



HM Treasury

From: Name Redacted

SCS: Rob Montanari

To: CX

Submission: CJRS Contingency Strategy

Issue: this note seeks your steer on whether to build capability to target the CJRS in case downside NPI scenarios emerge.

Recommendations:

1. We recommend preparing the capability to target the CJRS before the end of September in response to two downside scenarios on the basis of severe localised and protracted sectoral restrictions. **Do you agree?**
2. If you are minded to prepare CJRS targeting, we recommend prioritising work on geographic and sectoral targeting now and progressing work on closed targeting to a longer timeframe to be ready, if needed, for any post-September scheme. We do not recommend progressing work on the FIT now although note the option can be revisited for post-September. **Do you agree?**
3. We recommend that you do not adjust the planned generosity or targeting of the fifth SEISS grant and to develop narrative to defend the decoupling of SEISS from CJRS. **Do you agree?**

Annex A: International comparisons of alternative support approaches

Overview

1. At Budget you announced your plan to taper and then close the CJRS as the economy reopens, in line with the roadmap. Your priority remains to close it in September after introducing employer contributions (ECs) in July to encourage reallocation rather than preservation of some lower value job matches (you have received advice on encouraging people off furlough separately).
2. We are now considering contingency plans for the CJRS in quickly occurring downside scenarios. We expect there would be a high bar for reversing the taper or continuing any form of support beyond September. However, if there is a case for doing so it may only apply to a limited group of employers. Current capabilities only allow us to offer the scheme or reverse the tapering for everyone, which would come with significant fiscal and economic deadweight. Therefore, this advice looks at whether to develop the option to target CJRS support.
3. **Annex A** sets out examples of how other countries are approaching employment support. Many countries are still heavily reliant upon their national wage subsidy support schemes. However, some that are further ahead in removing restrictions, such as New Zealand and Australia, have moved away from economy-wide wage subsidy schemes as the number of cases decline, providing support only in certain circumstances - New Zealand reintroduced their wage subsidy scheme when an area was alert level 4 and Australia have provided support for specific sectors through loans and one-off grants.

NPI downside scenarios and what they might mean for the CJRS

4. You have received advice from SPB on the 'future of economic support' setting out NPI scenarios for 2021/22. Whether CJRS support is the right response to any of these will depend on the degree of restrictions, their duration and coverage (including whether it affects enough employers given CJRS was designed and set up to work at scale, for broad-based support right across the economy).
5. There are alternative options to support employers in downside scenarios and the SPB advice covers the extent to which we may seek to support jobs, individuals or firms. Continuing to target existing job matches directly supports employment and incomes but could mean ongoing labour market distortion and fiscal costs (although these are potentially limited by targeting any future scheme). Alternatively, we could directly support firms (e.g. via rent, liquidity support) or individuals (e.g. via active labour market policies), which may better target wider firm costs or facilitate labour re-allocation, but does not mean that job retention (or avoidance of firm failure) would be guaranteed.
6. In many scenarios we don't expect that you would move away from the plan to taper the CJRS. The level of restrictions when we successfully introduced employer contributions last year is a useful benchmark. During July / August 2020 local restrictions were primarily 'social' not economic e.g. bans on indoor household visits / mixing (broadly analogous to where we'll be in England from Monday 17th) During September and early October 2020, restrictions were increasingly placed on economic settings e.g. closure of hospitality in Bolton and removal of rule of 6 indoors (NE, Merseyside). It was when areas started to move into Tier 3 (wet pubs closed,

no household mixing indoors or outdoors in hospitality) in late October prior to the November Lockdown, that we started to reassess the case for implementing a CJRS at full generosity. Although we do not expect to move away from plans to taper the CJRS in many cases, downside scenarios could occur quickly leaving us needing to respond at short notice. We have therefore identified some specific scenarios where you may need to consider readying a targeted CJRS response:

- a) 'Off Model' worst case, **local/regional lockdown**: restrictions imposed to control transmission of a dangerous variant of concern (VoC) in an area which could be akin to January 2021 (i.e. full lockdown) This would be more restrictive than the local lockdowns which continued while ECs were charged last summer (e.g. in Leicester) and the restrictions under tier 3 that saw us reintroduce full generosity of the CJRS.

Likelihood and timing: The likelihood of this scenario emerging is very challenging to judge, with discussions over the Indian variant likely providing a test-case over the coming weeks as to the circumstances in which severe local restrictions are seen as an option. CDL is leading a ministerial mock exercise to consider the response to a locally concentrated hypothetical VoC in more detail. A meeting was held w/c 10th May that discussed the theoretical NPI response to a local outbreak and potential scope of funding to support area. We estimate any response to a local outbreak would emerge at short notice, likely cover at least several LAs and the duration of restrictions would be uncertain but could be a minimum of 5 weeks. We would recommend that any targeted CJRS option is considered alongside other economic support, depending on the specific circumstances.

- **There may be a case to consider CJRS support, without ECs, in a defined area if local lockdowns with restrictions like last year's Tier 3 (i.e. businesses forced to close) are in place for a significant duration. Support would continue for the length of the lockdown.**

- b) Downside roadmap scenarios - **roadmap slowdown or a re-escalation**: Depending on the restrictions, there might be constraints for specific sectors. Our current assessment is that sectors most at risk of being impacted are aviation, travel and tourism, mass events, performing arts and the night-time economy. Initial analysis suggests that value of matches in these sectors (judged against indicators like wage distribution, length of tenure, and qualifications) varies. Tourism, hospitality and mass events all tend to be low wage and skill sectors. Aviation has jobs like pilots or engineers that require training, are highly paid and hard to replace, whilst cabin crew are less costly. Performing arts has long average tenure, indicating specialisation, although many individuals are self-employed.

Likelihood and timing: SPB currently assess (based on the updated SPI-M roadmap modelling) it as likely that we will be able to proceed through step 4 and remove most social distancing over the summer (although we note that events are moving quickly with the emergence of the Indian variant and potential response). We currently expect sectors to reopen over the summer. However, this comes with the potential trade-off of having to re-escalate restrictions in the autumn. Downside scenarios being modelled do not anticipate a return to Step 2 in Q3. They do however model a continuation of Step 3 and for summer and a return to Step 2 post-September.

Emerging modelling of GVA outturn impact of remaining in Step 3 for Q3 (as seen in downside scenarios outlined in SPB's recent advice) suggests sectors would be slightly worse than, but comparable to, early autumn 2020 where ECs were in place but we began assessing their removal due to escalation of restrictions. This could make it difficult to fully withdraw support. You are due to receive further advice on the outlook for sectors in a downside scenario w/c 17th May.

Separate to this modelling, international travel restrictions announced w/c 3rd May will severely inhibit the aviation and travel sectors. Anecdotal views from the aviation sector are suggesting that firms will begin to make redundancy notices ahead of CJRS tapering beginning in July. This would be exacerbated should international travel remain highly restricted over the summer (e.g. with self-isolation requirements remaining for travel to Europe over the summer) meaning prompt delivery of a targeted scheme would be preferable should you be minded to pursue this option.

- **If multiple sectors are made unviable due to ongoing restrictions, this may put pressure on Government to reverse CJRS employer contributions or provide further employment support.**

We recommend preparing the capability to target the CJRS before the end of September in response to two downside scenarios on the basis of severe localised and protracted sectoral restrictions. **Do you agree?**

7. We are continuing to examine whether targeted CJRS or other levers are more appropriate in downside scenarios and some of these other levers will be covered in further advice on outlook for hard case sectors. However, delivery lead in times mean that it is useful to progress work on the capability to target CJRS now, particularly if you want it as an option for responding to downsides that might emerge before October. We set out below our assessment of targeting options that could be utilised pre-October. To note, these targeting options could also be used from October onwards, as part of future job retention support. We can engage you further on options for job retention support from October onwards and how targeting mechanisms could be integrated into the system.

Which version of targeting to develop?

8. We have considered four versions of targeting, all of which we have discussed with you in detail before, that might be a useful part of your contingency toolkit:
 - a. **Geographic** – Geographic targeting seeks to target support to employers located in specific areas in order to maintain job matches. This approach would be applicable for use in a local lockdown scenario. This option limits eligibility tightly to the area affected, although has hard cases related to cross-boundary economic activity, deadweight risk from allowing any business in an area to be eligible, and high state aid / subsidy risk owing to selectivity.
 - b. **Sectoral** – Sectoral targeting seeks to target support at businesses who operate within specific sectors, which may be applicable where there is a Roadmap slowdown or re-escalation of NPIs that creates constraints for specific sectors. This option gives us the most control over which sectors are eligible for support (allowing us to prioritise re-allocation in

some areas). However, we'd need to agree the list of qualifying business activities that are eligible. This carries significant definitional issues due to arbitrary sectoral boundaries, requires us to make difficult judgements about what jobs / sectors are impacted but medium-term viable, and has high state aid / subsidy risk owing to selectivity in picking sectors. We are initially doing delivery work on the basis of sectors we judge to be most at risk of being impacted, namely aviation, travel and tourism, mass events, and the night-time economy. However, we'll confirm this list in further advice. You will also receive wider advice on outlook for sectors w/c 17th May from EGU.

- c. **Closed** – eligibility designed on the premise that generous support should be available to businesses which are *legally mandated to close*. This may be applicable for a local lockdown scenario where business are mandated to close and we could target a closed scheme to that local area. This may also be applicable where reversal/stall of roadmap steps results in sector closures. The option limits deadweight by avoiding broad eligibility but excludes 'effectively closed' sectors (who may be most affected by NPIs in the future) and firms in the supply chains of "legally mandated to close" sectors. It also has challenges related to DA co-ordination, mixed-use premises and state aid / subsidy risks as above.
- d. **FIT** – this seeks to target support at businesses who have suffered a specified drop in turnover when compared to pre-Covid period. You asked us pre-budget to come back on whether we would want to do further work to build the FIT, rather than just mothball the policy. We do not think the FIT is well suited to responding to the scenarios described above. It can only reflect the past financial position of businesses meaning that any captured population may be misaligned with the population who requires support and it cannot react swiftly to increasing restriction e.g. in local lockdowns. **We do not recommend further work to develop the FIT at this stage.**

Delivery Considerations

- 9. Any option delivered for Summer 2021 would be subject to certain limitations:
 - a. HMRC could deliver either Sectoral, Geographic, or Closed targeting for mid-July. In addition, there is capacity to deliver both sectoral and geographic options in parallel for mid-July. However, a Closed scheme can only be delivered if it is the only option in play and it would also require longer to deliver as it is more complex.
 - b. Any summer targeting option would be reliant on customer self-declaration. You should note that introducing a self-declared targeting option has the potential to make the overall CJRS error and fraud rate exceed the 5-10% level that you have previously accepted for CJRS. With specific regard to employers incorrectly claiming the enhanced generosity, you would have to accept a substantially higher level of fraud and error risk than 5-10%. The potential for additional error and fraud through CJRS targeting is difficult to estimate because it is sensitive to the size of the targeted population, increasing the wider the targeted group becomes. Data limitations with all options mean that this risk cannot be mitigated further as part of summer targeting though we are exploring what data opportunities might exist for winter. We may be able to implement some data/location based behavioural nudges in August, but these would not act as effective controls. You might be willing to accept the compliance risks associated with self-declaration in the

context of granting access to an additional 10-20% CJRS generosity over summer, but this trade-off would have a different balance if self-declaration was used as the eligibility check for access to the full generosity of CJRS which is why we have recommended against it previously (e.g. for Directors).

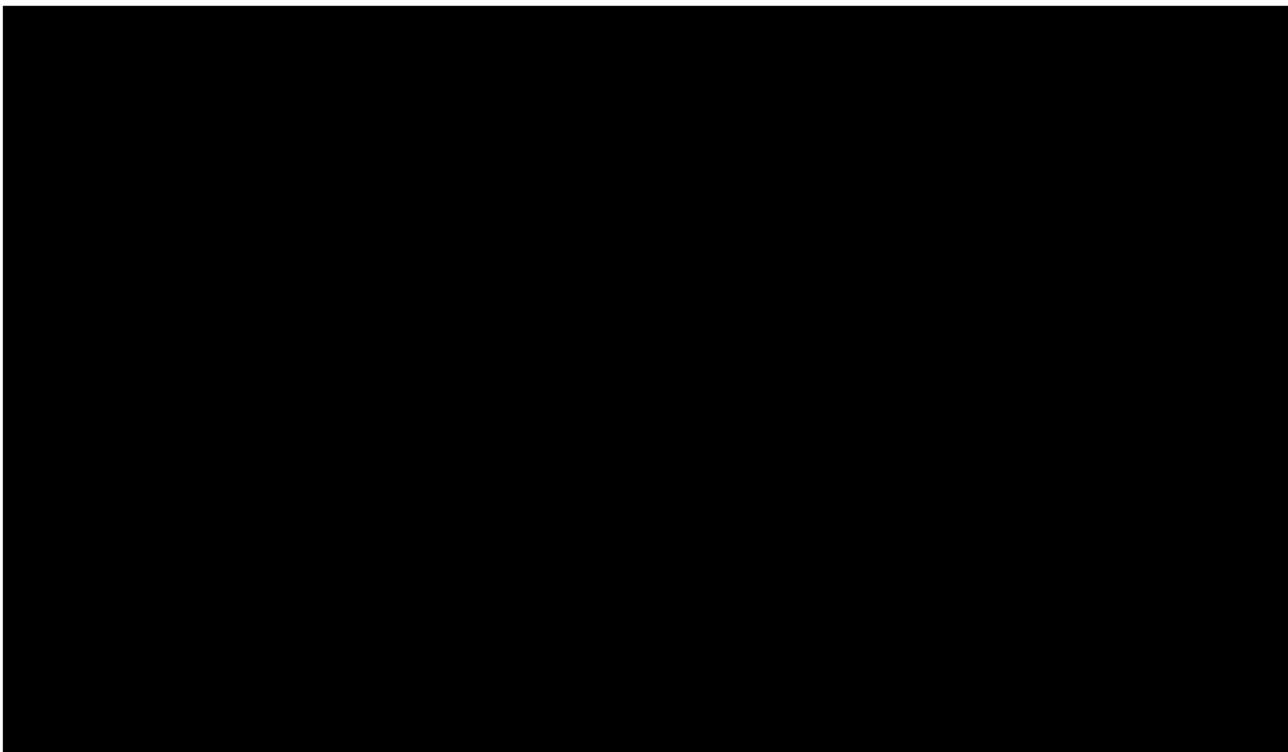
- c. HMRC capacity over summer is limited. The SEISS 5 peak in July coupled with turning on targeting in July is likely to impact HMRC's overall service for customers, which strengthens the case for only using the option if absolutely necessary. Furthermore, development of summer targeting could limit our capacity to plan and deliver alternative employment support options outside of furlough targeting methods for winter 2021/22. We'll keep this under review and come back to you with further advice if we think it has implications for what can be delivered in the winter.
 - d. In order to deliver any option for mid-July, we would need to finalise a number of key design decisions by the end of May. The detail will depend on which options you wish to progress to delivery, decisions would be needed on aspects such as the core eligibility criteria (e.g. agreeing the list of sectors in scope) and the claims process (e.g. calculation generosity) to inform the delivery of the IT and the legal direction. Capacity to deliver the legal direction in particular is limited.
10. **Sectoral targeting poses particular challenges** due to the lack of sectoral data and definitions. SIC data is not available or up to date for all businesses and is not verified by Companies House or HMRC. VOA data on premises' rateable values, which can be 5 years out of date, is not linked to HMRC data, and multiple employers can operate out of one premises. As such, we would need to create our own definitions of sectors based upon business activities, against which employers self-declare their eligibility, which is difficult and will take time. Risks vary by sector depending on definitional complexity and variation in business activity (and may be harder for multifarious sectors like mass events than for a sector like aviation). But overall, this carries a significant error risk as claimants need to know if they are eligible; and a fraud risk due to limited capability to police criteria that we create.
11. **The delivery of self-declared Geographic targeting has the benefit of being relatively straightforward** to define in the direction and guidance. However, the pace at which local lockdowns might be implemented would require a legal approach that allows for quick modifications. Furthermore, we are beginning work now with OGDs to establish a Local Lockdown data sharing mechanism so that HMRC has a continually up to date record of restrictions. This would allow us to implement some NPI data/location-based nudges, though these would not act as effective compliance controls and would not be available until August at the earliest).
12. **The delivery of Closed targeting is more complex** as it involves defining eligibility based on being closed by future public health regulations, resolution of issues such as 'mixed use premises' and developing a complex NPI data sharing mechanism with OGDs and DAs on what is closed and when. While Closed targeting was part of JSS, at the point that JSS was cancelled we were facing significant difficulties in fully resolving these issues, and drafting them into the direction, within the 5 weeks of delivery that remained ahead of the planned December 8 claim service launch.

Prioritisation of targeting options against downside scenarios

13. As outlined above, in a downside scenario where roadmap progress is stalled or steps reversed, and we wish to maintain job matches for sectors impacted, we think sectoral is the best targeting option for job retention support. You could also deploy a closed scheme, but this would require impacted sectors to be *legally mandated* to close. We think widespread legally mandated closures are unlikely to occur in the short-medium term, but de-facto closures might.
14. In a local/regional lockdown, geographical targeting could allow employers to claim enhanced support if they have a business premise in a local/regional lockdown area. This would be simple for customers to understand but carries deadweight risks as all employers in the lockdown area would have access to enhanced support (although note that the severity of deadweight risk will likely be dependent on the scope of geographic targeting - the smaller the targeted location, the less risk). Trends of CJRS use have also suggested where businesses can open, they tend to do so.
15. A closed scheme targeted to local lockdowns (eligibility for support based on a business being closed and within a lockdown area) could reduce some of the deadweight risk associated with geographic targeting. However, it comes with additional definitional issues that hinder how far the closed scheme reduces deadweight risks (e.g. we would currently assume mixed use premises would be eligible for support, as under JSSC), it creates hard cases around de-facto closures and it would be dependent on cross-government coordination of a more complex NPI dataset showing both NPI locations *and* business types subject to closure (a dependency that we were not able to resolve for JSS announcement). Finally, if a local/regional lockdown has restrictions similar in severity to January 2021 restrictions, you may face pressure to open the targeted scheme to all businesses in that area (in the January lockdown, even business not legally mandated to close could claim full CJRS support). For these reasons, we would be minded towards prioritising geographic targeting to respond to local lockdowns should you wish to deploy job retention targeting if this scenario arose.
16. Put together, we would look to prioritise the development of geographic and sectoral targeting. This means a closed scheme would not be available to deploy over the summer but could be used as part of any post-September job retention support. To note, starting and continuing work on geographic and sectoral options will mean targeting options are part of your toolkit sooner while also informing our thinking for how a closed based approach could work later in the year. Data requirements for a closed scheme have a similar scope to geographic and sectoral, just with more complexity.

If you are minded to prepare CJRS targeting, we recommend prioritising work on geographic and sectoral targeting now and progressing work on closed targeting to a longer timeframe to be ready, if needed, for any post-September scheme. We do not recommend progressing work on the FIT now although note the option can be revisited for post-September. **Do you agree?**

Legal issues



Implications for the SEISS

19. Any increase in generosity over the summer for CJRS could lead to calls for renewed support from ineligible groups. Any increase in generosity to specific sectors or areas could also lead to pressure to give equivalent support through SEISS (e.g. strong push-back from the self-employed in the events sector if it is closed). We recommend resisting these calls.
20. It is not deliverable to add geographical or sectoral targeting to SEISS before the claims window for SEISS 5 opens at the end of July. You could increase the generosity of the grant as a whole from 3 months' worth of profits to 5 months', but you would need to take this decision before the claims window opens.
21. We strongly recommend against making SEISS 5 more generous as we think the planned generosity of SEISS 5 is sufficient in any summer scenario. SEISS is already more generous than CJRS as self-employed can work and receive the grant. Any further restrictions are likely to match the economic pattern of past restrictions, so those who would be most impacted by further lockdowns are also likely to be those most impacted by the pandemic as a whole and who, through the Financial Impact Declaration, are more likely to receive the 80% grant while less-affected people receive a 30% grant.
22. We also recommend decoupling the SEISS from CJRS. There is a weaker economic case for continuing support through SEISS than there is for CJRS. While we have sought to maintain job matches between employers and employees, we don't think we should seek to continue to subsidise self-employed economic activity through a continued period of unprofitability, and post-September we may be able to make this case and further decouple SEISS from the CJRS. We will develop narrative to defend the decoupling of SEISS from CJRS.
23. For a post-Sept scenario, it may be possible to add sectoral/geographic targeting through self-certification, but this would come with high deadweight (as self-employed people are more able

to change sector or location in response to targeted restrictions) and risk of fraud, (as HMRC does not have reliable information on the location or sector in which self-employed people usually work). Risk of fraud has been a key defence against various extensions to the SEISS (e.g. to company owner-managers). This defence would be undermined if we were to then knowingly tolerate higher fraud in future.

24. We recommend that any extra support for self-employed people in specific areas or sectors should come from outside of SEISS, if at all. We will come back to you with advice on support options for the self-employed in a post-September scenario.

We recommend that you do not adjust the planned generosity or targeting of the fifth SEISS grant and to develop narrative to defend the decoupling of SEISS from CJRS. **Do you agree?**

Next Steps

25. If you agree with the recommendations here, we may need to provide further advice in coming weeks on specific detail to initiate the design and build of contingency schemes. Specifically, we will need to engage you with an AO VfM assessment. To note, where possible, we will look to use previous steers to inform design and build.

Annex A: International comparisons of alternative support approaches

**This table focuses on schemes that may be used to support employment. An 'N/A' does not necessarily mean there are no examples of targeted support (e.g. sectors) within the country.*

Country	Health Picture vs the UK	Core job retention scheme		Additional Targeted Support				Other useful Information
		Timelines	Targeting Approach	FIT equivalent support	Business Closure Support	Geographical Support	Sector Support	
Australia	Only mass events + int. travel restrictions. Infrequent regional lockdowns.	Jobkeeper ended on 28 March 2021	Jobkeeper scheme used FIT.	N/A.	Financial support available for those impacted by border restrictions post-JobKeeper.	N/A.	Support for aviation + tourism through loans, grants, one-off payments.	Job support replaced with hiring credits/ subsidising apprentice wages/training.
Canada	Comprehensive travel restrictions. Some restrictions (indoor mixing allowed). Cases rising, 1.9% of pop. vaccinated.	Emergency Wage Subsidy (EWS) until September 2021, and active labour market support in latest Budget 2021.	EWS used turnover to determine grant level.	N/A	Differs by province. In Manitoba closed businesses receive CA\$15,000 (£8,700). In Quebec, can access loans if in highest alert.	Provinces vary in the additional job support they provide. For example, Ontario has introduced a temporary wage boost for care workers; additional training/skills funding; and further support for businesses.	In Quebec businesses in highest alert level + key sectors, can receive loans + extra loan forgiveness.	Employment Insurance Work Sharing program provides benefits to workers who reduce hours.
Czech Republic	Infections falling, state of emergency measures ended 12 th April and moved to pandemic law which saw the easing of some measures, but a large proportion still	Antivirus Schemes extended until end of April, and likely to continue.	Antivirus Plus for closure: covers 100% of salary; Antivirus A closure due to quarantine/	New schemes/changes to be linked to loss of income compared to a specific time period.	N/A	Some local councils have provided additional support to local businesses.	N/A	Looking to replace Antivirus schemes with a furlough scheme in future.

	currently remain in place.		employee quarantining: 80% of salary; Antivirus B for businesses affected indirectly (supply chains): 60% of salary					
Denmark	Re-opening after a second wave. Small local closures still emerging due to a rise in cases.	Furlough scheme runs until 30 June 2021	For previous significant regional lockdown, existing wage compensation scheme was used with slight alteration to increase accessibility.	N/A	N/A	N/A	N/A	The government has agreed a series of stimulus packages, e.g compensation for apprentice hours worked.
France	Restrictions until end of April due to bring down high infections rates. Gradual lift of restrictions over May-June	Furlough scheme until July 2021. Long-term furlough (STW) scheme until June 2022.	Core furlough scheme + long term scheme generosity differs by sector. Closed businesses can access the furlough scheme.	N/A	N/A	N/A	N/A	New state guarantee scheme to strengthen companies' balance sheets and support their investment capacity (participating loans) available as of May.

Italy	Cases still fluctuating according to level of regional restrictions	Under core furlough scheme medium and large firms get 13 more weeks of furlough Smaller firms have 28 weeks	N/A	N/A	N/A	Last winter, business grants were related to the regional tiering system.	N/A	
Germany	Covid-19 cases are been currently falling , case rates currently sit at a seven-day incidence of around 104 per 100,000 . The German parliament in late April approved a legislative amendment granting the Federal Government powers to enforce universal lockdown rules after struggles to coordinate on a regional level, but some states are now planning relaxations as their case levels are dropping.	Furlough scheme extended until 31 December 2021	N/A	“New Start Aid” for self-employed. This is a taxable grant and reimburses self-employed persons whose sales from January-June 2021 fall by 60% or more compared to pre-Covid-19 6 months’ reference sales period in 2019.	N/A	Some German states have set up regional funds to provide liquidity support.	N/A	Transitional furloughing is used to assist job-to-job transitioning of workers who face redundancy . Affected employees will be transferred to a ‘transfer company’ under a new contract, in which they receive training/upskilling to improve their prospects on the job market.
New Zealand	Comprehensive travel restrictions. Health situation optimistic, cases lead to regional lockdowns.	Wage subsidy ended Sept 2020 but available for local lockdowns	Businesses with 40% decline over 14-day period between 28 February and 21 March were eligible for the wage subsidy scheme (due to	N/A	N/A	N/A	N/A	

			increased restrictions). Wage subsidy scheme is used when regions enter certain alert level for 7 days or more					
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