



Submission: Post-September job retention contingency planning

For decision

Issue

You requested advice on job retention options to be introduced post-September if needed. There are two potential reasons to consider a further job retention intervention: (i) in an upside scenario, a few sectors (e.g. travel) may remain affected after step 4 of the Roadmap, on which you've received separate advice on 30 July, and (ii) the possibility of downside scenarios where there is re-escalation of NPIs in winter.

This advice sets out that there are trade-offs between having a closed or alternative (e.g. FIT) targeting capabilities ready for October and between delivering a contingency and aviation-specific scheme should you wish to have a FIT-based contingency scheme.

Timing

We are discussing these steers in a meeting with you on Tuesday 3rd.

Steers sought

Employer eligibility targeting	
Steer 1	Targeting option to prioritise – do you want us to prioritise building 'closed' or another targeting capability for a winter scheme? Given the E&F risks of other options, this could be a FIT, although you'll want to note the policy challenges and interactions with delivering an aviation-specific scheme.
Steer 2	Implications of 'closed' targeting – if you want to build 'closed' targeting capability, do you wish to have broader support (e.g. an 'open' scheme) alongside to capture other impacted sectors in downside scenarios?
Wider design choices	
Steer 3	Employee eligibility and employer contributions – we propose to explore restricting employee eligibility to more viable jobs by adjusting employer contributions, and to revert with follow-up advice. Do you agree?
Steer 4	Employee generosity – due to likely external challenge and income impacts, we don't propose changing employee generosity levels. Do you agree?
Steer 5	Claims service design – we recommend that any post-September scheme is based on repurposing the current CJRS IT and claims being made monthly and in arrears. Do you agree?
Support for the self-employed	
Steer 6	Support in downside scenarios – do you want us to work up a narrative for the self-employed & options to improve people's productivity in their trade?

Annexes

A – Total jobs at risk of redundancy in central and downside scenarios

B – Jobs by sector at risk of redundancy in central and downside scenarios

C – Firms reliance on cash reserves to pay wages in downside scenarios

Labour market impacts of winter contingency scenarios

1. As you know, we've been undertaking work to support the end of CJRS in September along with considering how to respond to various post-September contingency scenarios should they arise. This builds on past CJRS summer contingency work.
2. SPB advice sets out a series of post-September scenarios and impacts may include:
 - **Upside / central scenario** – where only minimal baseline measures remain (e.g. on travel). As of June, 89.9k roles were furloughed in the aviation, international rail, maritime and travel agent sectors, and EGU analysis suggests over half of jobs in aviation and travel agent sectors are at risk of redundancy with CJRS closure (see annex B). You will receive advice this week on corporate sector analysis (including redundancies).
 - **'Medium impact' downside** – where high prevalence leads to re-introduction of some NPIs or persistent voluntary social distancing (like a return to step 3). HMT modelling estimates unemployment will be at similar levels to the March OBR forecast (when you decided to close CJRS) and the economy is still expected to grow (albeit slower than the central scenario). However, a few sectors like arts and entertainment, hospitality and travel would rely on cash reserves to fund wages (see annex C) and we'd expect additional redundancies in these sectors.
 - **'High impact' downside** – where more severe NPIs are re-introduced (like a move back to step 2, involving widespread closures). HMT modelling estimates that unemployment will peak at 7.4%, 0.9ppt over the OBR's forecast and that the economy will contract in Q4 2021. EGU analysis estimates that 1.1m additional jobs (beyond in a central scenario) are at risk of redundancy in this scenario, mainly in the food and beverages and accommodation sectors (see annex A).
3. In general, **we judge that we should set a high bar for introducing further job retention support**. The labour market context has shifted our priorities towards facilitating reallocation, given the need to support recovery in re-opening sectors and examples of staff shortages. There is also evidence that furlough has inhibited structural change and any extension of furlough risks high fiscal costs. However, in a downside scenario, there will be a tipping point of NPI re-escalation (such as step 2-style restrictions) when at a macro level the medium-term productivity hit from loss of job matches and negative impacts to incomes and aggregate demand will outweigh benefits of re-allocation, and therefore we may wish to re-introduce a targeted job retention scheme.

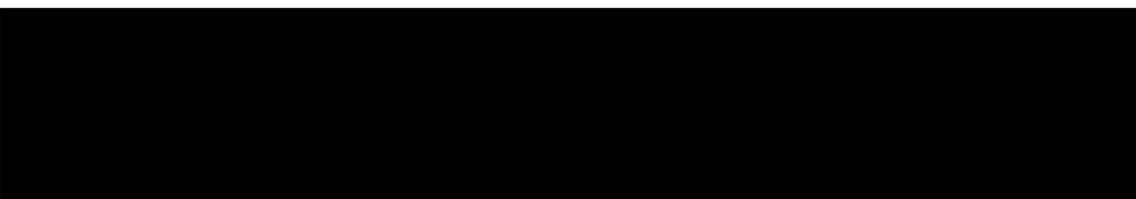
Employer eligibility targeting for a contingency scheme

4. **Rationale for employer eligibility targeting.** In any scenario where we re-introduce a job retention scheme (even in the worst downside scenarios), there is a strong policy case to target eligibility at directly impacted employers to limit deadweight, which has been significant in CJRS. For example, c. 12% of jobs furloughed over May to October 2020 were by employers that increased turnover during Covid vs a pre-Covid comparison and some sectors (e.g. gambling) have maintained high CJRS take-up whilst sector output has recovered to pre-Covid levels.
5. **Appropriateness of targeting options in scenarios.** We have previously considered with you targeting by sector, location, 'closure' and turnover decline. We developed a FIT for Budget but focussed on 'closed' and geography for summer.
 - In a **'high-impact' downside scenario**, which includes re-imposition of broad legal closures, a **closed scheme** may be an appropriate option to support employers forced to close, in line with your previous steers. But it is inflexible to NPIs that constrain demand rather than mandate closure. You'd need to consider whether, and if so how, to **include hard cases of 'effectively closed' sectors (e.g. via an 'open' scheme)**.
 - In a **'medium-impact' downside scenario**, you'd need to consider alternative targeting options to closed if you wished to re-introduce a job retention scheme as NPIs would likely restrict activities and demand, but not mandate closure. **Applicable targeting principles could include a short-time work / 'open' scheme like JSSO or sector targeting (e.g. to aviation)**. However, there are arguments against intervening in this scenario, due to risk of inhibiting reallocation when much of the economy is open and is expected to grow (see analysis above on a 'medium-impact downside scenario'). Thus, **you may wish not to prioritise developing contingency measures to do so**.
6. **Error and fraud risks.** You should note that HMRC now judge that there is a significant E&F risk in using options like 'closed' to select eligibility in winter. HMRC previously estimated that E&F rates for JSS (encompassing open and closed) would be acceptable based on assumptions that we could resolve critical data issues before launch. However, we've concluded data work since JSS (looking at SIC codes, VOA and Food Standards data) which indicates there is insufficient reliable data held by HMRC to verify location or most sectors pre-payment. Post-payment checks may identify some fraudulent behaviour but rely on costly manual interventions and only mitigate a fraction of the E&F risk. It is also worth noting that JSS Open (using a FIT) was more robust compliance-wise and gave employers locked out of JSS Closed access to a form of support. These factors influenced the overall E&F rate for JSS.
7. We have further explored alternative options to determine eligibility of employers based on 3rd party data or intelligence to reduce this risk. Conclusions are as follows:

- **For sector targeting**, we may be able to bring E&F down to 5-10% if limited to aviation, which has good external sector data and is comprised of large, lower risk employers. But we likely can't do the same for most other hard case sectors (e.g. events, night-time economy), due to poor accuracy of sector data.
 - **For closed targeting**, we have considered the idea of using LAs to select eligible employers for HMRC to reduce the E&F risk. But our experience of locally administered business support shows that the LA channel is slow, inconsistent and has limited data or value-add, making it unlikely to reduce E&F.
8. This likely leaves us reliant on self-declaration for closed, multi-sector or geography targeting, which results in an estimated E&F rate of 5-25%¹, although that can be reduced to 5-20% by moving to payments made monthly and in arrears. We judge that there are unlikely to be further possible options to reduce this risk.
9. For summer contingency planning, we viewed this risk as acceptable as 'closed' and 'geography' targeting only determined access to employer contribution 'top-ups', not a full subsidy, and given the short-term nature of any support. **However, you may wish to consider whether E&F rates for a closed scheme are unacceptably high in a winter context.** When we considered the Directors Income Support Scheme, we rejected it because E&F was unacceptable at 5-20%. However, these estimates are provisional, and **any judgement on E&F needs to be traded off against costs of an untargeted scheme or policy challenges with alternative targeting mechanisms.**
10. **Other options.** If you wanted to provide a broad scheme in response to downside scenarios and were concerned about E&F risks of closed or multi-sector targeting (and the costs of an untargeted scheme), you could explore a FIT. This may be more verifiable as it mainly relies on VAT data (with 87% of CJRS employments furloughed by VAT-registered businesses – although we don't have an E&F estimate for a FIT in winter). It also captures 'effectively closed' businesses. However, you previously ruled out a FIT as it is less targeted to the exact population impacted in a downside scenario. There are also issues in capturing the right population when relying on backward-looking data amidst NPI re-escalation and outdatedness of pre-Covid reference data that we'll need to resolve (along with wider issues identified before).
11. **Delivery timelines.** HMRC's initial estimate is that they could deliver any one of the following options, to be ready for claims periods beginning October 1 (assuming we move to claims monthly and in arrears and repurpose the CJRS IT – see below):
- A version of an 'open and closed' scheme (with the 'open' population paying a higher employer contribution, possibly a self-declared minimum hours threshold, but no FIT as there was in JSSO); or
 - A scheme where only those 'closed' are eligible, or
 - A scheme where only those passing a FIT are eligible

¹ Th range of estimate for closed will be driven by factors like the number of sectors closed and quality of closure reference data.

12. In any of these options, we'd still be able to revert the system to the current CJRS in approximately 2 weeks if necessary, depending on claim window timings. But HMRC cannot build both 'closed' and FIT-based targeting capability in tandem for claims periods starting October 1, with a claims service opening in mid-Nov, due to different changes being required at the same point in the claims service for each requirement. The initial estimate is that building sequentially could take delivery to post-Christmas, depending on the policy design. Therefore, **you'll need to decide whether to prioritise building closed or alternative (e.g. FIT) targeting capability.**
13. You've received corresponding advice on **an aviation-specific scheme and should note implications of HMRC developing this alongside a winter contingency scheme:**
- If we built an aviation scheme together with a 'closed' or 'open and closed' scheme, this would be doable for claims periods beginning October 1.
 - However, if we built an aviation scheme together with a winter scheme based on a FIT, the timelines for the winter scheme are pushed to early 2022.
 - In either option, an aviation-specific scheme could be switched on even if the wider winter scheme is not (and vice-versa).
14. **For any options to be available to these timescales, due to HMRC delivery lead-in times, you'll need to take a decision on which you want us to build by mid-August.**



Steer 1 – do you want us to prioritise building 'closed' or another targeting capability for a winter scheme? Given E&F risks of other options, this could be a FIT, although you'll want to note the policy challenges and interactions with delivering an aviation-specific scheme.

Steer 2 – if you want to build 'closed' targeting capability, do you wish to have broader support (e.g. an 'open' scheme) alongside to capture other impacted sectors?

Wider design choice considerations

16. **Employee eligibility and generosity changes.** Contingency discussions have mainly focussed on employer eligibility but criteria on employee eligibility and generosity are equally important in targeting support (especially given E&F issues with employer targeting). We'll revert with advice but are currently considering the following:
- **Introducing employee eligibility criteria to target medium-term viable and/or higher-value jobs,** such as a minimum hours worked requirement. As

under JSS we'll have to consider eligibility criteria against NPIs they are being implemented under and data limitations in identifying specific jobs or time spent working.

- **Requiring a permanent employer contribution to wages.** Employer contributions target roles more likely to be retained, as employers must be willing to overpay for labour rather than make an employee redundant. Evidence from last summer suggests limited job losses when introduced in a re-opening economy, with c. 250-650k roles leaving furlough and most remaining with their employer. But more firms may not be able to afford costs under re-escalating NPIs. In a Step 1/2 scenario, modelling suggests a 20% employer contribution will lead to over 50% of firms relying on cash reserves to fund wages in sectors like hospitality, which may lead to redundancies (see annex C). However, due to the incentives created, we're inclined to require employer contributions in a downside scenario and you previously gave a steer that you were minded to do so.

Steer 3 – we propose to explore restricting employee eligibility to more viable jobs and retaining employer contributions in any further job retention intervention, and to revert with follow-up advice. **Do you agree?**

- **Reducing employee generosity from current 80% level.** This would reduce fiscal costs and incentivise employees to search for alternative work where possible. But it would have a negative impact on household incomes, especially as the majority of CJRS claimants earn less than 20k p.a., although we would want to understand the interaction with UC and other support. In the context of a downside scenario it will also likely lead to strong criticism.

Steer 4 – due to the likely external challenge and impact on incomes, we do not recommend changing employee generosity levels from 80%. **Do you agree?**

17. **Claims in arrears.** We'll need to take decisions on design of the claims service to ensure timely delivery. One option is moving claims to be monthly and in arrears. This would reduce E&F by c.5% by limiting errors (as employers will have already paid employees) and allowing HMRC to conduct some RTI checks pre- not post-payment. There may be cash flow impacts for firms who claim in advance, but we were comfortable with this in JSS and many firms will recover revenue over summer.

18. **Repurposing CJRS IT system.** We propose to repurpose current CJRS IT for a winter scheme as we adapted CJRS to implement flexible furlough. This is quicker to deliver than a new system and allows us to deliver any option in this advice. However, this has presentational risks as, while we could give it different branding, using the same IT system means the scheme will be legally known as CJRS, will be accounted for as such and payments will appear as CJRS in customer accounts. If you want to distance any winter support from CJRS then HMRC would need to build a separate scheme and IT service that is legally distinguishable. This would cost £4.5m and add an extra 1 month to delivery

timescales. **To deliver this in time for claims periods from 1st October, HMRC would need a steer and to begin delivery now.**

Steer 5 – we recommend that any post-September scheme is based on repurposing the current CJRS IT and claims being made monthly and in arrears.
Do you agree?

19. **Links to support for self-employed in winter scenarios.** You may face pressure to offer further support for the self-employed in downside scenarios. We recommend developing a narrative to justify lower or different support for the self-employed, including that they should try other activity if their trade is incompatible with COVID. We also recommend developing a package to improve people's productivity within their trade, while ensuring we don't prevent people switching to more productive activity. A package could include financial support, loans, productivity support, or help into other work. We anticipate this may be sufficient in any scenario here.

Steer 6 – Do you want us to work up a narrative for self-employed support and options to improve people's productivity in their trade, and give you further advice?

20. Some options have equalities implications, which we will set out in follow up advice.

Annex A: Estimated jobs at risk of redundancy in Q4 2021 across scenarios, HMT Firms model

Have modelled sector redundancy impacts of two scenarios using the 'Firms model':

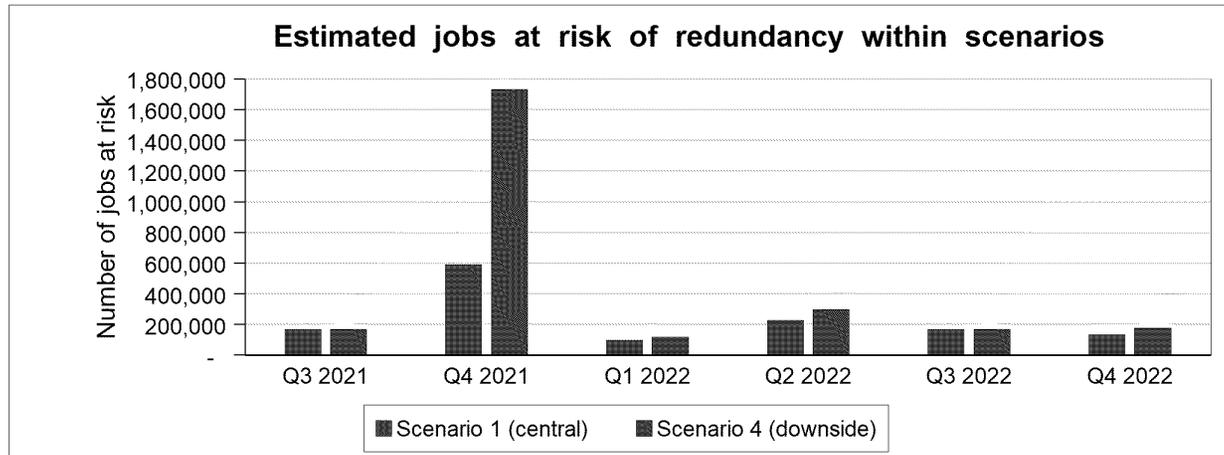
- **A central scenario** sees the economy in Step 4, with only restrictions remaining on international travel from August onwards.
- **A 'high impact' downside scenario** sees a return to step 2 in October, which impacts 'hard case' sectors.

In a central scenario, the ending of furlough sees around 600,000 jobs at risk of redundancy in Q4 2021. This is higher than the previous Covid peak in quarterly redundancies of 402,000 in the 3 months to November 2020 (when CJRS was in place).

A high impact downside scenario sees the ending of CJRS coincide with a move back to step 2 in the roadmap. **As a result, an additional 1.1m jobs are estimated to be at risk in Q4 2021 compared to the central scenario.**

Not all these jobs at risk of redundancy will translate through to unemployment. Some of these jobs will be reallocated and some will move to inactivity, meaning figures do not equate to unemployment increases. Firms may also choose to cut worker hours instead of making them redundant. The increase in the unemployment rate depends on labour market inflows, which are not estimated here.

Internal top down estimates show that unemployment is expected to rise by around 300,000 into Q4 2021 scenario 1 and around 800,000 in scenario 4. This implies that around half of the modelled jobs at risk shown here would not end the quarter unemployed.



Annex B: Sector concentration of jobs at risk of redundancy in Q4 2021 across scenarios, HMT Firms Model

In a **central scenario** jobs at risk of redundancy are sectorally concentrated, with around 25% in sectors directly related to international travel. The model **estimates that over half of air transport and travel agencies jobs are at risk.**

Motor vehicle manufacturing is a new sector highlighted with large numbers of jobs at risk. This is driven by the recent semi-conductor supply shortage, which left output in the sector 35% below pre-pandemic levels in May 21.

Food & beverage services are no longer flagged as having significant jobs at risk in the central scenario. This follows a strong recovery in activity in this sector throughout Q2 2021

In a **'high impact' downside scenario**, the additional jobs at risk of redundancy are highly sectorally concentrated **with food & beverage services estimated to account for over 50% of the additional jobs at risk.**

A wide range of NPI affected sectors carry a significant employment risks in scenario 4 following the move back to Step 2 restrictions. Sectors estimated to see over 30% of jobs at risk include those in accommodation and food services, as well as sectors within arts, entertainment and recreation.

Central scenario

Sector	Q4 est. jobs at risk as % of jobs in sector	% of total Q4 est. jobs at risk
Travel agencies and tour operators	>50%	15%
Air Transport	>50%	10%
Motor vehicle manufacturing	25%	5%
Creative, arts and entertainment	20%	5%
Other transport equipment [aerospace]	15%	5%
Accommodation	15%	10%
Other personal service activities	10%	5%

Sports, amusement & recreation	30%	5%
--------------------------------	-----	----

'High impact' downside scenario		
Sector	Q4 est. jobs at risk as a % of total jobs	% of additional risk as a % of Q4 jobs at risk vs. Scenario 1
Air transport	>50%	<5%
Travel agency & tour operators	>50%	<5%
Accommodation	>50%	20%
Other personal service activities	50%	10%
Food and beverages services	35%	>50%
Libraries, archives, museums	30%	<5%
Creative, arts and entertainment	30%	<5%

Annex C: downside scenario impact on use of cash reserves within sectors (SIC 2)²

The table outlines the % of firms within sectors reliant on cash reserves in downside scenarios where they are required to pay 20% employer contributions or have no furlough support. We'd expect greater redundant where larger reliance on cash reserves.

April and May 2021 act as proxies for the impact of NPI re-escalation. April can act as a proxy for step 1 / 2, May as step 2 / 3. Labour costs are fixed in the 'no CJRS' scenario but vary proportionally with turnover with CJRS. The analysis also assumes that 50% of other costs are fixed and 50% are variable relative to turnover in both scenarios. Sectors outlined below are those who may be particularly impacted by re-escalation, based on the formulation of NPIs in England's roadmap.

SIC2	Impact of Step 1/2 (based on April 2021 GVA data)		Impact of Step 2/3 (based on May 2021 GVA data)	
	% of firms relying on cash reserves with CJRS and 20% EC	% of firms relying on cash reserves without CJRS	% of firms relying on cash reserves with CJRS and 20% EC	% of firms relying on cash reserves without CJRS
H.49 Land transport	< 10%	10 - 20%	< 10%	10 - 20%
H.50 Water transport	10 - 20%	41 - 50%	10 - 20%	20 - 30%
H.51 Air transport	61 - 70%	> 90%	61 - 70%	> 90%
I.55 Accommodation	71 - 80%	> 90%	41 - 50%	71 - 80%
I.56 Food and beverage service activities	51 - 60%	71 - 80%	10 - 20%	31 - 40%
N.79 Travel agency and tour operators	> 90%	> 90%	> 90%	> 90%
R.90 Creative, arts and entertainment activities	31 - 40%	51 - 60%	31 - 40%	50 - 60%
R.91 Libraries, archives, museums and other cultural activities	21 - 30%	51 - 60%	< 10%	21 - 30%
R.92 Gambling and betting	10 - 20%	10 - 20%	10 - 20%	10 - 20%
R.93 Sports, amusement and recreation activities	41 - 50%	61 - 70%	41 - 50%	61 - 70%
S.96 Other personal services activities	31 - 40%	51 - 60%	31 - 40%	51 - 60%

² Source: HMT Analysis of Fame / Companies House data