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Submission: Coronavirus Job Retention Scheme (CJRS) – announcement timing and wider handling implications

Issue

- You are considering advice on how to exit the CJRS, and how this sits alongside wider economic and fiscal objectives. Given the ongoing uncertainty, this note provides a basis to discuss your options for sequencing CJRS announcements, and the wider handling implications of any announcement next week.
- Regardless of precise timings and design, we expect some redundancies, and potentially firm failures, as CJRS support is withdrawn. Our ability to land an announcement will depend to a large extent on whether the Government sets out specific dates for phases of easing the lockdown. For example, announcing a tapering of support from July, without dates for further easing, is likely to lead to a higher level of ‘contingency’ redundancies.

Announcement sequencing options

1. You would like to set out more detail on your CJRS exit strategy early next week (Monday or Tuesday). We have included an illustrative narrative in the annex, where there remains a choice over how much detail you confirm. This choice is in the context of uncertainty over the broader approach to the NPIs, and the implications for other policies. Major media outlets covered details of emerging thinking today, and we expect further stakeholder reactions to follow. There are broadly three options for how much information you give next week.

2. **Option 1: Provide maximum detail on how you will withdraw the CJRS.** In line with our recommended approach (see separate note on a ‘straw person’ for CJRS exit) this would involve confirming an extension to September but reducing the generosity from July. You would also introduce arrangements so workers can return to work while businesses claim the grant but increase the cost to employers of furloughing staff and close the scheme to new entrants.
 - Advantages: This would be a front-footed approach, minimising the risk of ambiguities. It could give businesses a good basis on which to take decisions over the medium term.
 - Disadvantages: We will not be able to confirm full operational details next week, including how and when we will close the scheme to new entrants. There will be pressure to update our online guidance quickly, which could soon expose hard cases. There could also be unintended consequences, such as a rush of firms registering outstanding or new furloughs.

3. Option 2: Set out a roadmap for how you will withdraw the CJRS early next week, with a commitment to return with greater detail. This could involve setting out the economic rationale for tapering away support, confirming that the scheme will be extended in some form past July. You would commit to providing further details later.

- **Advantages:** This gives some ‘forward guidance’, while preserving space to set out detail later. This could give more time to understand how the NPI decision could affect businesses, and explore the operational complexities highlighted in advice this week.
- **Disadvantages:** It is unclear how much space this option will create, depending on how firms react to the ‘forward guidance.’ Ambiguity may precipitate redundancies in the short term, without a more explicit statement before the 15 May (which you could in any case risk being pressured into).

4. Option 3: Do not go further than your statements earlier this week, but instead announce a further 2 week extension to the scheme, with a commitment to setting out more detail later in May.

- **Advantages:** This option would give us more time to reflect on changes to the NPIs and the business response. It would also allow more time to consider other policy options, to set out a more proactive plan for business support as the CJRS is withdrawn

- Disadvantages: Extending increases the direct fiscal cost of the scheme, which has been the subject of media commentary this week. It is also unclear whether a two week extension would pose operations difficulties for firms, given most pay salaries towards the end of the month.

Wider announcement handling implications

5. Regardless of which option you choose, you are unlikely to be able to avoid questions next week on the wider implications of withdrawing the CJRS. In particular, we are likely to face the following questions:

6. What does the CJRS approach mean for self-employed people?

Extensions and changes to the CJRS will raise expectations about the level of support for the self-employed. There are policy reasons to treat these schemes differently; CJRS has the objective of keeping people connected to their employers; the SEISS is an income replacement scheme, more akin to a bridging grant or welfare. An ‘extension’ of the SEISS would involve increasing the level of the grant and we’d expect very high take-up at a cost of £3bn per month of extension (based on current take-up assumptions.)

7. SEISS is due to open to applications on Wednesday 13 May. Although announcing an extension to the CJRS will lead to questions about the consequences for the SEISS, we advise against making a statement on the future of the SEISS next

week, particularly any that involve any changes to the scope of the scheme, to minimise confusion for those who are due to apply. Instead, you could use an announcement to highlight that the scheme is open much earlier than expected and payments will be made by the end of May.

8. If you wanted to say something more about the future of the SEISS, you could signal that more information will be provided shortly. You have also received some advice on extending the scheme to reservists and those on parental leave in 18/19; you could announce that you are considering how it might be possible to support these populations, though this will also raise expectations from other groups who are currently ineligible for the SEISS (particularly the newly self-employed and company owner managers).
9. **How will government support sectors who are hit hardest by the NPIs, and could continue to be so for a long time?** While there are strong economic and policy reasons for not withdrawing CJRS support on a sector basis, the impact of removing/tapering CJRS support will vary significantly. Given the wider difficulties faced by the most at-risk sectors (demand falls, forced closures, financial vulnerability) announcing the end of CJRS without simultaneous mitigation may lead to furloughed workers becoming redundant, and wider firm distress. These could occur quickly after announcement, due to time lags involved in making large scale redundancies. Unemployment impacts are expected to be particularly felt in coastal towns and rural areas, concentrated in vulnerable local authorities in South West and Northern regions.

10. Key factors are how labour intensive the sector is, the financial health of the sector, and the impact of COVID-19 (and NPIs) on demand. Some of the sectors that are seeing greatest output falls (OBR estimates) are also those which have, on average, lower financial resilience e.g. Hospitality, Construction and Wholesale and Retail trade (see Annex 2). Hospitality and Wholesale and Retail will also be affected by the residual NPIs for longer than most other sectors.
11. HMRC estimates the majority (over 4m) of furloughed workers come from four sectors; Hospitality, Wholesale and Retail Trade, Manufacturing and Admin and Support Services (see Annex 3). The first three sectors have higher than average numbers of lower-income, young workers. Hospitality has higher than average levels of female employment. 2.7 million of furloughed workers are estimated to be in Hospitality, and Wholesale and Retail alone.
12. Other sectors expected to be particularly vulnerable to the CJRS ending, are construction, manufacturing, arts & entertainment and admin & support services. This is compounded by the 'restart costs' faced by some of these sectors (such as manufacturing), where there are significant time lags between costs for intermediate goods/labour and receiving revenue.
13. If you are minded to pursue Option 1 above (announcing full details of the extension), we recommend holding a conference call with the heads of the key business representative

organisation immediately following your announcement, to support handling. This would include the Big 5 business groups, with the addition of the British Retail Consortium and UK Hospitality which cover highly affected sectors. This would be an opportunity to brief the business groups on the policy and provide further reassurance on support for highly affected sectors.

14. If you would prefer to pursue Options 2 or 3, we would recommend holding official level calls only on Monday. You could then hold a meeting as described above later, once full details on the extension are announced.

15. **How will the Government help those that have been made redundant?** This will be particularly pressing if more firms announce redundancies next week. In terms of immediate support to cushion the loss in income, you can point to increase welfare generosity which will remain in place until April 2021. Relaxation of the MIF for self-employed UC claimants will also continue to at least September.

16. However, in terms of (non-fiscal) support to get people back into the labour market that will be more difficult in the short term. Active labour market policies will be important in the recovery – and we will provide further advice. But DWP’s labour market services and regimes are currently almost entirely switched off (until at least mid-June), as staff have been redeployed to deal with very high levels of UC claims, which are

still running at 2–3 times usual level, and with large volumes still in the system to process (and a further increase in applications would increase pressure).

17. If challenged on support, we can point to online resources available such as DWP's Find a Job (for searching and applying for jobs), and the National Careers' Service, which has extended eligibility for individual training and employment support to include furloughed workers and recently unemployed adults. However, in terms of any future offer, we would recommend a reactive holding line next week (alongside emphasising increased welfare generosity).
18. **What will ending the CJRS mean for working people who are clinically vulnerable/shielding?** It is likely that those “shielding” due to medical advice will continue to have to shield beyond the end of other NPIs. We made significant changes in March to SSP, UC and ESA in order to provide additional financial support to this group, amongst others. However, the CJRS has acted as de facto support for many economically active individuals who are shielding.
19. It will be difficult to announce any new policy intervention at the start of next week given that: i) we don't fully know what the future shielding programme will look like, ii) we are still collecting data, and iii) we need to establish the operational feasibility of any changes to potential support mechanisms (changing the design of benefits is operationally complicated). Given this, we recommend a robust line referring to existing sources of financial support and exploring with DWP and

others what options there are for additional financial support.
Do you agree?

20. **What are the implications for the Devolved Administrations, where the approach to loosening the NPIs could differ?** There is a reasonable likelihood that the NPI approach could differ in the DAs. This is particularly likely in Scotland where the First Minister has struck a more cautious tone than UK Government ministers and has suggested there will be little if any easing of restrictions next week. If you choose to end the CJRS across the UK at the same time, this could disproportionately affect employees in Scotland, Wales or Northern Ireland if their businesses are not able to open due to their DAs' approach to NPIs – and therefore the wider economies of each nation. This will have an impact on how the Union is viewed if the UK government is seen to 'pull the rug' from under employees still unable to work due to the NPI approach of the DAs.
21. There will be advantages to making sure the DAs take their decisions on NPIs fully informed about your plans for exit from the various economic support schemes. The DAs have given a commitment to treat in confidence any information that is provided to them in advance of it being made public. So far, they have kept this promise and we recommend informing them as soon as possible, to allow them to prepare for the implications, and to maintain the strong relationships we have built with the DAs during the COVID-19 response. However, you should also note that the DAs may feel their hand is being forced on their approach to NPIs due to decisions taken on CJRS and other schemes, if they believe following the UK

Government's timetable to easing restrictions is not in the public health interest of their nation.

22. Officials are speaking with the DAs at working level to gauge their reactions to recent public reports on exit from the scheme. We also recommend that CST calls his finance minister counterparts to discuss your decision with them. Do you agree?

**Annex 1: Illustrative and draft narrative for withdrawing the CJRS
(officials will continue to develop)**

1. As we start to reopen the country in a safe way, we need to get our economy going again.
2. Nearly [7] million people are currently furloughed, [nearly a quarter] of the private sector workforce. That's not good for those individuals who are losing income and skills, and not good for our businesses who have their workers sitting idle.
3. We know that many businesses are eager to reopen and already planning for how they can do that in a way that is safe for their employees and customers.
4. And this is important for all of us – while we've been in lockdown it's been right for government to support individuals' wages. But that isn't sustainable for the long-term. And the longer people stay at home, there's a risk it gets harder it gets to return to work. So we need to start supporting that transition now.
5. We recognise that it will take time for the economy to get back to normal. So there will be no cliff edge in support.
6. **[Announcing extension and tapering:]** I plan to taper down the CJRS scheme over July, August and September from [add taper figures]
7. **[Announcing flexibility and employer cost]** As our economy ramps up again it's right that support from the state ramps down and businesses play a role. I want to give employers more flexibility about how they use their furloughed workers and make them take

on some of the cost of keeping workers furloughed so they have an incentive to get people back to work. This is essential to getting the economy going again.

8. In some cases businesses may need to change their approach to operate safely, and that may mean they need different staff numbers or skills. But other sectors such as [X,Y] we expect to grow as the economy recovers. Asking employers to pay some of the cost of keeping workers furloughed will encourage them to give staff certainty on their future – so workers have the option of looking for a different role if that is right for them.

Annex 2: Sector Vulnerability to CJRS removal

Sector	Size of total sector		OBR Q2 output loss	% of firms at high risk pre-C19*	Labour costs as % of total costs**	% of firms using CJRS (estimate)	Openness (NPIs)
	Jobs	GVA (£, mn)					
Agriculture, forestry & fishing	399,000	13,497	0	15%	11%	no data	Open/essential
Mining & quarrying	58,250	17,417	-20	31%	13%	no data	Open/essential
Manufacturing	2,711,750	190,994	-55	30%	18%	29%	Opening or wfh
Electricity & Gas	146,500	30,805	-20	31%	7%	no data	Open/essential
Water/sewerage/Waste	242,750	24,536	-20	28%	17%	10%	Open/essential
Construction	2,306,000	123,050	-70	42%	15%	41%	Opening or wfh
Wholesale & retail	4,993,250	211,836	-50	32%	8%	20%	Closed
Transport & storage	1,803,250	83,632	-35	40%	17%	26%	Opening or wfh
Accommodation & food services	2,489,000	55,676	-85	42%	31%	80%	Closed
Information & communication	1,520,250	145,950	-45	36%	23%	7%	Opening or wfh
Financial & insurance activities	1126000	131,097	-5	27%	22%	no data	Opening or wfh
Real estate activities	615,250	258,524	-20	36%	14%	no data	Opening or wfh
Professional scientific & technical	3,233,250	156,317	-40	32%	26%	11%	Opening or wfh
Administrative & support services	3,045,500	107,625	-40	36%	15%	29%	Can't wfh

[OFFICIAL – MARKET SENSITIVE]

Education	2,966,750	116,623	-90	30%	58%	4%	Opening or wfh
Human health & social work	4,461,000	151,939	50	34%	48%	12%	Open/essential
Arts, entertainment & recreation	1,025,750	32,263	-60	33%	26%	68%	Closed
Other service activities	982,250	32,273	-60	33%	35%	no data	Closed

*: *high risk as measured by the proprietary risk score of a major credit ratings agency.*

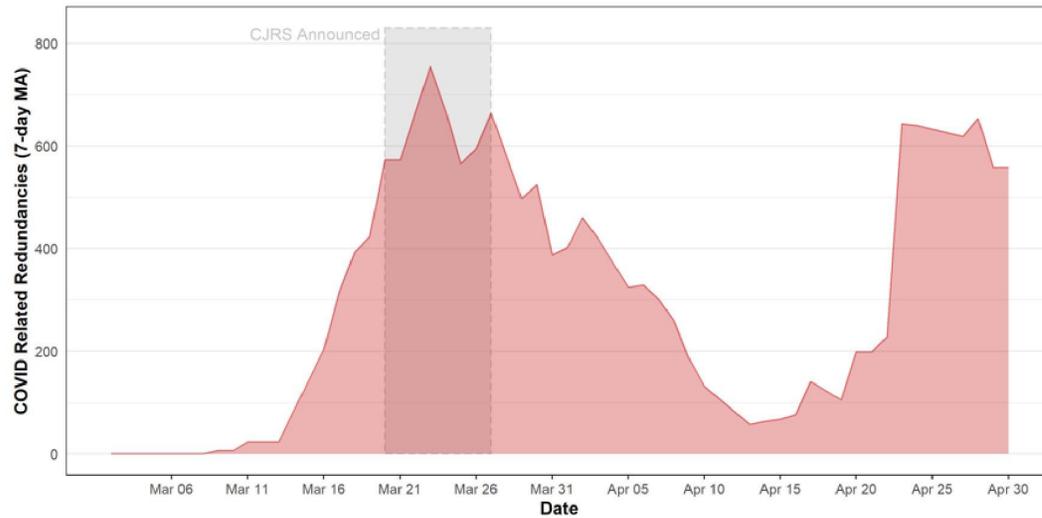
****:** from sample of Companies House data for firms with turnover > £45mn. This means that the results are unlikely to be representative for sectors where a large proportion of output is produced by small firms e.g. construction and retail.

Annex 3: CJRS usage by sector, including distributional analysis for most used sectors

Sector (ordered by estimated number of furloughed workers)	Workers (mi)	Estimated take-up of CJRS	Estimated furloughed employments (mi)	Characteristics of overall sector: % of workers who are:					
				Bottom 50% of income dis'n	female	under the age of 35	have children	Part-time workers	Self-employed
Accommodation and Food Services	2.2	80%	1.7	52%	53%	53%	38%	45%	12%
Wholesale and Retail Trade	4.6	20%	0.9	43%	47%	40%	37%	37%	10%
Administrative And Support Services	2.8	29%	0.8	26%	27%	32%	38%	9%	7%
Manufacturing	2.4	29%	0.7	43%	45%	34%	41%	25%	25%
Arts, Entertainment And Recreation	0.8	68%	0.6						
Construction	1.3	41%	0.5						
Professional, Scientific And Technical Activities	3.3	11%	0.4						
Transportation And Storage	1.3	26%	0.3						
Health And Social Work	2.3	12%	0.3						
Unaccounted: Other	0.7	26%	0.2						
Information And Communication	1.2	7%	0.1						
Unaccounted: Primary	0.2	29%	0.1						
Education	1.2	4%	0.0						
Real Estate Activities	0.4	11%	0.0						
Water Supply and Waste Management	0.2	10%	0.0						
Unaccounted: Utilities	0.1	10%	0.0						

Chart 1: HR1 redundancies since March

Daily HR1 Redundancy Notifications citing COVID (7 day MA)



Note: HR1 is an underestimate of overall redundancies and flows into unemployment. Form only required by law to notify the RPS of a proposal to dismiss 20 or more employees at one establishment. If firm operates across more than one site, each one is treated separately according to the rules.