CFG's engagement with government on these issues.

## Where are we now?

The government has completed the first phase of negotiations and has completed the initial agreement which will underpin the transition period. Following the Chequers summit, the government has also published a white paper on *The Future Relationship Between the United Kingdom and the European Union*.

Neither the transition agreement nor white paper, according to our reading, prevent any of the flexibilities offered by Brexit from being utilised to support the charity sector, except in the area of procurement and state aid, which we will touch upon later.

A stable transition is one thing but what is more important is what the UK government does *after* the transition has taken place. The white paper does give some helpful indications on our future economic relationship with the EU, but it does not provide clarity on some of the issues which are most pressing for our sector. Unfortunately, as our paper demonstrates, it appears that the charity sector has not been considered in the government's plans.

As a consequence, in most areas, we conclude that there is high risk that the government will not use Brexit to support the work of the charity sector based on current policy statements. This means that charities will be left with all of the costs of Brexit and with none of the opportunities that could be created through the Brexit process.

We believe that as things currently stand, Brexit will be bad for charities and bad for their beneficiaries.

There have been suggestions that a no-deal Brexit is becoming increasingly likely, with some former ministers suggesting that it could have as much as a 60% chance.[2]

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[1] Most notably the government's own white paper

[2] https://www.thetimes.co.uk/article/liam-fox-says-there-is-a-6040-chance-of-no-dealbrexit-lpsgm2gdf

Based on the available evidence[3] we conclude that potential benefits arising from addressing those areas of greatest concern to the sector would be wiped out by the negative impact of a no deal on the economy. It is our view, therefore, that failure to secure a deal presents too high a risk for the social change sector and should be avoided by government.

It is not our view that the potential benefits of leaving the EU are impossible to achieve. However, based on the information from government received so far, we do not have high levels of confidence that charities will benefit from Brexit.

This is deeply concerning for a number of reasons.

It is hard to see how a good Brexit deal can be negotiated if we do not know what kind of society we want to see built after we have left the EU.

The lack of information about what the UK government would like to do post-Brexit means that we are concerned government will promise away powers or fail to negotiate a flexible arrangement with the EU, only later realising that it may need these powers to bring about the post-Brexit society that it envisions. This is particularly important as we advance in the talks and get closer towards the deadline, where there may be little time to consider the impact of any agreement on the work of UK charities.

## What the British public think about the Brexit negotiations

It has been noted by numerous commentators and analysts[4] that one of the reasons behind the Brexit was disillusionment amongst the public around the state of the country. Charities are working across the country, often in communities which have been marginalised and feel that the current system has not improved their lives. If we are going to bring the country together and build a better society that meets their aspirations, then there is a need for a Brexit which supports social change. This was made clear in our report *A Brexit that works for everyone* and the most recent polling that we have done has underpinned the public concern about the direction of Brexit.

In our previous 2017 report we commissioned polling from ComRes to ask for the public perceptions about who the government was prioritising when it came to Brexit. In 2018 we have updated this polling to see whether the government has done more to build confidence amongst the public in the Brexit process.

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[3] https://www.bbc.co.uk/news/business-45055861, https://www.theguardian.com/business/2018/jul/17/no-deal-brexit-would-have-big-economic-consequences-carney, https://www.ft.com/content/0ebec84c-8e64-11e8-bb8f-a6a2f7bca546

[4] For two such examples: https://www.theguardian.com/commentisfree/2017/nov/05/brexit-theresa-may-economic-austerity-leave-voting, http://blogs.lse.ac.uk/politicsandpolicy/why-did-people-vote-for-brexit/

Sadly, the polling demonstrates that the public are less clear about the government's objectives and still cynical that business and the wealthy are the focus for the government's Brexit negotiations rather than disadvantaged people, communities or the public as a whole.

| **Of the following groups of people, who, if anyone, do you feel the UK government is currently prioritising in the Brexit negotiations?** | **2018**<br>Top 3 | **2017**<br>Top 3 |
|---|---|---|
| British businesses | 52% | 54% |
| Wealthy people and communities | 41% | 43% |
| Foreign-owned businesses | 32% | 35% |
| The British public | 31% | 36% |
| People like me | 14% | 16% |
| Disadvantaged people and communities | 7% | 9% |
| Charities and voluntary organisations | 4% | 5% |
| None of these/ Don't know | 33% | 26% |

*Base: all GB adults (n=2,019)* ComRes, March 2018

## Why does this matter?

It matters because one of the key drivers for the Leave vote in the referendum was a concern that society was not working for everyone. It is important that if Brexit is to take place, that it seeks to resolve this concern. Otherwise Brexit could end up creating further social division. Without prioritising the public interest and particularly those amongst us that are most disadvantaged, it is unlikely that the government will be able to meet the aspirations of those who voted Leave and who wanted to see change. With only 19% of the British public feeling that the UK leaving the EU will benefit people like them, there is a danger that Brexit will exacerbate the concerns of those who feel left behind, and lead to further divisions in society.

| **Of the following list, who, if anyone, do you think is going to benefit most from the UK leaving the European Union as things currently stand?** | **% Top 3** |
|---|---|
| British businesses | 42% |
| Wealthy people and communities | 39% |
| The British public | 33% |
| Foreign-owned businesses | 28% |
| People like me | 19% |
| Disadvantaged people and communities | 9% |
| None of these | 9% |
| Charities and voluntary organisations | 5% |
| Don't know | 21% |

***Base: all GB adults (n=2,019)*** **ComRes, March 2018**

A consequence of this is that the public feel that the wealthy and businesses will benefit most from Brexit, more than the public and "people like me". Only 9% of the public believes that disadvantaged communities are likely to benefit most from Brexit, despite the fact that supporting these "left behind" areas has been one of the drivers for the Brexit process.

The view of the public so far on Brexit is clear. Brexit is about business and it is about the wealthy. It is not primarily about ordinary people or about helping the most disadvantaged.

In order to change this, the government needs to start talking more about a *Social Brexit* not just about hard borders or trade deals. Of course these things are important, and we need a strong economy in order to support society. But what is good for business is not always good for society. Moreover, a one-sided conversation about business is going to leave many parts of the country feeling isolated and ignored.

The government can begin to discuss this *Social Brexit* by discussing the areas that we highlighted in our previous paper:

- Reform to the tax system so that long-standing issues such as irrecoverable VAT are resolved, so more money flows to the frontline.

- Improving procurement so that we get maximum value for money from public expenditure.
- Guaranteeing funding for charities, so that they can continue the work that was previously supported by the EU.
- A skills policy which works for charities so that key sectors such as adult social care does not collapse.

## CFG's Brexit Dashboard

This dashboard looks at the areas that we highlighted in our previous report and considers whether government has made any progress in terms of delivering a Brexit that could benefit the charity sector.

| | Level of assurance | Government position |
|---|---|---|
| **1) Tax reform** | **No assurance** | The government's white paper has proposed that we should remain part of the EU's VAT regime.[5] There are still possibilities for reform, depending on the final deal. We need clarification on this issue from government urgently.[6] |
| **2) Funding** | **Some assurance** | Government has not begun work on a successor to the European Social Fund. It has provided some clarity on the funding of humanitarian aid[7] in event of no deal. But charities need more information so that they can more effectively plan ahead. |
| **3) Procurement** | **Some assurance** | The government has said that it will beef up the Social Value Act indicating that it wants to improve procurement, but there is still no post-Brexit vision.[8] |
| **4) State aid** | **No assurance** | The government has made clear that it will seek to retain EU rules on state aid.[9] This would leave the |

[5] The white paper refers to a '…the UK proposes the application of common cross-border processes and procedures for VAT and Excise, as well as some administrative cooperation and information exchange to underpin risk-based enforcement'

[6] Matters are further complicated by the fact that the EU backstop proposes that EU law on VAT should continue to apply to Northern Ireland.

[7] https://www.gov.uk/government/publications/delivering-humanitarian-aid-programmes-if-theres-no-brexit-deal

[8] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/732765/Civil_Society_Strategy_-_building_a_future_that_works_for_everyone.pdf

| | | |
|---|---|---|
| | | UK social change sector in the worst of both worlds and could undermine efforts to support charities in the future. |
| **5) Workforce** | **No assurance** | There are indications that the government will scrap the arbitrary and damaging 'tens of thousands' immigration target.[10] But at this stage there have been no further assurances, and we will have to wait for further details once the final report from the Migration Advisory Committee is published in September. |

## 1) Tax reform – no assurance

The government has yet to comment on its proposals for tax reform to support charities, following our departure from the EU. Publicly, the government has not paid much attention to this issue. This is despite the fact that the VAT system costs charities over £1.5bn a year, money which should be spent on delivering public benefit.

In response to a Parliamentary Question tabled by David Jones MP on the subject of irrecoverable VAT for charities, the Financial Secretary to the Treasury and Paymaster General said:

> "All taxes remain under review and future decisions on VAT will continue to be taken as part of the normal Budget process following the UK's departure from the European Union."[11]

Ministers have spoken warmly about the possibilities of ending the burden of irrecoverable VAT in correspondence with CFG. Repeated requests for a working group with HMRC/HMT to be set up to explore this issue have not been fulfilled. As a consequence, we have little assurance that this matter is being actively considered. We understand that during the transition period after Brexit the UK will not be able to change the rules until after that period has ended. However, VAT rules are complicated and preparations need to be taken now so that the UK is able to capitalise on potential new freedoms.

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[9] There are numerous references to the UK maintaining a common rulebook for state aid in the white paper- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/725288/The_future_relationship_between_the_United_Kingdom_and_the_European_Union.pdf

[10] https://www.politicshome.com/news/uk/home-affairs/immigration/news/96727/watch-sajid-javid-drops-major-hint-government-will-ditch

[11] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-12-13/119341/

More worryingly, the government's own white paper seems to indicate that the UK government wishes to remain in the EU VAT area. Although there has been some uncertainty regarding the exact wording.

To remain in the VAT area but outside of the EU would leave the UK in the worst of both worlds, unable to shape or veto VAT changes but still being subject to them. It would make reform to VAT rules for charities harder to achieve, particularly as few other EU member states have as large and sophisticated a charity sector as the UK.

There is also continued concern about the negotiating position of the EU in relation to the UK's departure. According to the latest available negotiating guidelines, the EU wants steps to be taken to prevent the UK government from engaging in tax competition. It is not clear what taxes are included within this. As we noted in our previous publication on Brexit, we do not believe that reforms to reduce the tax burden on charities could be viewed as "anti-competitive" because our sector is not engaged in substantial cross-border trade. However, the government has not given any assurance that they have made representations to the European Commission to seek clarification about whether such reforms may be permissible.

There may be similar issues around Gift Aid, business rates and other non-EU related taxes, however, we believe that the risk is less given that these have not been traditionally subject to EU control.

The UK government needs to take urgent action to get assurance from the EU that substantially reducing the tax burden for charities would not be considered to be anti-competitive and would be compatible with any potential trade deal with the EU. Without action there is a significant risk that any opportunities that may result from Brexit in terms of tax reform will be lost.

## 2) Funding - Some assurance

The UK government has so far given limited assurances to charities about successor funding for projects which have previously been funded by the EU. Although the UK government has stated that it is willing to provide a guarantee for funds given by the EU, this has been caveated by a reference to this being considered "value for money". The criteria for judging whether a project is value for money has not been publicly given by the government. The Directory of Social Change has estimated that around £250m is given to the charity sector from the EU every year[12], and around £500m a year is distributed to a range of businesses, social enterprises and charities through the European Union Social Fund.

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[12] https://www.dsc.org.uk/wp-content/uploads/2017/11/here.pdf

When asked in Parliament about the specific issue of the charity sector on the 21 December 2017, the Minister for Civil Society said:

> "I am discussing with the whole charity sector how we can look more closely at the EU funding that the Hon. Gentleman [Mike Amesbery] refers to and what we will focus on in the future. Those discussions have been taking place for some time, and we are already working with organisations, including the voluntary sector, on how we will set up the framework."

While there have been ongoing discussions, there has been insufficient assurances given by the government. The House of Commons Work and Pensions Committee's March 2018 Report on the European Social Fund successor fund said that "time is not on the government's side". It called for the government to act now. Yet there has not been a formal government response to this investigation.

The government has also not clarified its position regarding whether charities will be able to bid for EU funds in the future. As we laid out in our previous paper, a number of countries have arrangements with the EU where they contribute to EU funds in return for organisations from their country having the right to bid for these funds. This is particularly important for a number of sectors including overseas aid, scientific research and human rights.

There has been some reassurance in the guidance government provided in the event of a no deal regarding humanitarian aid. The technical note *Delivering humanitarian aid programmes if there's no Brexit deal*[13] makes it clear that if we do not reach a deal, and the European Civil Protection and Humanitarian Aid Operations (ECHO) terminates funding, the UK government will commit to funding any programme where a UK organisation is lead partner or sole implementer.

The Shared Prosperity Fund which will be home to many of the successor funding pots which are currently distributed by the EU has not been clearly explained. Although the government has confirmed that charities will be able to bid for funding from the SPF, the details have been lacking. This is causing financial uncertainty for charities and risks, creating a "cliff edge" where charities may need to consider winding down their activities or themselves unnecessarily. This concern was noted in the House of Common's Work and Pensions Committee report.[14]

There has also been little discussion about how the funding could be better deployed. The previous Minister for Civil Society, Rob Wilson, had said that the government would consider ways to make European funds easier for charities to apply for. At present there has been no discussion on this point. More worryingly, discussion with officials has indicated that there may be a move away from grants towards riskier

[13] https://www.gov.uk/government/publications/delivering-humanitarian-aid-programmes-if-theres-no-brexit-deal
[14] https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/848/848.pdf

forms of funding such as Payment by Results (PbR). PbR has already been tried by government, most notably in the Work Programme, and had negative consequences for charities. It would be concerning if new found freedoms in the design of funds would see the government using approaches which had already been demonstrated to be unsuccessful.

UK government funds can take years from conception to reality, and the road is quickly running out for successor funds to be created in cooperation with the charity sector. We are concerned that the UK government may be forced to rush the development of successor funds, which could lead to unforeseen negative consequences both for the charity sector and for the government.

According to the polling we carried out, there is support from the public for charities being able to access successor EU funds *ahead* of universities, local enterprise partnerships and businesses. Most people wanted local councils to receive the same level of funding and we agree, particularly as a lot of funding that flows through local councils will ultimately go to charities and voluntary organisations.

| **A number of organisations in the UK receive some funding from the EU. Which of these, if any, do you think the government should guarantee the same level of funding for once the UK leaves the EU?** | **%** |
|---|---|
| Local councils | 51% |
| Charities and voluntary organisations | 37% |
| Universities | 34% |
| Local Enterprise Partnerships | 28% |
| Businesses | 28% |
| None of these | 8% |
| Don’t know | 19% |

***Base: all GB adults (n=2,019)***

The government must ensure that charities are given certainty about EU funding that has been promised to them. It must also ensure that public consultation on the UK Shared Prosperity Fund begins urgently, so that charities and other stakeholders can feed into this work and can prepare for the future. The government should take steps to provide flexibility for UK charities to continue to access pooled funds and begin an open and transparent dialogue with the sector on what successor funds will look like where funding from the EU ceases.

## 3) Public commissioning and procurement – some assurance

The UK government has not publicly outlined its vision for how it sees public commissioning and procurement operating following our departure from the EU. In a Parliamentary Question tabled by David Jones MP, the then Parliamentary Under-Secretary of State at the Cabinet Office, Caroline Noakes said:

> "The current public procurement rules will continue to apply until the UK has left the EU following the successful conclusion of exit negotiations. The longer-term opportunities for our procurement regulations are being considered carefully."

We are assured that so far there has not been any public comment to the effect that the UK will seek to lower social, environmental and economic standards, as Charities would not support this approach.

However, there is significant opportunity for the UK government to do more to increase the social, environmental and economic impact of public spending. This would have significant benefits for charities, for beneficiaries and for UK PLC. Reviews of the Social Value Act from government, and from the social enterprise sector, have demonstrated that where such an approach is practiced, there are benefits across the board. At the time of writing, the government has promised to upgrade the Social Value Act[15] to ensure that "major procurement" exercises accounted for social value, rather than just considered it. This is welcome, but is not the same as a robust post-Brexit procurement strategy.

To realise the objective of every pound working as hard as possible for the UK taxpayer, and ensuring that charities are considered on an equal playing field, the UK government needs to embed concerns about procurement into the negotiation. Otherwise, similarly to the issues around tax reform, moves to boost social value or improve procurement may be interpreted by the EU as an attack on fair competition from EU member states.

The EU has been very supportive of initiatives to improve public commissioning and procurement to take into account a wider range of values. However, there is a difference between the UK advocating rules within the EU community and then seeking to implement those outside of the EU whilst maintaining trade access. Efforts to support local charities and businesses to support social value could be seen as anti-competitive. This is why the government needs to be upfront about the future of procurement.

[15] https://www.gov.uk/government/speeches/chancellor-of-the-duchy-of-lancaster-speech-to-reform

Copying EU rules may also be risky. The UK wants to be world leader on social value, as noted by the government proposal to extend the Social Value Act. Procurement reform within the EU can be a slow process and without the UK to advocate on behalf of reform, it may not make sufficient progress. Being a rule taker outside of the EU carries significant risks and it would be better for the UK to be at the table influencing the process as an EU member rather than outside of the EU unable to champion social value.

By being transparent and clear in the negotiations, the UK government can reassure the EU that any efforts to deliver greater social value through public spending is not about being anti-competitive, but securing better outcomes for the UK and the planet as a whole.

Once again, there is a risk that if the government does not outline a vision of how this can be achieved, that any benefits from having the ability to set our own commissioning and procurement rules will be lost. There is also a risk that following Brexit, government will come under pressure from businesses to water down standards under the guise of improving ‘competitiveness’. This would be a false economy and would further alienate communities which voted for Brexit in the belief that it would lead to a higher standards of living.

The public are keen for the government to make its own rules rather than copying those put forward by the EU. When we polled the public on this issue and the subject of state aid (more below), 56% of people wanted the UK to make its own rules so that it can favour local businesses and charities, rather than having to treat all providers equally.

| **The Prime Minister has said that the UK will copy EU state aid and procurement rules once it leaves the EU. These rules can prevent the UK government from favouring local businesses or charities when awarding contracts or grants, and instead mean that they must treat all bids for government contracts equally, no matter where they are based. Do you agree that the UK should keep EU state aid and procurement rules, or do you think the UK should set its own rules regarding government procurement after leaving the EU?** | **%** |
|---|---|
| Keep the EU state aid and procurement rules | 21% |
| Make new rules | 56% |
| Don’t know | 23% |

***Base: all GB adults (n=2,019)***

Research from organisations including Locality and the Lloyds Bank Foundation have found that local charities are particularly important in delivering successful outcomes and generating social value. The government can support both the sector and generate public benefit through being bold in reforming procurement rules.

At present the government has no clear plan for procurement after exiting the EU. This means that charities are unlikely to see any benefits from Brexit in this area and if handled badly, the negotiations could freeze efforts to reform procurement in the future. Unless the government can give assurances about the future of procurement policy after Brexit, it would be better for charities if the UK were to stay in the EU where we can influence the rules rather be a rule taker.

## 4) State aid – no assurance

Misapplication of state aid rules by officials are a significant barrier to the UK government achieving its own policies. According to written evidence from Oxera[16], the UK spent on average €100 per capita on state aid between 2009 and 2015, compared with €266 per capita in Germany. This indicates that the UK government is not currently using the flexibility of the current system. In our experience, most officials do not understand state aid rules, or they use them as a convenient cover for inaction.

Brexit is an opportunity to improve the rules and refocus them on real, functioning markets rather than having them apply to situations which are not appropriate, which include many of the areas charities work in.

The white paper indicates that government wants to retain EU state aid rules:

> "The UK has been a leading advocate of the development of the EU state aid and competition regime, and has much to gain from maintaining disciplines on subsidies and anti-competitive practices."[17]

In paragraph 108 in the section entitled 'open and fair competition' it states that the UK's proposals include "committing to a common rulebook on state aid, to be enforced and supervised in the UK by the Competition and Markets Authority (CMA)". Further to this, in the framework for the UK-EU partnership on open and fair competition, the government specifies that there will be ongoing harmonisation with the EU's state aid rules, and that the UK's legislative framework will mirror the EU's

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[16] http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/eu-internal-market-subcommittee/brexit-competition/written/70116.html

[17] 106-Pg 37 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/725288/The_future_relationship_between_the_United_Kingdom_and_the_European_Union.pdf

legal regime, preserving the state aid regime as it currently applies in the UK.[18] This would be deeply concerning, as this would lock in the poor practice that we currently see in the UK.

As we referenced in our previous report, state aid also impacts charities in a number of other ways, from the tax reliefs that are granted to them (most recently the Social Investment Tax Relief) to the grants given to them by the government, and also grants or loans given by state-backed entities such as the Big Lottery Fund and Big Society Capital.

Understanding whether resources are state aid and then calculating their relative costs involves a significant amount of red tape for charities and ties up resources that could be better deployed for the service of beneficiaries and promoting good causes.

The government must use the negotiations to clarify the EU and its own position on state aid as it relates to charities. The government should commit to reforming state aid rules and introducing new guidance or legislation which will ensure that state aid is better understood and operated across government. If the government is not prepared to reform state aid rules after leaving the EU, a big opportunity would be missed.

## 5) Workforce – no assurance

Although less than the economy as a whole, the UK charity sector still depends on a large number of EU and non-EU nationals, with 6.5% of our workforce coming from outside of the UK, with just over 4% coming from the EU. This workforce is particularly concentrated in London, where around 14% of charity workers are EU nationals.

EU nationals in the charity workforce tend to be concentrated in a handful of sectors: social work (33%), residential care (12%), membership (13%) and education (12%) organisations – in total these sectors make up 70% of all the EU nationals working in the charity sector. EU nationals in the charity sector are not low skilled and low paid. They are generally more highly qualified than their UK counterparts and are in jobs which are slightly higher paid than UK nationals.

According to research we commissioned from the Institute of Public Policy Research, if the current rules for non-EU nationals are applied to EU nationals, there would be a significant impact on charities ability to recruit from the EU. 82% of EU employees would not be eligible under current Tier 2 rules for non-EEA citizens. Lowering the salary and skills thresholds and the points based system would also have a

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18 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/734935/2018-08-17_F_O_Competition_Slides_FINAL.pdf

significant impact with both, leaving around two-thirds of EU nationals being ineligible for their jobs.[19]

The most generous system would be permitting free movement for high demand occupations, such as social care, which would increase the eligibility rate to 52%.

The UK charity sector would be hampered because the current Tier 2 system does not cover high demand roles, such as social care, because of skill requirements. This is in addition to salaries in charities being lower than the private sector, so in many instances would fall below the appropriate salary threshold.

In addition to these concerns, small charities will also be hampered because the administrative costs and complexity of accessing the Tier 2 system would be prohibitive.

Although some sectors may see a decrease in the need for employees, demand for charities services is growing. In the social care and residential care sector, for example, there will be another 500,000 roles which require filling by 2030.[20]

Given the historic low levels of unemployment in the UK, and a historically high labour force participation rate, there will be challenges in hiring more UK nationals to fill these roles. This is compounded by challenges for charities in keeping hold of EU employees, with 44% of charity employers saying that they struggle to retain staff due to low pay – which is significantly higher percentage than the private sector.

There has been some positive news on the simple requirements needed for EU citizens to achieve settled status, and charities have welcomed the greater certainty from the government about existing EU nationals, including the imminent commencement of trials for a simplified method for EU nationals to register to remain in the UK.[21]

So far there has been little assurance given by government that future immigration rules will consider the needs of charities. The planned Immigration Bill has been repeatedly delayed which has raised concerns for all employers, including charities, about the future of the immigration system.

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[19] https://cfg.org.uk/userfiles/documents/Policy%20documents/Brexit_and_the_charity_workforce_April18_PROOF_V3.pdf

[20] https://www.healthcareers.nhs.uk/working-health/working-social-care%20%20

[21] https://www.bbc.co.uk/news/uk-politics-44553225