Sorting it out

The Chancellor moves to fix the Job Support Scheme

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The Chancellor has sharply, and rightly, changed course to make Job Support Scheme (JSS) a functioning short-time work scheme, addressing its central flaw. Slashing the share of wages for hours not worked that employers must pay from 33 to just 5 per cent will make a big different to the cost of using the scheme. This will incentivise more firms that are trading at below normal capacity to cut hours rather than jobs, leading to lower unemployment and better protected incomes.

He has taken the right approach in implementing this support across the country: significant restrictions are now in place right across the UK, and individuals are being more cautious everywhere in response to an increase in virus cases. Businesses in hospitality and leisure as well as many other sectors will face difficult conditions for months to come.

These changes to the JSS come just ten days before the scheme will be introduced. The delay in fixing the scheme will have cost jobs, with firms taking decisions on the basis of the very high employer contributions they believed would be required. The next time policy needs to adjust, which no doubt will come, should not be done so close to the wire.

The Chancellor's economic support package today caught up with the reality that restrictions - whatever the Tier - are tough for many businesses

Since July, the Treasury's approach to economic support policies has been to wind down the generous schemes it introduced when the pandemic initially hit. But the world has now changed, as the history of pandemics suggested it might, and it is good news that the Chancellor has today increased support for firms and workers to reflect the new reality.

The two key changes to the Job Support Scheme (JSS) announced today are:

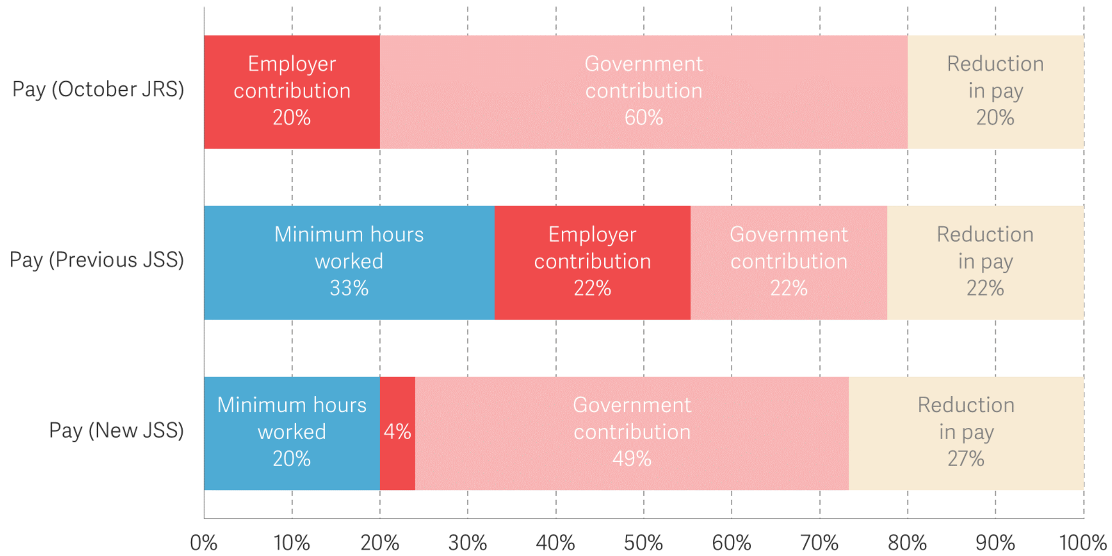
1. A significant reduction in the employer contribution, from 33 per cent of not worked hours to just 5 per cent

2. A reduction in the minimum hours requirement from 33 per cent of usual hours to 20 per cent

Both changes (illustrated in Figure 1) are welcome, with the former is the most important, in that it radically improves the incentives for employers to retain staff on shorter hours. The JSS is now a functioning short-time work scheme. This is crucial because keeping unemployment down and continuing to protect household incomes over the winter should be two key economic objectives for Government policy in the months ahead.

Figure 1 **Employer contributions and the minimum hours requirement in the JSS have both been cut**

Scheme design for an employee working minimum required proportion of pre-coronavirus hours, under Job Retention Scheme and both version of the Job Support Scheme



Notes: For employees earning below £2,500 a month.
Source: RF analysis.

This change to the scheme will increase its cost significantly, but only because it will enable the JSS to protect more jobs (a very good thing). For each million people on the average furloughed wage that are on the scheme for six months and working one-third of their usual hours this scheme will cost £3.5 billion (in gross terms), compared to £1.9 billion before today's changes. The overall increase in cost is almost impossible to estimate at this point, being heavily dependent on how extensive and lengthy the lockdown is in the months ahead. But the changes implemented today mean that the overall cost is likely to be many multiples higher than would have otherwise been the case because firms now have sufficient incentives to use this scheme.

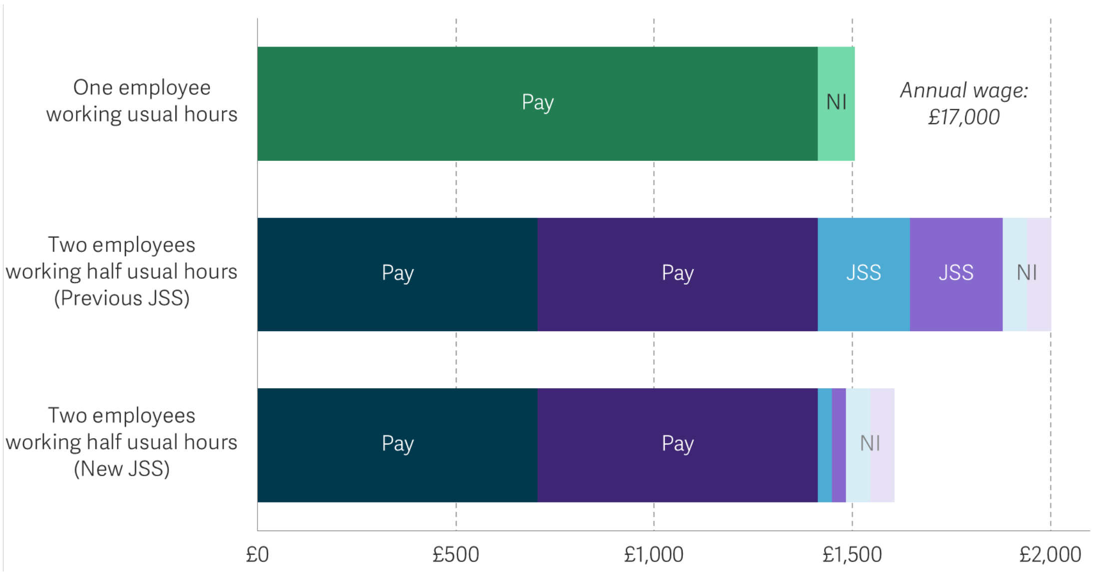
Slashing employer contributions means that there are now real incentives for short-time working, that are even larger when the impact of the Job Retention Bonus is considered

The JSS, which was implemented, in the Chancellor's own words, to give "businesses who face depressed demand the option of keeping employees in a job on shorter hours rather than making them redundant", was set to have limited take-up because the employer contribution towards hours not worked was too high. However, the Chancellor's intentions are now matched by his decisions; in reducing the employer contributions to not worked hours from 33 per cent to just 5 per cent there are now very real incentives for employers to keep as many staff on as possible working shorter hours. Redundancies over the winter will be significantly lower than otherwise because of this big change, much more than a tweak.

The much smaller JSS employer contribution means that using the JSS as a short-time work scheme is now a realistic option for many employers, both on a spreadsheet and in the real world. As Figure 2 shows, the JSS contribution to hours not worked for an employer considering keeping two staff earning £17,000 a year (the average wage of furloughed employees) on but on half their usual hours has fallen from £233 a month to just £35 a month – an 85 per cent reduction.

Figure 2 **Slashing employer contributions means that the JSS is now fit for purpose**

Pay, Job Support Scheme (JSS) and Employer National Insurance (NI) costs for employee on average furloughed wage



Notes: For employees earning below £2,500 a month.
Source: RF analysis.

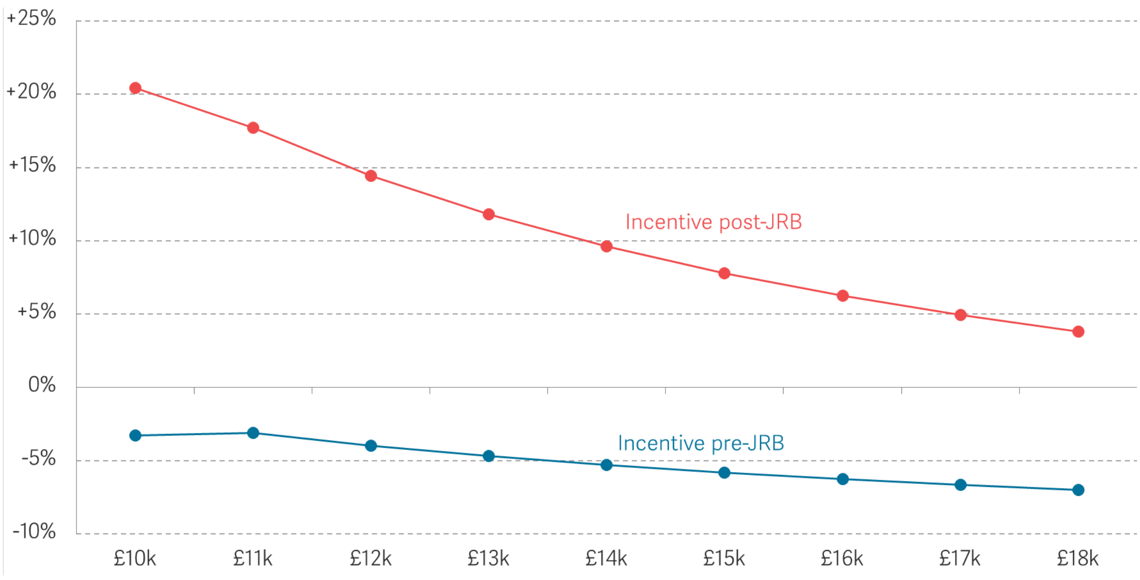
The incentive to keep lower paid staff on the books but on reduced hours will be higher still as a result of the NI threshold – NI payments fall to zero for anyone earning less than £732 a month.

The other component of the Government's winter job retention plans - the Job Retention Bonus (JRB) - will further boost incentives for staff to keep employees. This £1,000 bonus is paid to employers for every staff member who has been furloughed that remains in employment with the business until 31 January 2021.

The flat-rate nature of the JRB means that it provides a larger incentive, relative to wages, for employers considering keeping on lower paid staff. As Figure 3 shows, employers will be 20 per cent better off retaining two staff with usual annual wage of £10,000 for the next six months – and receiving £2,000 in JRB payments - than making one redundant and keeping the other employed and only receiving £1,000 in JRB payments.

Figure 3 **The Job Retention Bonus boosts incentives for work sharing even further**

Financial incentive to employ two people at half their usual hours for six months from November to April compared to employing one person on the same wage full-time for six months, by annual wage, with and without the Job Retention Bonus (JRB)



Notes: For employees earning below £2,500 a month.
Source: RF analysis.

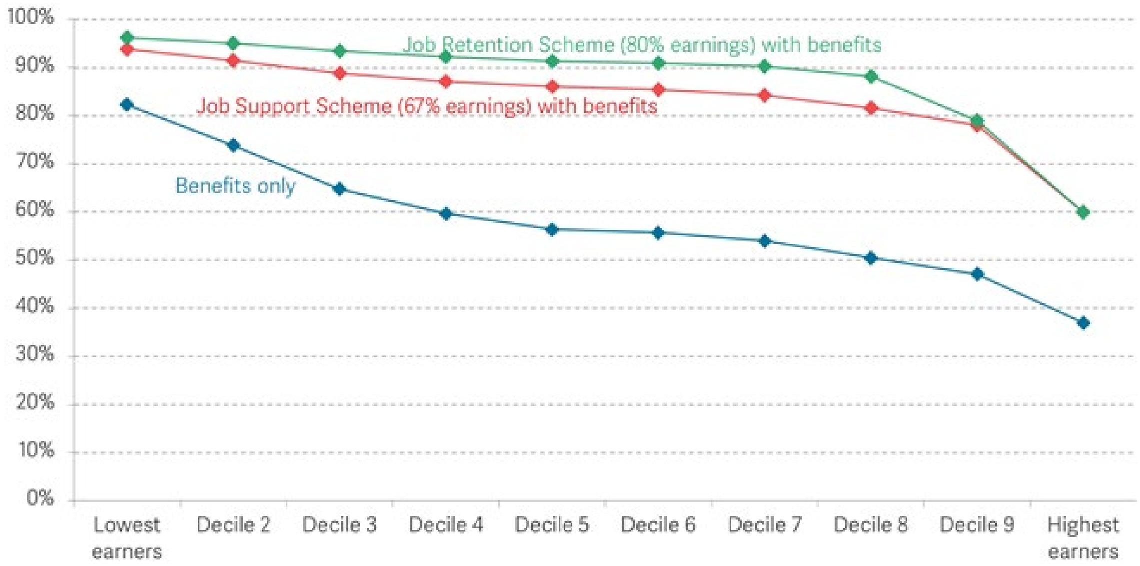
Cutting employer contributions was more important than boosting the employee replacement rate

The main bone of contention in the debates around the adequacy of support from 1 November has been the reduction in the replacement rate for employees within furlough-style schemes from 80 per cent to 67 per cent. Although we would prefer a scheme that had higher replacement rates for lower earners, this was not the main problem with the support as a whole.

Rather, fixing the design flaws in the previous JSS mattered more for maintaining incomes over the winter. This is because the new scheme will help keep unemployment lower than otherwise, preventing people from moving onto Universal Credit. Having people on the scheme with protected incomes is better than those same people not being on it at all. As Figure 4 shows, the gap between support on the JSS (which will be topped-up by Universal Credit for employees in low-income households) and the JRS is much smaller than the gap between support on the JSS and moving into unemployment and onto benefits.

Figure 4 **The big income hits will fall on the unemployed, not those furloughed on 67 per cent of their wages**

Median household income replacement rates for employees by original earnings decile, by wage support scheme



Source: RF analysis using the RF microsimulation model.

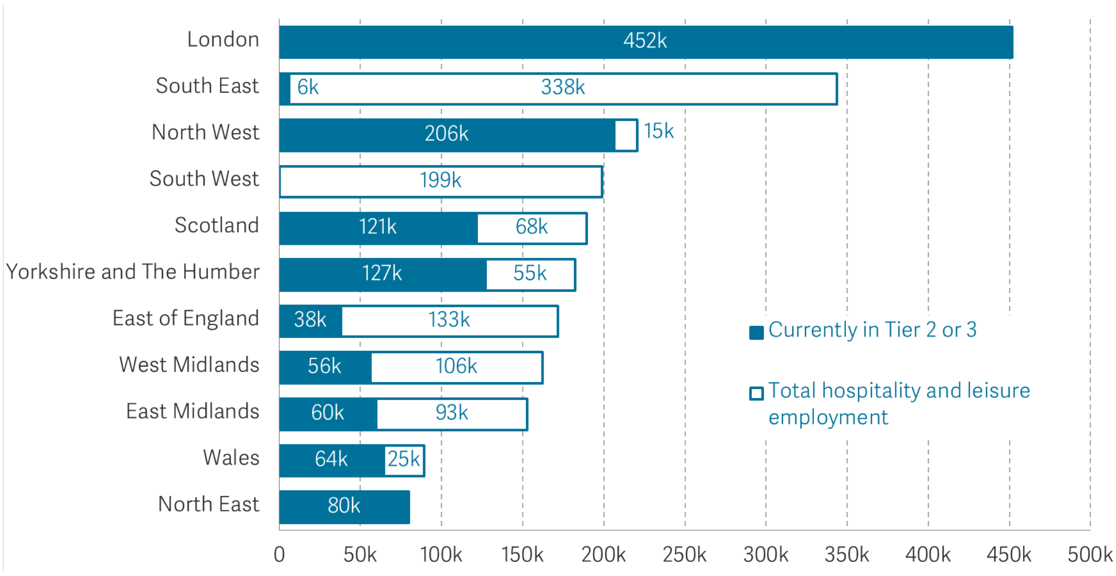
On average the household income replacement rate for adults in the second earnings decile who are moved onto the JSS is 92 per cent, much higher than the average replacement on benefits, 74 per cent – and moving the JSS replacement rate back up to 80 per cent would only make a small difference to living standards for low-income households in receipt of UC.

It is welcome that this is a national scheme, not just one for businesses in the highest Tiers

The Chancellor was right to have implemented this scheme on a national basis, and not just for businesses in the highest Tiers. Voluntary social distancing, household mixing rules and other guidelines have an effect on businesses across the country, not just on those in the highest Tier of restrictions. Figure 5 shows, for example, that there are around 1 million employees working in leisure or food and drink businesses in areas outside Tier 2 and Tier 3.

Figure 5 **Struggling businesses are in more than just the highest tier**

Estimated number of employees working in the leisure and food and beverage service sectors, by whether currently under local lockdown measures: GB



Notes: Comparable data is not available for Northern Ireland. To estimate the number of employees in the relevant sectors, we have taken 2018 breakdowns of employment by industry and local authority from BRES, adjusted for the change in employment in each region between 2018 and Q2 2020 using the Labour Force Survey, and reduced by 10 per cent to account for workers who may have lost their job in recent months (for example, as the Job Retention Scheme has been wound down), but who are not yet showing up in the unemployment statistics.
Source: RF analysis of ONS, Business Register and Employment Survey; ONS, Labour Force Survey.

The Chancellor was late to changing this scheme, and may still need to widen eligibility for the JSS for closed businesses

The changes to the JSS made today are welcome and will make a big difference to the scale of the unemployment increase over the winter. However, with less than 10 days to go until 1 November it is certainly a case of better late than never. Many firms who were not planning on using the previously designed JSS may well have already completed the redundancy process and now will not be able to bring those staff back in order to benefit from the improved support.

Many firms – think conference centres, music venues or inner-city coffee shops - are still having to shut up shop due to the impact of Covid. There is a case for allowing businesses in sectors that are effectively forced into closure by restrictions to access the 'full furlough' (the part of the JSS that the Chancellor did not change today), under which there is no minimum hours requirement for businesses mandated to shut. The Chancellor should continue to listen to business in the months ahead and may well have to tweak the other part of the Job Support Scheme before too long.

Beyond the furlough, incomes for those sick, isolating and on UC need protecting, and job creation needs a boost

The wider response to this crisis has, to date, involved some significant changes to policy to help with both the economic and health fronts of this crisis. However, current Government policy is still to reverse the £1,000 a year boost to Universal Credit and Working Tax Credits in April. This would cut incomes for over 6 million families and would lead to a 7 per cent fall in income for the lowest-income households. Cutting this support during what is likely to still be a fragile economy with elevated unemployment is a bad idea.

In order to reduce the risk of virus transmission the Government should also improve the financial incentives to self-isolate, something which it has made significant steps towards, but where there is still more to do. This could be achieved either through boosting Statutory Sick Pay (SSP) and extending it the two million low earners who are not eligible. Alternatively, the Government could broaden the eligibility for the £500 self-isolation payment, which is only currently available to one worker in eight.

Finally, the Government needs to do as much as possible to help the unemployed into work. Schemes such as Kickstart are welcome in this regard, but with uncertainty high and business investment low the potential for large scale private sector job creation is limited. The health response to this crisis is leading to some job creation, for example in test and trace, but much more could be done. Fairly paid social care jobs would be a good place to start.