



HM Treasury

From NR
 Team: ESSC
 SCS: Rob Montanari

Submission: CJRS Budget extension – Final Decision Record
 For decision

Issue

Following the extension of CJRS to the end of April, we have been discussing a further extension and tapering of the scheme to phase out support for employers as the economy begins to re-open after winter restrictions. This submission seeks final approval on the key policy choices, as well as setting out wider implications that you need to consider and agree ahead of announcing the extension at Budget.

Timing

Urgent – some decisions (highlighted) needed by Monday 22 February.

Recommendations

That you agree the key policy decisions and decide to announce the extension, noting the value-for-money, equalities, delivery and legal implications of your decisions. The key decisions are below, with:

- Decisions one, three, four, five, and seven simply reflecting your steers to date;
- Decisions two, six, and eight are clarifications that existing CJRS positions will remain; and
- Decision nine includes new advice including: value for money (paragraphs 18–23), updated costings (paragraphs 26–27), equalities impacts of specific decisions (paragraphs 30–33) and HMRC costs and Accounting Officer considerations (paragraphs 46–47).

Decision one	Scheme extension duration: we recommend that CJRS is extended from 1 May 2021 to 30 September 2021. Do you agree?
Decision two	Employee generosity: we recommend maintaining existing generosity for employees of 80% of usual wages for the duration of the scheme extension. Do you agree?

Decision three	Targeting vs tapering: we recommend that we don't target higher generosity towards any specific group of employers and instead introduce employer contributions equally for all employers. Do you agree?
Decision four	Introduction of employer contributions: we recommend extending the scheme on current terms for May and June, and then introducing employer contributions to wage costs of hours not worked from July. Do you agree?
Decision five	Profile of employer contributions: we recommend that employer contributions are gradually increased so that the employer pays 10% of usual wages for hours not worked in July, 20% in August and 20% in September. Do you agree?
Decision six	Government and employer contribution cap: we recommend that we maintain the existing CJRS cap of a reference salary of £3,125 a month for government and employer contributions. Do you agree?
Decision seven	RTI cut-off dates: for claim periods from 1 May 2021, we recommend moving the date by which an RTI submission must have been made to HMRC for an eligible employee from 30 October 2020 to on or before 2 March 2021, whilst keeping the RTI start date at 20 March 2020. Do you agree?
Decision eight	Wider eligibility rules: we recommend that we do not introduce wider restrictions on employee eligibility to help exit the scheme, e.g. closure to new entrants or limits on furlough duration and keep all other CJRS rules the same. Do you agree?
Decision nine	Policy implications: ahead of final AO approval, can you confirm you have considered the value-for-money, equalities, delivery and legal implications of your decisions?

Background and rationale

1. In March, you took the decision to introduce the CJRS, which paid a proportion of wages for the hours an employee was on furlough, to protect employer-employee matches through the initial economic shock of Covid restrictions. The CJRS aimed to protect the productivity benefits from those matches in a scenario where, absent Government support, employers would have been otherwise unable to do so. The CJRS also acted as temporary income protection for those who would have otherwise lost their job, providing a macro aggregate demand boost for the economy.

2. You took the decision to introduce an employer cost within the CJRS from August 2020 to ensure that the scheme was focussed on supporting jobs that would be viable over the medium-term, increasing the level of the employer contribution through September and October. Alongside this, we introduced flexible furloughing from July 2020 to allow furloughed workers to return to work.
3. Subsequently, you extended CJRS from the beginning of November 2020 to the end of April 2021 on the basis of August generosity (where employers only have to pay employer NICs and pensions contributions), so jobs were supported over winter when the economy was again locked down.
4. You are now considering extending CJRS on current terms for two more months and then tapering off support. This would ensure that employers remain supported whilst the economy is still re-opening, before introducing employer contributions when NPIs are lifted and output starts to recover, to encourage employers to move people off furlough and back into work or the job market.

Policy decisions

5. The below paragraphs summarise previous advice and recommendations made in relation to the key policy parameters of the scheme. Can you confirm that you are happy to proceed to announce the scheme extension on this basis and agree to each of the individual recommendations?
6. Scheme extension duration: we propose extending CJRS until the end of September, which allows for the scheme to continue in current form until the end of June and then a gradual taper of support as NPIs ease. This is broadly in line with requests from stakeholders for an extension until the economy has reopened (although some, e.g. the TUC, requested an extension to the end of 2021). If the scheme is extended until later, there is a risk that continued take-up could dampen economic recovery by inhibiting productive labour reallocation and that a winter resurgence could lead to calls for CJRS to be extended, making it harder to withdraw support (as in Autumn 2020); ending CJRS in September gives us space for a targeted scheme to take its place in the winter if required.

Decision one: we recommend that the CJRS is extended from 1 May through to 30 September. Do you agree?
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7. Employee generosity: when we extend the scheme, we need to confirm whether we will maintain the scheme's existing employee generosity of 80% of usual wages for non-working hours. Internal ready reckoner analysis suggests that reducing the 80% figure to 67% would save around 16% of scheme costs per month, accounting for around £430m if the average claim at 80% was £780.
8. The advantages of retaining existing generosity are that it supports household incomes and aggregate consumer demand whilst the economy starts to re-open. It likely produces better outcomes for groups with protected characteristics as employees on lowest incomes will be hit hardest by a pay decrease and many protected groups are likelier to be in lower paid jobs. Retaining current generosity may also help ensure public support for our approach as we begin tapering CJRS.
9. There are however some disadvantages: retaining 80% generosity is unfair to those on welfare who are equally inactive to those on furlough but are worse off. It could also disincentivise furloughed employees in sectors that remain restricted over summer from looking for new jobs as the economy re-opens. But introducing employer contributions from July should help mitigate this by encouraging employers to release labour where they don't value a match or can't afford to pay the contribution.

Decision two: we recommend maintaining existing CJRS generosity for employees of 80% of their usual wages throughout the duration of the scheme extension. Do you agree?

10. Targeting vs tapering: we have considered introducing targeting, so certain employers receive higher generosity whilst other employers are limited to more tapered support. The rationale would be that some sectors like hospitality may struggle to afford employer contributions initially if we taper for all during early summer and targeting would allow us to begin tapering support for some employers from an earlier point. Having explored and rejected alternative targeting options for various policy and operational reasons, the main targeting mechanism we considered is a Financial Impact Test (FIT), where only employers with a certain level of turnover decline pre- and post-

Covid access higher generosity. However, a FIT would be complex to deliver, creates hard cases where there are data limitations, and risks preventing labour re-allocation from worst-hit firms to more productive roles.

11. Given these issues and because the Government's NPI 'roadmap' would result in most restrictions being lifted by summer, we think just tapering equally for all employers would be a better option. This mirrors the approach taken last autumn and is broadly consistent with calls by employer groups e.g. the CBI and BCC. As the economy opens, more employers will be able to afford contributions and tapering encourages them to return staff to work. Tapering support for all will likely result in more redundancies (particularly amongst the lower-paid), however these will coincide with the economy re-opening and encourage labour re-allocation. Some sectors with high value matches and high CJRS take-up (e.g. aviation) will continue to face restrictions and be unable to afford contributions, and you are receiving wider advice about these sectors. Post-September, we can also re-consider targeted employment support to deal with potential outbreaks next winter.

Decision three: we recommend that we do not target higher generosity towards any specific group of employers and instead introduce wage contributions equally for all employers. Do you agree?

12. Introduction of employer contributions: there is a question of whether to introduce employer contributions from May or extend the scheme on current terms until June or July before doing so, which will be influenced by the 'roadmap' for removing NPIs. Even a cautious introduction of employer contributions might see a sharp rise in redundancies, and you indicated that you didn't wish to introduce employer contributions whilst businesses remained under tier 2 type restrictions. Whilst more optimistic roadmap scenarios suggest we could move into tier 1 type restrictions from May, this may not be uniform across sectors, and if we introduced contributions in May some employers would still be closed. It is worth noting that when we previously introduced employer contributions last summer, we didn't see a huge spike in redundancies and outflow to unemployment (although businesses had better cashflow than in May). There is also a risk of starting to taper too late, creating deadweight and delaying productive reallocation. On balance, we propose to extend CJRS on current terms through June and introduce employer contributions in July, when there is a greater chance that the economy will largely be open and businesses have better

cashflow. This is in line with stakeholder views e.g. the TUC and CBI, who support an extension then tapering.

Decision four: we recommend that we extend the scheme on current terms for May and June, and then introduce employer contributions to wage costs from July. Do you agree?

13. Profile of employer contributions: there is a subsequent question about the profile of employer contributions from July–September. While evidence is limited, data from last year (as you have seen) suggests a 10% contribution for non–working hours was a reasonable starting point. KAI analysis showed no change to the overall trend of (decreasing) CJRS take–up and just a slight increase in those not returning to work for their previous employer; similarly, whilst there was a spike in HR1 redundancy notifications in June 2020 (before introducing employer NICs and pension costs), there was a minimal uptick ahead of September (when 10% contributions were introduced). We propose increases in 10% increments to ensure a smooth transition and maintain consistency with last autumn, increasing to 20% contributions in August as even the most pessimistic scenario project baseline restrictions at that point. For September, both 20% and 30% contributions are reasonable ‘maximum’ levels, without much evidence to choose between them. On balance, you were inclined towards 20% since there is no clear justification to go higher than last year or international examples. As you’ve noted, this path is predicated on the roadmap’s central scenario and is subject to change.

Decision five: we recommend based on the current central scenario that employer contributions are gradually increased so the employer pays 10% of usual wages for non–working hours in July, 20% in August and 20% in September. Do you agree?

14. Government and employer contribution cap: as we introduce employer contributions, we propose to continue to cap government and employer contributions against a maximum reference salary of £3,125 a month, consistent with the current terms of the CJRS and when we introduced contributions last autumn. This means that the maximum monthly government pay–out per employee would be £2187.5 from July and the maximum monthly employer contribution per employee would be £312.5 from July (not including NICs and pensions costs). Maintaining existing CJRS rules here ensures simplicity for employers and third–party software developers. The rationale for a cap on government contributions is that it targets support to lower–income

individuals who are most likely to need it and helps manage scheme costs. Capping the employer contribution has the benefit of meaning an employer bears a lower proportion of costs, the higher the relative earnings of an employee, creating stronger incentives to retain higher paid/skilled employees.

Decision six: we recommend that we maintain the existing CJRS cap of a reference salary of £3,125 a month for government and employer contributions. Do you agree?

15. RTI cut-off dates: when the CJRS was extended for November, we brought forward the RTI cut-off date to 30 October 2020, so employees must have been on an RTI submission notifying payment of earnings to HMRC between 20 March 2020 and 30 October 2020 to be eligible. When extending the scheme at Budget, we have the option of amending the RTI period for claim periods from 1 May 2021. We recommend bringing the end RTI cut-off date forwards to 2 March 2021 (the day before announcement, in line with precedent). Based on the latest available data, we expect up to around 3m new employments to be notified on RTI between 30th October 2020 and 2nd March 2021, although only a small proportion are expected to be furloughed. This balances maximising the number of eligible employees with avoiding the fraud risk post-announcement of employers setting up a new PAYE scheme to claim fraudulently. The current start date after which an RTI submission notifying payment of earnings must have been made for an employee to be eligible is 20 March 2020; we recommend maintaining this to help customer understanding and reduce IT complexity.

Decision seven: for claim periods from 1 May 2021, we recommend moving the date by which an RTI submission must have been made to HMRC for an eligible employee from 30 October 2020 to on or before 2 March 2021, whilst keeping the RTI start date at 20 March 2020. Do you agree?

16. Wider eligibility requirements: there are further employee eligibility requirements that could be considered to help exit the scheme. Firstly, we could close the scheme to new entrants (as we did previously during June). This would limit take-up, but conflict with bringing forwards the RTI cut-off date (which aims to allow new entrants) and create hard cases for individuals returning from leave (although we included exemptions for this group previously). Secondly, we could introduce a time limit on access for continuously furloughed employees. This would limit deadweight, but risks removing valuable matches, introducing complexity to claims, and creating hard cases for those with caring responsibilities or shielding. On balance, given these issues, it

seems better to let employer contributions and re-opening drive down CJRS usage, rather than these requirements.

17. For operational and policy reasons, we also recommend leaving all other aspects of the CJRS (including eligibility and calculation rules) as they are at present.

Decision eight: we recommend that we do not introduce wider restrictions on employee eligibility to help exit the scheme, e.g. closure to new entrants or limits on furlough duration and keep all other CJRS rules the same. Do you agree?

Value for Money considerations

Summary of VfM assessment

18. The full VfM assessment can be found in the annexed document and is summarised here.
19. The decision to extend CJRS balances the risk of excess redundancies that may occur if the scheme ended prematurely against the fiscal and output risks of the scheme remaining at current generosity for too long, with inflexibility potentially preventing workers moving to growth sectors.
20. In the context of ongoing NPIs in early summer, there is a clear value for money case for extending CJRS beyond April 2021. A key factor is uncertainty around the path of NPIs, ongoing take-up of CJRS, and strength of economic recovery once NPIs are lifted. Nonetheless, it is highly likely that CJRS will continue to protect valuable employer-employee matches, reduce the risk of permanent business closures and give the labour market the best chance of a swift recovery as NPIs are eased.
21. A two-month CJRS extension on existing terms will provide certainty to employers, allowing them to plan beyond April whilst some NPIs remain in place and continue to maintain valuable employer-employee matches as the economy begins to reopen. This certainty will also support businesses as restrictions subsequently begin to lift, allowing the labour market to recover quickly. Following these two-months, a gradual winding down of the scheme in line with NPI changes will mean even greater value for money. By signalling an exit from CJRS via tapering in the context of a reopening economy, the extension will encourage businesses to bring staff back to work full or part-time, or to consider if these employments should be released. This will

encourage labour to move around the economy and reduce deadweight, also reducing Exchequer cost (decreasing the number of employments on the scheme and the monthly cost per employment supported).

22. Analysis suggests that whilst both tapering and targeting are expected to reduce the cost of the scheme and the average monthly cost per employment supported, once implemented tapering reduces these figures at a higher rate and more rapidly. Therefore, whilst tapering alone could mean that support is slightly less targeted at NPI-affected sectors, it will continue to reduce the scheme's deadweight and fiscal cost, as well as being simpler for HMRC to administer and employers to understand. As a result (and combined with extending the scheme on its existing terms until June), tapering appears to provide greater value for money on a cost basis.
23. Although not assessed in detail in the value for money note, an extension beyond April is likely to bring other benefits such as maintaining living standards by protecting against large losses in household incomes and reducing long-term labour market scarring. Considering all factors, the unknown path of NPIs means it could be very costly if sufficient support for jobs is not maintained.

Expected costs and potential impact

24. The costings in this advice incorporate latest assumptions from the OBR's R2 forecast. We expect the costing of the extension to change following the OBR's R3 forecast, which will incorporate the latest view of NPIs in the roadmap. The exact impact of round 3 on the final cost is unclear, but we expect the latest NPI assumptions will reduce take up relative to the version currently costed.
25. The costing uses an elasticity to determine the rate at which employments furloughed leave the scheme when employer contributions are introduced. In line with KAI's analysis of the impact of tapering over last summer, the costing assumes that a 10% increase in employer contribution leads to a -3.4% reduction in employments furloughed relative to the baseline in each month.
26. Figure 1 shows the potential fiscal impact of introducing a universal taper of 10% in July, 20% in August and 20% in September. Overall, we estimate the net cost over May-September to be c. £10.1bn. The post-tax monthly cost of the scheme would fall from c.£3.4bn in April to c.£2.6bn in May and c.£2.5bn in June. Introducing an employer contribution of 10% in July would see this post-tax monthly cost fall by

c.£0.5 bn to c.£2 bn, reducing to c.£1.6 bn in August with the introduction of a 20% contribution, and to c.£1.5bn in September. Tapering should therefore lower post-tax monthly costs by c.£1.9bn between April and September 2021 due to reduction of both the number of employments furloughed and the average cost per employment supported.

27. Tapering in this way means that the average monthly cost per employment supported would be expected to reduce from c. £700 in April to c. £500 in September, thereby increasing the scheme's value for money in terms of employments supported. It is important to note that these numbers are highly uncertain, as the average claim is dependent on the sectoral composition of claims as well as the split between employments that are furloughed on either full-time or flexible basis.

Figure 5. Costs of the May CJRS extension with tapering from July 2021

	April	May	June	July	August	September
	Baseline	0% EC	0% EC	10% EC	20% EC	20% EC
Total: Employments furloughed	4,767,425	3,882,281	3,676,298	3,363,323	3,102,318	2,980,345
Total: Average claim, £	805	772	768	670	574	574
Total: Monthly cost, £m	3,838	2,997	2,823	2,254	1,780	1,710
Posttax: monthly cost, £m	3,358	2,622	2,470	1,972	1,557	1,496
Average monthly cost per employment (£)	704.38	675.50	672.00	586.47	502.03	502.03

Equalities Considerations

28. PSED requirements: when formulating a policy proposal you are required to have due regard to the Public Sector Equality Duty (PSED) in the Equality Act 2010. Compliance with this duty requires decisions to consider the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations with those who share a protected characteristic. The full Equalities assessment, building on previous advice, is annexed and summarised below.
29. Overview: Data suggests that young people, people from ethnically diverse backgrounds and those on lower incomes (likelier to be women, disabled people or from an ethnically diverse background) are more likely to be furloughed. There could be large indirect impacts on individuals as CJRS changes may mean employers make decisions on returning to work or making them redundant. Whilst there may be a risk

of some employers making redundancy selections on a discriminatory basis, all employers are subject to legal obligations regarding equalities, which we have been clear in drawing to attention in CJRS guidance, and we are entitled to place reliance on employers meeting their own legal obligations and facing legal redress through normal means if they do not.

Impact of specific decisions

30. Maintaining employee generosity: Maintaining 80% employee generosity will support employees on lowest incomes and those with caring responsibilities who would be hit hardest by a fall in pay. This therefore likely has benefits for the protected groups more likely to be low paid (noted above).
31. Tapering: Tapering employer generosity may have different impacts across different pay bands. Employees on higher salaries will be more expensive to furlough, however some employers of low-wage workers may be incurring costs for the first time when contributions are introduced, creating a greater risk that they make low-paid workers redundant (who are more likely to be women, disabled people or from an ethnically diverse background). While there is a risk of redundancies, we can also expect many employers to bring employees back to work as NPIs are lifted.
32. Untargeted tapering: A targeted scheme could produce unequal impacts by supporting some parts of the economy (and the groups prevalent in those parts) more than others. An untargeted scheme may still have unequal impacts but ultimately applies to the whole economy equally.
33. Employee eligibility requirements: Maintaining or widening employee eligibility helps to ensure that the scheme does not exclude any groups with protected characteristics. Similarly, extending the RTI window from October 30th to 2nd March 2021 will significantly increase the number of employees eligible for the scheme. Some employees who are paid annually between 2nd March and 19th March 2020 may not be eligible. There is little data on what the population who fall outside of this scheme look like but important to flag there may be equalities impacts.

Impact on different groups

34. Age: CJRS changes are more likely to impact those under 25 and over 65, the former who are more likely to be furloughed and the latter who are more likely to be shielding. However, as we are intending to vaccinate vulnerable groups by Spring, which may mitigate impact on them, the key impacts may be for younger people (although these may be partially mitigated by Kickstart).

35. Disability: HMRC does not collect data on disability status but external research suggests people with disabilities are more likely to use CJRS and will thus be more impacted by the changes to the scheme.
36. Race: Although HMRC doesn't collect ethnicity data, people from a diverse ethnic background are more likely to be furloughed as they are likelier to be low-paid and are heavily represented in sectors where CJRS take is high. Tapering CJRS may therefore have a disproportionate impact on this group.
37. Sex: The employment distribution over time for the CJRS has remained very similar for both men and women. Whilst there will be impacts on men, there will be greater impacts on women because they are disproportionately represented in the sectors that have the highest take up, are more likely to be on lower incomes and tend to have more caring responsibilities.
38. Pregnancy and Maternity: If new or expectant mothers are variably paid, were on maternity leave during the period their reference salary is calculated, and the 'higher of' rule doesn't apply, they may receive lower pay than a counterpart on variable pay who didn't take maternity leave. If new or expectant mothers were on maternity leave for the whole eligibility window and weren't paid via PAYE due to receiving Maternity Allowance or taking unpaid leave, they may not be eligible for CJRS.
39. Characteristics for which is there is no/little impact: gender reassignment, religion or belief, sexual orientation, marriage and civil partnership: We do not know the proportion of these groups within the furloughed populations, and there is very limited external data available. We think it is unlikely there will be any major differential impacts flowing from our policy design for these groups.
40. Region: Regional impacts depend on lifting NPIs and the vaccine rollout, which is uncertain. The continued availability of CJRS is likely to benefit low-resilience areas, Covid-19 hotspots and areas subject to tougher restrictions, but there are risks that tapering CJRS doesn't align with lifting NPIs in some areas, resulting in more redundancies and fewer returns to work in those areas.
41. Proceeding with policy: We assess that benefits of tapering and extending the RTI window, as set out in advice, outweigh the risks noted above. At least some of those who lose their jobs will be cushioned by eligibility for UC. Aligning tapering of CJRS

with lifting NPIs should also mean that employers are likely able to bring employees back to work rather than making them redundant.

Delivery considerations

42. HMRC are confident they can continue the CJRS claims service with no gap in availability for claims periods from 1st May onwards. We ask that you note the Delivery Considerations below.
43. IT delivery: whilst the claims service will use the same functionality, delivering the extension and tapering of generosity requires a small amount of build work. HMRC also need to ensure the system remains performant during extended use. These will take a maximum of 4 weeks and HMRC plan to begin development work during March to ensure the service is ready by mid-April.
44. Compliance: This extension will be subject to the same threats as previously in CJRS (opportunistic fraud by falsifying claims, asking employees to work longer than claims suggest; criminal capture of credentials or use of companies to submit fraudulent claims; and customer error in calculation). Moving the RTI cut-off date to the day before announcement may increase scope for opportunistic fraud, but we expect this risk to be low and the overall fraud and error risk remains at 5–10%. We also introduced extra compliance measures in the last extension (publishing employers' claims details and allowing employees to find out if they are being claimed for).
45. Customer services: the increased population of CJRS from the RTI cut-off date moving forwards will drive additional contact. We see no issue in being able to provide the necessary operational support, although need to consider capacity alongside any changes to existing or new schemes.
46. HMRC costs and capacity: HMRC can commit to delivery of this extension as set out. While full analysis hasn't been done, an initial estimate of Del costs to HMRC are c.£1.625m to run the scheme and c.£5m for operational resource, most of which fall in FY 2021/22. Further changes may incur extra DEL and opportunity costs on ongoing compliance. This in addition to AME costs for payments and separate to impacts of continuing work on targeting (we'll advise separately).

Accounting Officer considerations

47. HMRC will undertake an Accounting Officer (AO) assessment for CJRS, as required by Managing Public Money. As the responsible AO, Jim Harra will need to be comfortable that scheme meets regularity, propriety, value for money and feasibility expectations. Activity to support the final assessment is underway and at present, there are no material concerns that would prevent the AO from proceeding. We will provide final advice to the AO before commencement of the extension.

Legal considerations

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LPP

49. Legislation: The Direction needs to be signed before 19 April. HMRC will aim to update the guidance for the scheme extension to May and June alongside Budget. Officials will provide further advice on publication of guidance explaining the taper from July onwards and legislation.

Decision nine: ahead of final AO approval, can you confirm you have considered the value-for-money, equalities, delivery and legal implications of your decisions?