CIPD
Championing better work and working lives

The Rt. Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

18 March 2020

Dear Chancellor,

You and the Government should be commended on your announcement yesterday of a £350bn support package to help businesses continue to operate and individuals to manage through the coronavirus crisis.

These measures, together with those outlined in the recent Budget, will make a massive difference to hard pressed employers and individuals concerned about their and their loved ones' health and financial security.

However, the CIPD believes more action is required specifically to protect people's jobs and employment security, helping employers avoid having to make redundancies in the months ahead. There also needs to be more explicit support for the many self-employed and workers who don't qualify for Statutory Sick Pay (SSP) and who typically have much less employment and income security.

We were pleased you recognised this yesterday in your statement when you said the Government would be working with trade unions and business bodies to develop new forms of employment support to protect people's jobs and income through this period.

For your consideration, we have set out a specific proposal for a wage and training subsidy in the below Appendix. This subsidy would support both employment and training for private sector firms who would otherwise have to make redundancies or reduce their employees' hours significantly.

We would also recommend an increase in guaranteed pay for workers placed on short-time working who are not able to benefit from the fund,

Finally, we believe there is a strong case for a significant, temporary, increase in SSP and for its eligibility to be widened through the removal of the minimum earning threshold and extending it to the self-employed. These are exceptional times and require government and employers to work together to provide leadership, support business resilience and protect people's incomes and jobs.

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We appreciate that the crisis requires quick action and we would be delighted to contribute to your consultation or to meet with you to discuss this proposal and our other recommendations in more detail.

Yours sincerely,

Peter Cheese
Chief Executive, CIPD

Appendix

BUILDING RESILENCE IN A CRISIS: PROPOSAL FOR A UK WAGE AND TRAINING SUBSIDY

Introduction

This proposal sets out a proposal for a short time working scheme (STWS) for the UK to support both employment and training for firms who would otherwise have to declare redundancies or reduce their employees hours significantly. The aim is to ensure that the economic impact of the CV19 virus can be mitigated by preserving employment, sustaining the incomes of employees most affected, increase workplace resilience, and make a rapid recovery more likely.

Building on Budget 2020

The Government should be commended for the immediate package of measures announced in the recent Budget. However, as the Chancellor made clear, further measures would be considered as more evidence emerged of the spread of the virus and its likely economic impact.

It now seems clear that the impact is now likely to be considerable, both as a result of the direct impact on the UK domestic economy and disruption to the world economy, exacerbating underlying previous weaknesses. The OECD has warned that the threat to the global economy could be the worst since the financial crisis. In their recent Interim Economic Outlook[1], the OECD advise that:

> *"…targeted and temporary fiscal measures could also be implemented to support businesses in sectors particularly exposed to a sharp downturn in travel and tourism. Funds established to reintegrate workers who have lost their jobs due to*

[1] http://www.oecd.org/newsroom/global-economy-faces-gravest-threat-since-the-crisis-as-coronavirus-spreads.htm

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globalisation could also be utilised. In the European Union, other potential options are to adapt temporarily the state aid framework, as was done at the height of the financial crisis in 2008-09, or to allow more leeway within the EU fiscal rules to affected economies, in recognition of the exceptional circumstances."

In 2008-2009 some 24 OECD economies either introduced short term working schemes or greatly expanded existing schemes. The OECD's assessment in 2010 was that *"STW schemes significantly reduced job losses during the downturn while providing income support to workers on reduced working hours[2]."* One macro-economic assessment of the schemes used in 2008-2009 was that a 1 percentage point increase in the share of the workforce covered was associated with a 1 percentage point fall in unemployment and a 1 percentage point rise in employment[3].

Some EU states have already announced new measures along these lines. Ireland for example has offered to pay the equivalent of unemployment benefit to some companies who have temporarily shut down to keep staff on the books worth just over 200 euros a week, or just over 800 euros a month). Denmark has said it will pay up to 75 per cent of wage costs for 3 months, with a cap on the amount of subsidy. We think it would be prudent and timely to consider similar measures in the UK.

Options for a UK short time working scheme

The basic scheme should be as simple and straight-forward to use and therefore it is suggested it is limited to employees in the private sector, with employers able to apply for a payment from a special fund administered by the Department of Business, Energy and Industrial Strategy (BEIS). This could cover firms who would otherwise have had to make their employees redundant and also firms who had had to cut their workers' hours.

However, there will be employees whose employers do not want to apply to the scheme, perhaps because there are relatively few people affected or because they are unwilling to do so for other reasons. Previous experience suggests larger companies are more likely to apply than smaller ones.

The subsidy rate and length of eligibility and potential costs

We have drawn on assessments of the previous scheme in some EU economies and within the UK and previous proposals for such a scheme to be adopted in the UK[4]. The German scheme offers a rate of 60 per cent of net pay and the French scheme 60 per cent of gross pay. We suggest a basic rate of 60 per cent of gross pay.

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[2] http://www.oecd.org/employment/emp/45794539.pdf

[3] https://wol.iza.org/articles/short-time-work-compensations-and-employment/long

[4] In particular, we have drawn extensively on the 2009 joint trade union and employer proposal agreed between the TUC and the Federation of Small Businesses (FSB) which suggested a wage subsidy drawing on the experience of the German and French schemes and a small scale scheme adopted in Wales [4]

https://www.tuc.org.uk/sites/default/files/extras/wagesubsidies.pdf

However, the French schemes also provided for higher rates of subsidy for certain sectors thought to be in especial need of support. It is also clear that the impact of the virus is likely to vary considerably by sector, with some transport services and businesses in the hospitality and leisure sectors badly hit. We think this is a useful model to follow, with the worst hit sectors being eligible to up to 100 per cent wage subsidy. How long the disruption to economic life will last is highly uncertain, but we suggest that the subsidy should be strictly time-limited to a maximum of three months from the date of application with the scheme itself due to end on December 31st 2020 unless the economic impacts prove significantly longer lasting than expected.

This reflects the fact that while such schemes can be very valuable in the short term, they can have undesirable impacts if they are kept in place too long, reducing both labour market flexibility and increasing deadweight and displacement costs (firms claiming the subsidy who do not really need it and firms who do claim it having an unfair advantage over those who do not) as well as creating a drain on public resources which might be better spent elsewhere.

There is invariably some uncertainty about how much such a subsidy will cost, as it depends on take-up, the average wage of the workers covered, and how many hours they normally work. The highest rates of take up in the previous recession with such schemes in major economies such as Germany was between 2 and 3 per cent of the workforces covered, and a similar take up rate today in the UK would potentially cover between 1 million and 0.7 million employees.

As things stand this is unrealistically high for the UK. Firstly, the impact of the virus on the economy as a whole may be less severe than the last recession (though that is still highly uncertain). Secondly, in many EU countries such schemes are well-established and employers are familiar with them, while in the UK they would be more of a novelty. Thirdly, in some European countries the schemes are attractive because wages may not adjust as flexibly in the UK: in the last recession some employers were able to save jobs by reducing and freezing wage rises, according to the 2011 Workplace Employment Relations Survey (WERS). In addition, unemployment is significantly lower than at the start of the last recession, making some employers reluctant to let staff go because of fears that they will struggle to re-hire them in the subsequent upturn.

As a guide the potential cost, we have taken the private sector median annual gross wage of just under £30,000, assumed applications will be split 2 to 1 between our 60 and 100 per cent rates, and assumed that the average time period will be close to the three month maximum. We have assumed maximum take up would be 300,000. This would give a maximum gross cost of £1.7 billion. However, this would be offset by continued tax payments and savings in unemployment related benefits for the affected workers, so the net cost would be considerably less.

The overall cost would also be less if workers covered by the 100 per cent rate were disproportionately drawn from lower paid sectors such as travel hospitality and leisure. In addition, a further design feature to consider is whether to set a limit on the total subsidy available, as in Denmark and under the current German system, so support for high

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wage jobs which firms are least likely to axe is limited. This might also help reduce deadweight and displacement effects.

Training and development

At the time of the last recession, some schemes provided additional support for training and development for staff who had significant cuts in their normal hours of work or who might be laid off entirely while still kept on the books. We think it is worth revisiting this element, learning from previous experience[5].

We suggest a supplementary grant be made available to firms who are willing to enlist their subsidised staff on learning and development opportunities. This should be limited to expanding existing accredited provision rather than requiring new arrangements to be made and include in-house as well as externally provided provision.

The expansion of on-line opportunities accessible to staff working at home would be an attractive option and a recent review by the Department for Education provides some useful guidance on how to get the best from such training, drawing on international experience[6].

It would be unrealistic to except a very large take-up, but given chronic under-investment in the overall training and development of the UK workforce it seems wise to take advantage of a period when time spent on training and development will not be crowded out by the normal demands of the job. It may also expose employers who may not have previously considered this option to new opportunities to develop their staff.

We suggest an additional flat rate training subsidy of £3,000 per employee be made available (the difference between the 60 and 100 per cent rates) to all employers. If, say, 25,000 employees were covered this would cost around £75 million.

[5] A small scale scheme in Wales introduced in 2009 made a direct link between wage subsidy and training provision, and while the assessment was positive it is not clear this would work as a scaled up short term measure. The OECD has noted that across the OECD the take-up of training among those on short term working schemes was low in the 2008-2009 recession, partly because some schemes required external provision.

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/782232/Online_adult_learning_international_review.pdf

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ILLUSTRATIVE COST OF A WAGE SUBSIDY SCHEME IN 2020

Annual private sector median salary	£29,832
Maximum subsidy period at 60% for 3 months	£ 4,475
Maximum subsidy period of 100% for 3 months	£ 7,458
200,000 employees at 60% for 3 months	£0.90 billion
100,000 employees at 100% for 3 months	£0.75 billion
Total of above	£1.65 billion
25,000 flat rate training subsidy at £3000 per employee	£0.08 billion
Total subsidy and development grant	£1.73 billion

Changes to 'guarantee pay' and Statutory Sick Pay

In addition to the wage subsidy fund, complimentary changes should be made to statutory 'guarantee pay' and Statutory Sick Pay.

Workers placed on short term working can currently apply for a very modest amount of "guarantee pay", currently capped at £145. The amount payable per day (£29 a week) should be significantly increased and the period for which it is available should also be raised to at least six months. These payments could only be claimed by those firms who have not already claimed the wage subsidy.

There is also a strong case to increase the rate of Statutory Sick Pay for those who either have had to self-isolate or have been instructed by their employers to do so, from the current £94 a week to better reflect loss of earnings. The government should meet these additional costs. The increase would initially be temporary. There is a case for a more generous level of sick pay as a permanent reform, but that is best considered at a later date.

This belt and braces approach will ensure that more people are kept in work than would otherwise be the case and that those laid off or placed on short term working receive sufficient income support to avoid short term hardship and sustain aggregate consumer spending across the economy.

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