

NEXT STEPS FOR THE CORONAVIRUS JOB RETENTION SCHEME

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May 2020

Executive summary

The Coronavirus Job Retention Scheme (CJRS) supports employers with up to 80% of furloughed employees wages, up to a limit of £2,500 per month. It is due to run until the end of June 2020.

Between six and eight million employees are furloughed, concentrated in those sectors most affected by the lockdown, at a cost of up to £14 billion per month. **Without the CJRS one in five people may have been unemployed, worse than in the Great Recession.** This alone would have cost £3-5 billion per month and could have had a permanent impact to our economy and people's livelihoods.

There are three broad options for exiting the CJRS:

- **Full stop.** The CJRS could end either on June 30th, or a month or two later. But this would create a cliff edge while social distancing was still in place. There would likely be a second spike in unemployment at significant long-term cost.
- **Phased withdrawal.** This could be reducing the proportion of wage costs covered, but that would risk not providing enough support for sectors most affected and cutting people's living standards. Or the scheme could support short-time working as in other countries, or take a sector-by-sector or firm-by-firm approach.
- **Carry on indefinitely.** The CJRS could continue until the end of social distancing or beyond. But this would come at high cost and people would be unable to work for a long period of time, limiting their long-term employability and life satisfaction.

We recommend extending the CJRS to the end of September, reforming it to allow short-time working and limiting eligibility to sectors still most affected by social distancing or businesses facing a significant reduction in turnover. **This would make the CJRS both more flexible and more targeted, and reduce monthly costs to £6-7 billion.**

Any extension beyond September should be similarly targeted and dependent on employers signing up to good work standards and to pay the living wage, with consideration of other steps such as the government taking an equity stake of larger employers wanting to access longer-term support. It should be tapered with 60% of wages covered, and only if medium and large employers top this up to 80% of salary.

Irrespective of how long the scheme continues, some of those furloughed would ultimately lose their jobs as support is withdrawn and the economy adjusts. In addition to minimising the loss of employment, we should improve support for people who do lose their jobs, through further increasing Universal Credit and providing active labour market support to build skills and quickly find new work. This should be backed by a Jobs Guarantee and access to training for people who cannot find work. **Together this would help people find new work and build skills for the future.**

The impact of the Coronavirus Job Retention Scheme

Coronavirus is first and foremost a public health emergency, but it has also had a severe impact on our economy and labour market. The pandemic, and the lockdown put in place to slow the spread of the virus, have led to a significant decline in economic activity, with many businesses forced to reduce trading or cease altogether.

On March 20th, as the Coronavirus crisis escalated, the Chancellor announced the introduction of a series of measures to protect businesses, jobs and incomes.¹ Central to this was the Coronavirus Job Retention Scheme (CJRS).

The CJRS provides support for 80% of the wages of staff furloughed by employers up to £2,500 per month. Furloughed employees are not allowed to do any work for their employers. This scheme sits alongside similar support for people who are self-employed, wider support for businesses, and increased out-of-work support through Universal Credit.

The CJRS aims to protect jobs and incomes while social distancing measures limit businesses ability to operate, and to prevent a larger increase in unemployment. The economy has been put into stasis, and the CJRS aims to make it easier for businesses to get going as restrictions are eased and to keep as many people in work as possible.

There are similar schemes in a number of other countries, though the CJRS is among the most generous. In **Denmark**, the government rapidly introduced a scheme covering 75% of employee salaries up to £23,000 Danish Krone (£2,693) a month, on the condition that firms promised not to cut staff and made up the remaining 25%. In **Australia**, a AU\$1500 per fortnight Jobkeeper scheme has been introduced to subsidise wages for up to six months. In **France**, there is wage support under the reduced hours scheme. In **Germany**, the short-time working scheme (Kurzarbeit) has been expanded along with childcare benefits. Many of these schemes require firms to declare or demonstrate a significant reduction in turnover or need to reduce staffing, and many allow short-time working rather than requiring workers to stop work altogether.² This aims to better target support.

Impact and cost of the CJRS

Initially the CJRS was intended to run until the end of May 2020, it has subsequently been extended to the end of June 2020. Take-up has been very high, with HMRC confirming that six million employees have been registered at a cost of £8 billion in its first three

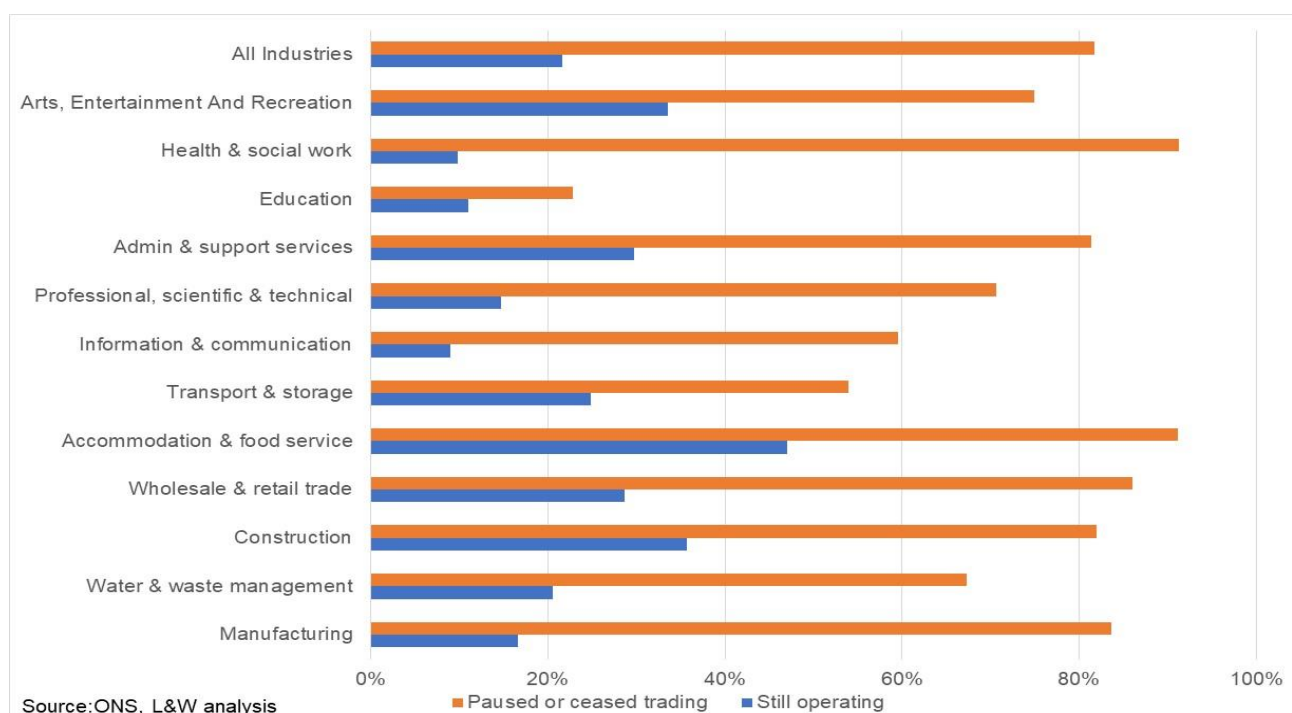
¹ <https://www.gov.uk/government/speeches/the-chancellor-rishi-sunak-provides-an-updated-statement-on-coronavirus>

² Working through it: assessing countries' employment support responses to the coronavirus, Reform, 2020.

weeks.³ An ONS survey suggests around 8 million employees may ultimately be furloughed with the Office for Budget Responsibility estimating the scheme could cost £14 billion per month.⁴

The take-up of the furlough scheme varies significantly by sector. In general, those sectors most directly affected by lockdown (such as retail and hospitality) are, unsurprisingly, more likely to have furloughed staff.

Figure 1: Proportion of employees furloughed by sector



The CJRS is exceedingly expensive, costing up to £14 billion per month, assuming that around one in three employees will be furloughed.⁵ This is around 50% higher than the monthly NHS budget, and three times the annual cost of out-of-work benefits.⁶

Despite the CJRS and the other measures put in place to protect businesses, unemployment has risen faster than during any previous recession. We estimate that five years of employment growth were wiped out in the first month of the crisis, and that unemployment has already risen by more than one million.⁷

³ <https://www.personneltoday.com/hr/furlough-hmrc-figures/>

⁴ Business impact of coronavirus survey, ONS, 2020; Coronavirus policy monitoring database, OBR, 2020.

⁵ Coronavirus policy monitoring database, OBR, 2020.

⁶ Welfare trends report, OBR, 2019; Prime Minister sets out 5-year NHS funding plan, DHSC, 2018.

⁷ Coronavirus and the labour market: Impacts and challenges, Learning and Work Institute, 2020

However, without the CJRS, a high proportion of the 6-8 million staff currently furloughed may have lost their jobs.

In the UK, 6% of working-age adults have made a new claim for Universal Credit; in the US (which has a less generous wage support scheme) 16% of working-age adults have filed a new unemployment claim. Without the CJRS, we estimate that more than one in five working-age adults could have been unemployed.

While the cost of the CJRS is very large, the cost of not acting would be even larger still:

- A larger rise in unemployment in the absence of the CJRS would have increased the costs of out of work benefits. Depending on the personal circumstances of those that would have lost their jobs, we estimate the **out-of-work benefits bill could have risen by a further £3-5 billion per month** on conservative assumptions;⁸
- A larger rise in unemployment in the absence of the CJRS could have reduced household spending, sucking demand out of the economy, and risking a deeper recession;
- A larger increase in long-term unemployment as a result of the CJRS would have risked long term 'scarring' on employment prospects and earnings of those affected;
- In the absence of the CJRS, there would have been more business failures, with the risk of permanent damage to the productive capacity of the economy, and a slower recovery.

The cost of the scheme is high, but it was necessary to avoid a larger and longer lasting cost.

⁸ Using an average of single and couple rates for Universal Credit as a lower bound, and assuming one half of households have one child and one half are entitled to support with housing costs in line with the Local Housing Allowance.

Next steps for the Coronavirus Job Retention Scheme

While some lockdown restrictions are likely to have been eased by the time the Coronavirus Job Retention Scheme (CJRS) ends at the end of June, we will continue to see a profound impact on our economy from coronavirus.

First, the government's scientific advisors have stated that **social distancing measures will need to remain in place** for at least the rest of the year to prevent a surge in the number of cases when the lockdown is eased. This could both prevent some businesses from re-opening, and limit the number of customers other businesses are able to serve at any one time. If an effective vaccine is not developed, social distancing measures may need to be in place for longer still.

Second, coronavirus will likely lead to **profound behavioural change** in the medium term. One survey found that, if the lockdown measures ended in the next month, only 21% would feel comfortable taking public transport, 29% would feel comfortable going to bars and restaurants, and 49% would feel comfortable going to their place of work.⁹ Even when lockdown measures are eased, customers may not return in the same numbers.

Beyond this, the crisis may **accelerate previous trends**. These include the trend towards more flexible working and working from home, and a move away from some business travel (due to increased use of technology). This means that, even once all restrictions are removed, the post-crisis economy and labour market will look different.

What is clear is that the recovery is unlikely to be rapid, it will vary significantly by sector, and the post-crisis economy and labour market will look very different.

Options for the future of the CJRS

In considering the future of the CJRS, the Government has to strike a balance between supporting people to comply with social distancing restrictions, protecting viable businesses, protecting workers and their incomes, and enabling the transition to a potentially very different labour market; an as-yet uncertain 'new normal'.

It must strike a further balance between targeting support where it is most needed and wanting the scheme to be as simple as possible, minimising bureaucracy. Any approach brings the risk of unintended consequences. There are broadly three options.

First, the government could **end the CJRS** by not extending the scheme beyond the end of June. This would limit the lifetime costs of the scheme to government. However, for employers, this would represent a cliff-edge, with a sudden withdrawal in financial support at a time when many will not yet be back to pre-crisis levels of activity. Given the

⁹ Coronavirus polling, Ipsos Mori, 2020.

requirement to consult on large scale redundancies for at least 45 days prior to a decision, there is a risk that employers will start to plan for large-scale job losses later in May 2020. While many furloughed workers would be able to return to work following the end of the scheme, there is a risk that a large proportion of the workers would not have a job to go back to, and would need support from Universal Credit and face a significant drop in income. This scenario would lead to a 'second wave' of unemployment which could cost £3-5 billion per month in with significant negative long-term consequences.

Second, the government could **extend the CJRS indefinitely**. This would allow employers more time to scale up after the lockdown, without a sudden reduction in financial support. For furloughed workers, it would protect jobs and incomes as long as the scheme continues to run, and keep them in touch with their employer. However, this approach would risk significantly increasing the lifetime costs of the CJRS and adding substantially to national debt. Moreover, with the post-crisis economy and labour market likely to be very different, and with many employers unlikely to survive the crisis, for many workers this approach could only ever delay – rather than prevent – the inevitable readjustment. Many people, perhaps millions, would be technically employed but out of work for a long period of time.

The third option is a **gradual and phased withdrawal of the CJRS**. This would extend the duration of the scheme, to prevent a spike in unemployment and support incomes in the short term, while planning for the scheme to be phased out in a way which limits the impact on employers, workers and the wider economy. There are a range of ways in which this phasing could happen.

One option floated has been to reduce the proportion of wage costs covered by the CJRS from 80% to 60%. However, this is likely to simply reduce the incomes of furloughed workers. If workers then ask their employers for a top up (which employers in lockdown sectors will not be able to do) this could lead to employers reducing their staffing if workers do not accept the new furlough situation. This risks being a 'no mans land' solution – there are better options for a targeted and flexible withdrawal of support.

Planning a phased withdrawal from the CJRS

We recommend that the government should **extend and reform the Coronavirus Job Retention Scheme in the short term, but plan for a phased withdrawal of the scheme in the medium term**. A three month extension to the end of September would give employers greater certainty, protect incomes for furloughed workers during when economic activity is likely to remain significantly impacted by continued social distancing, and give the government time to plan for the phased withdrawal of the scheme.

In the short term, the government should introduce reforms to make the CJRS both more flexible and more targeted:

- **Short time working.** The CJRS prevents furloughed workers from undertaking any work for their employer. This has the impact of focusing remaining work on workers who have not been furloughed, and leaving furloughed workers inactive. Short time working schemes, as seen in Germany and other countries, allow employers to reduce hours for the workforce in a time of crisis, while cushioning the impact of lost income on the workers. This allows for a more even distribution of work, and supports more workers to stay in contact with their job. The Government should reform the CJRS to allow for short time working, including a phased return of furloughed workers. This could be a fixed number of hours (perhaps 15 per week) or a sliding scale; and
- **Targeting support.** The CJRS is open to any firm in any sector of the economy, but over time some sectors will be allowed to open up. This suggests a case for better targeting support on those sectors most affected by ongoing social distancing measures. This could be done by restricting the CJRS to sectors, such as non-food retail and hospitality, that are most starkly affected by economic restrictions. Or by requiring companies accessing the scheme to confirm they have had a substantial reduction in turnover and would need to make redundancies without support, as other countries do.

The current monthly cost of the CJRS is up to £14 billion. Introducing our proposed changes could cut that to around £6-7 billion per month.¹⁰ This is still a substantial sum, but simply removing support would cause a sharp spike in unemployment and could increase the out-of-work benefit bill by £3-5 billion per month, while also leading to a permanent negative effect on the economy, business and workers.

Ensuring support for furloughed workers and those who lose their jobs

Irrespective of when the CJRS comes to an end, there will be many furloughed workers who will be unable to return to their previous job. The economy will take some time to get back up to full speed, and both ongoing social distancing and lasting changes in consumer behaviour mean there will be no going back to the pre-crisis labour market.

¹⁰ Making two assumptions: 1. that this would reduce the number of furloughed workers by one third as some sectors would no longer be eligible and some businesses in eligible sectors would reopen; and 2. that this would reduce the cost per employee, to reflect the option for short-time working, by one third (given that one in four jobs today is part-time and this policy change would increase demand for working part time).

The Government should develop a **furloughed worker support scheme**, which provides support for the 6-8 million furloughed workers, but with a particular focus on those unlikely to be able to return to their previous role. Support should include:

- Personalised information, advice and guidance about career and training options;
- Skills diagnostics and retraining grants, funded out of the National Skills Fund the government is developing, worth £3bn over the parliament;
- Support for volunteering while furloughed, to both improve skills and experience, and meet social need;

For those that lose their jobs, we need to better support living standards and cushion reductions in income. Despite the temporary increase in Universal Credit introduced at the start of the pandemic, social security support in the UK remains low compared to many advanced economies. To cushion the income impact on workers who fall off the furlough scheme, the **government should introduce a further temporary increase to Universal Credit and lift the savings threshold which means that people with savings have a lower entitlement to support.**

At the same time, we need to ramp up support to help people find new jobs quickly. This means quickly providing support through Jobcentre Plus and investing in existing support already delivered through Housing Associations, local authorities, charities and others.

Some people will not be able to return to work quickly and a period out of work can have a long-term impact on career prospects, particularly for young people. The Government should introduce a Jobs Guarantee, funding the creation of jobs – particularly at charities, local authorities, and in low-carbon industries – for those who are at risk of becoming long-term unemployed. This should be part of a guarantee for all young people of either a training place or job.

Continuing support beyond September

There may be a case for continuing CJRS support for some employers beyond September as a result of ongoing social distancing.

If that decision is taken, then continuation of the CJRS beyond September should be both targeted, tapered and conditional.

First, support should be **targeted on sectors that face the greatest ongoing impact from coronavirus**, and which are less able to ramp up activity. This could include sectors such as hospitality and non-food retail, which will likely see a significant ongoing impact from social distancing measures.

Second, support through the CJRS beyond September should be **tapered to gradually reduce the cost to the state, but in a way which protects workers' incomes**. This could involve reducing the contribution progressively from 80% on the condition that

employers make up the employee's salary up to 80%. This would be similar to the Danish system, in which support the public subsidy of 75% of employee pay is conditional on the employer making up the remaining 25%.

Second, support should be **conditional on commitments from employers**. These should include meeting minimum standards on pay and job quality. This could include paying a Living Wage to all employees, and committing to good work standards, such as those introduced by Mayors across England and the Scottish and Welsh Governments.

The Government should also consider making ongoing support conditional on taking an equity stake in larger firms. There is precedent both in the UK and internationally for support for private firms during times of crisis being tied to taking an equity stake. Following the global financial crisis, the government bailed out the banks to prevent their failure leading to further damage on the wider economy. In doing so, government took an equity stake in some banks, including RBS, in which it still holds a significant share. These shares represent publicly owned assets, which can generate income for the state to recoup some of the cost; in August last year RBS paid out over £1bn in dividends to the government in based on the first half of its financial year.¹¹

The government could look at making participation in the CJRS beyond September conditional on employers granting an equity stake to government, where these are large firms and / or support is not solely due to social distancing rules. This could involve the government taking a stake equivalent in value to half of the total paid out to the firm through the CJRS beyond September, and up to one third in the value of the company.

Such an approach would ensure ongoing support for businesses that need it, but in a way which builds public wealth, and provides a return to the state when the firms return to profitability. It would also provide a disincentive for firms to use the CJRS unless absolutely necessary. But it would risk meaning firms avoid the CJRS where it would benefit them and their employees, and the interaction with other forms of business support needs to be considered. Ultimately that is why any such approach would need to be carefully considered and focused on larger employers and those for whom the direct impacts of the social distancing rules is not the sole reason for accessing support.

¹¹ <https://www.theguardian.com/business/2019/aug/02/rbs-to-hand-1bn-to-government-despite-gloomy-outlook>

Getting Britain back to work

The Coronavirus Job Retention Scheme (CJRS) has helped limit the impact of the crisis, protecting businesses, jobs and incomes. Despite this, we estimate that five years of employment growth was wiped out in one month and it is likely that at least a proportion of those currently furloughed will lose their jobs no matter how the CJRS is changed.

We will need a clear plan to get Britain back to work as the economy begins to slowly reopen. That means helping as many people as possible to retain their current jobs, and supporting those who lose their jobs to find new work quickly, while cushioning the financial impact in the short term.

Support to tackle these immediate challenges must be founded on a strategy that helps fix some of the underlying challenges we entered this crisis with. These include gaps in our safety net, economic insecurity, and better support for people and businesses to grow in particular in line with an industrial strategy for creating environmentally friendly and inclusive prosperity.

Further Learning and Work Institute will explore how to do this.