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The Coronavirus Job Retention Scheme

How has it been used and what will happen when it ends?

Thomas Pope, Grant Dalton and Gemma Tetlow

Summary

The Coronavirus Job Retention Scheme (CJRS) was a highly unusual policy response from the UK government to a unique economic crisis. Since March, it has at some point subsidised the wages of 9.6 million employees—around a third of the workforce. Using publicly available data, this report examines how the CJRS has been used, how its usage has changed over the last few months, and what is likely to happen when the scheme ends at the end of October and is replaced by the Job Support Scheme (JSS). Under its original design (announced on 24 September), the JSS would have weeded out some 'unviable' jobs in recovering sector but would also have meant 'viable' jobs being lost in sectors that remain badly affected by restrictions. On 22 October, the chancellor made the scheme much more generous – almost as generous as the CJRS it will replace. The scheme will now save more 'viable' jobs, but risks wasting taxpayers' money by propping up jobs with no long-term future.

The CJRS was widely used across the country: it supported around 30% of the workforce in all regions and nations of the UK, and was used almost equally in city centres and rural areas. The beneficiaries were disproportionately **young**, **low paid** and working for **small businesses**. The starkest differences in use of the CJRS have

been by industry: over 70% of employees in hospitality, arts and recreation have, at some point since March, been furloughed. In contrast, fewer than 20% of employees in information and communication, education, finance and insurance have been furloughed.

Over two-thirds of employees who have been supported by the CJRS have now left the scheme and returned to work. This is evidence that **the policy achieved its intent: maintaining employer-employee links through the worst of the crisis, allowing businesses to bring workers back relatively easily as economic conditions improved**.

- As restrictions began to lift and the economy began to reopen from late May, use of the CJRS fell. At the peak in mid-April, 8.9 million people were on the scheme but this had fallen to only 3.3 million by the end of August and appears to have fallen further to 2-3 million by mid-September, although official figures for this more recent period are not yet available.
- Falls in scheme **closely mirrored the lifting of sectoral restrictions**. Furloughed workers in manufacturing and construction returned to work early in the summer, and many workers in the hospitality sector returned when those businesses were allowed to reopen on 4 July. Reductions in scheme use were also matched by increases in economic activity – at least until the start of August – and have not been associated with increases in unemployment. This implies that the vast majority of the 5 million employees who left the CJRS over the summer returned to work. There is also tentative early evidence that most of the roughly 2 million workers who left the CJRS in August and September also returned to their jobs.

About half of those who remain furloughed are in jobs whose long-term future is questionable: continuing to support them through the CJRS risks wasting public money and delaying the point at which these people must inevitably seek alternative work. This means that **the share of the scheme outlay that is deadweight cost (that is, the amount of public money being spent without achieving the desired outcome of stronger future economic performance) is higher now than it was in April**.

The 2–3 million employees who were still on the CJRS in mid-September can be split into three broad groups based on the type of business they are employed in. It is questionable whether there is a long-term future for the jobs in the second and third categories:

- **Badly affected sectors:** Around half of those furloughed in the middle of September were in four sectors: accommodation and food, arts and recreation, administrative and support services and aviation. Economic activity remains well below pre-crisis levels in these four sectors and all are facing increased costs or lower demand due to public health advice and restrictions, which have intensified in some parts of the country since early September. Most of these businesses are now allowed to operate by the government but they will not be able to return to 'normal' levels of economic activity until restrictions have lifted completely. Jobs that remain furloughed in these sectors may well have a long-term future but the workers cannot be brought back fully until social distancing restrictions can be lifted.

- **Closed firms in recovering sectors**: A small subset of furloughed workers (around 5%) are employed by firms that have not yet reopened, even though most other firms in the same sector are now showing good signs of recovery. These employees are more likely to be working for 'zombie' companies, which will never reopen fully, may have failed even without the pandemic and are simply being kept on life support by the CJRS. This is evidence that these firms and the jobs they support do not have a long-term future.
- **Open firms in recovering sectors**: Around half of those who remain furloughed are employed by firms that are open in some capacity, in sectors where revenues are back to near pre-crisis levels. Prospects for these employees are worrying, as these sectors have returned to near pre-pandemic levels of activity without requiring them to return to work. This is evidence that there may not be a long-term future for these jobs.

It is therefore understandable that the chancellor wanted to change policy to preserve only those jobs that are 'viable', as he indicated at his winter economy plan on 24 September 2020.[1] **The original JSS was well-designed to weed out unviable jobs in sectors that were broadly unaffected by restrictions, but it did not provide enough support for potentially viable jobs in the worst-affected sectors.**

- The JSS originally required that employees worked for one third of the time and for employers to pay their wages for this time and also for one third of any time not working.
- This was a reasonable test of 'viability' for sectors less affected by social distancing restrictions – that there is already some work for the employee to do and that the employer is also willing to pay for some of their currently unused time in the expectation that more work will return at some point.
- But for sectors that remain severely restricted by ongoing social distancing measures – such as accommodation and food, arts and recreation – current business performance is not a good indicator of long-term viability. And many employers in those sectors may not have been able to afford – or may have judged it poor value for the business – to make the additional payments to workers required under the old JSS.

But that scheme will never come into force. Instead, the chancellor has radically changed the JSS – in response to concerns about the hospitality sector in particular. His changes represent an abrupt U-turn in approach.

- On 9 October he announced that businesses mandated to close by restrictions in their area would not need to pay anything towards furloughed employees' wages and employees would not need to work, instead the government would pay 67% of employees' wages for the hours they are not working. This includes most hospitality in areas in tier 3 of public health restrictions.

- On 22 October he overhauled the scheme for open businesses, reducing the amount of time an employee needs to work (to 20% of their usual hours) and reducing the employer contribution for hours not worked to just 5%. The government will then contribute 62% of employees' wages for the hours they do not work.

These changes, and especially the reform of the scheme for open businesses announced on 22 October, change the incentives faced by employers. **The new JSS should preserve viable jobs in badly affected sectors, but the new scheme risks wasting taxpayer money by propping up unviable jobs.**

- The new JSS is almost as generous for employers as the CJRS if there is no work for an employee to do, and more generous if the employee is already on part-furlough.
- In badly affected sectors, the scheme retains a strong incentive to keep employees on. But the same incentives apply in less sectors where jobs may not have a long-term future.

As well as wasting taxpayer money preserving jobs that do not have a long-term future, a further concern might be that this additional support would encourage people to stay in jobs whose future is uncertain, rather than taking up new roles available elsewhere. If this were to happen, it would slow the reallocation of workers and capital that normally helps drive economic growth. However, our analysis suggests that **the CJRS has not stopped people looking for other jobs and there is little reason to think the JSS would either.**

- The number of vacancies remains well below pre-pandemic levels, suggesting that there are fewer jobs than normal for workers to reallocate to if they are looking to leave their furloughed job.
- The number of applicants for each vacancy has risen substantially since the start of the crisis. This suggests that employers are not struggling to attract candidates for those roles that are available.

Social distancing imposes very different costs on different sectors. To help minimise the amount of taxpayer money that could be wasted propping up jobs with no long-term future, while ensuring that viable jobs in badly affected sectors continue to be supported, **it would be better for the chancellor to vary the support offered by the JSS by sector to target more generous support at the worst affected businesses.**

This is already the approach the chancellor is taking to business grants, and treating labour market support in the same way would help to target support at viable jobs while propping up fewer unviable ones.

Introduction

The Coronavirus Job Retention Scheme (CJRS) – which is due to close at the end of October – has been the most expensive part of the government's economic response to the Covid-19 pandemic. The OBR estimates that it will cost £47bn in the seven months from April to October,[2] more than was spent in total on benefits for working-age people over the same period.[3]

The scheme has played a valuable role in staving off mass unemployment, avoiding the big rise in joblessness seen in the US and Ireland at the start of the pandemic.[4] Use of the scheme peaked in mid-April when about nine million workers, equivalent to 30% of the labour force, were being supported by it.[5] Numbers have fallen since then but it is still supporting several million workers.

In July, the chancellor confirmed that the CJRS would close at the end of October and announced a Job Retention Bonus (JRB) for businesses worth £1,000 for each furloughed employee retained at least until the end of January 2021.[6] On 24 September, the chancellor announced a new Job Support Scheme (JSS), which is effectively a less generous and more restrictive CJRS that will be in place for six months from November 2020 to April 2021.[7] On 22 October, the chancellor announced radical changes to that scheme to increase its generosity.

This paper uses publicly available data to describe who has used the CJRS and how that has changed over time. It also looks at a broader set of data that characterises the current state of the labour market to better understand the context in which the scheme is ending. In the final section, we assess what this implies about the likely impact of the new job support scheme. Throughout, we look at data covering the whole of the UK. The economic support package has been UK-wide, but public health regulations and advice have not. Unless otherwise specified, restrictions we refer to are those that apply (or used to apply) in England.

Who has made use of the CJRS?

In total, 9.6 million employees were furloughed at some point between late March and 31 July (the CJRS was closed to new entrants on 10 June).[8] Those 9.6 million represent 32% of the workforce. Based on the experience of other countries, a large fraction of those workers would likely have been laid off in the absence of the CJRS.[9]

This section analyses the characteristics of those employees who benefited from the scheme.

The CJRS has been widely used across the whole country

The CJRS has benefited all parts of the UK to a similar extent. The fraction of employees furloughed is similar in every region and nation of the UK (Figure 1). Even digging down into constituency level data, and comparing constituencies by whether they mainly contain cities, towns, or villages, reveals a very uniform pattern (Figure 2).

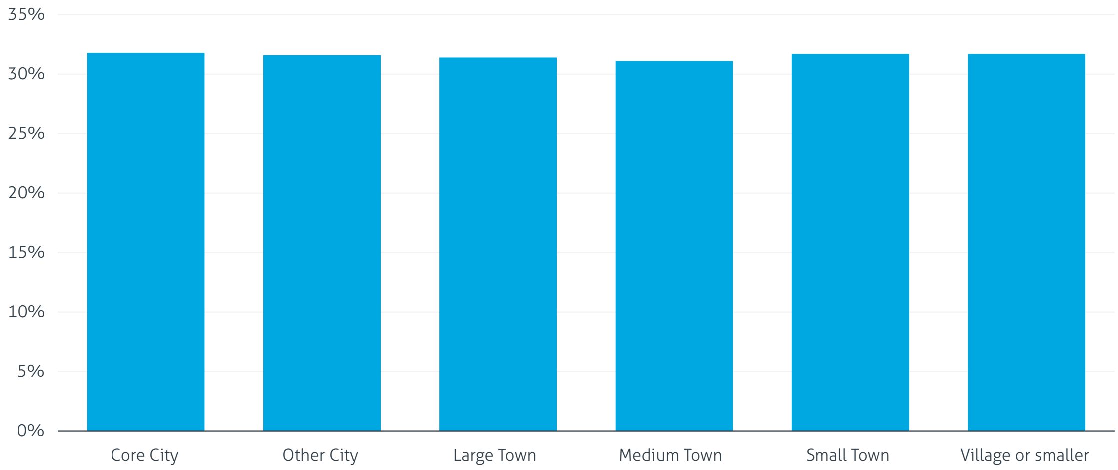
The CJRS has been heavily used in all areas of the country and has supported employment as much in rural areas as in city centres.

This pattern emphasises how uniform the effects of lockdown were across the country and how geographically distributed the most affected sectors and businesses were: a fall in demand and enforced supply restrictions affected every part of the UK in a broadly similar way.

Figure 1 **Per cent of employments furloughed at any point by region**

Source: UK government Coronavirus Job Retention Scheme statistics, August 2020.

Figure 2 **Per cent of employments furloughed at any point by the primary urban type of constituency**



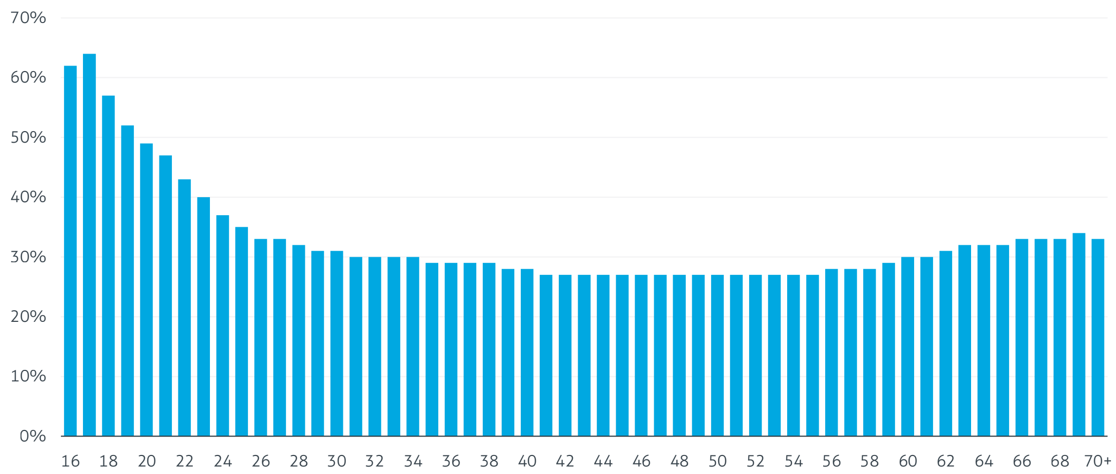
Source: Institute for Government analysis of UK government Coronavirus Job Retention Scheme statistics, August 2020, and UK Parliament City & Town constituency classification, 2018. Calculated by splitting constituencies into town/city classification and finding the mean furlough rate amongst each group.

The CJRS has disproportionately helped the young, low income and those working for small employers

While all parts of the UK have made use of the furlough scheme, some types of employee have been much more likely than others to have been furloughed. The scheme has been used by a similar number of men as women, although there is some evidence than uneven caring responsibilities resulted in mothers being much more likely than fathers to have asked to be furloughed.[10] But differences are starker when it comes to age, income and firm size.

Young employees are much more likely to have been furloughed than older ones (Figure 3). This is especially pronounced among the youngest workers – those in their teens and early 20s.

Figure 3 **Share of employees ever furloughed by age**

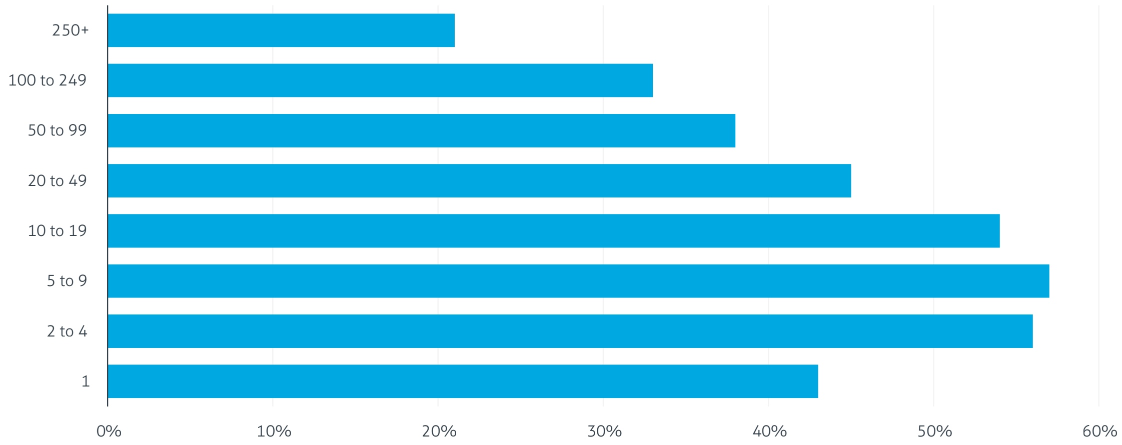


Source: UK government, Coronavirus Job Retention Scheme statistics, August 2020.

Lower income workers were also disproportionately likely to be furloughed. The average furloughed job has a salary of only £1,413 per month,[11] compared with an average wage nationwide of £2,300.[12] Those in the top fifth of the earnings distribution have been the least likely to be on furlough.[13]

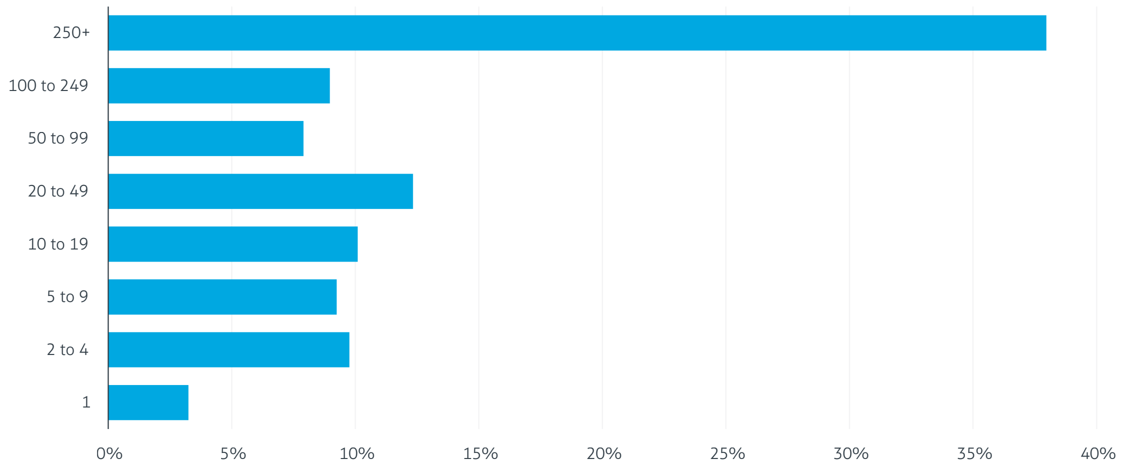
Employees were also more likely to have been furloughed if they worked for a smaller business rather than a larger one (Figure 4). Over half of employees at firms that employ 2-49 people have been placed on furlough, compared with less than 20% of those working for large employers (with more than 250 employees). Even though most employees work for large employers, the discrepancy in use of the CJRS means that 45% of those furloughed work for employers with fewer than 50 employees (Figure 5).

Figure 4 **Percent of employees working for different sized employers ever furloughed (updated, August CJRS statistics)**



Source: UK government, Coronavirus Job Retention Scheme statistics, August 2020.

Figure 5 **Percent of total furloughed employments by size of firm over all time**



Source: UK government, Coronavirus Job Retention Scheme statistics, August 2020.

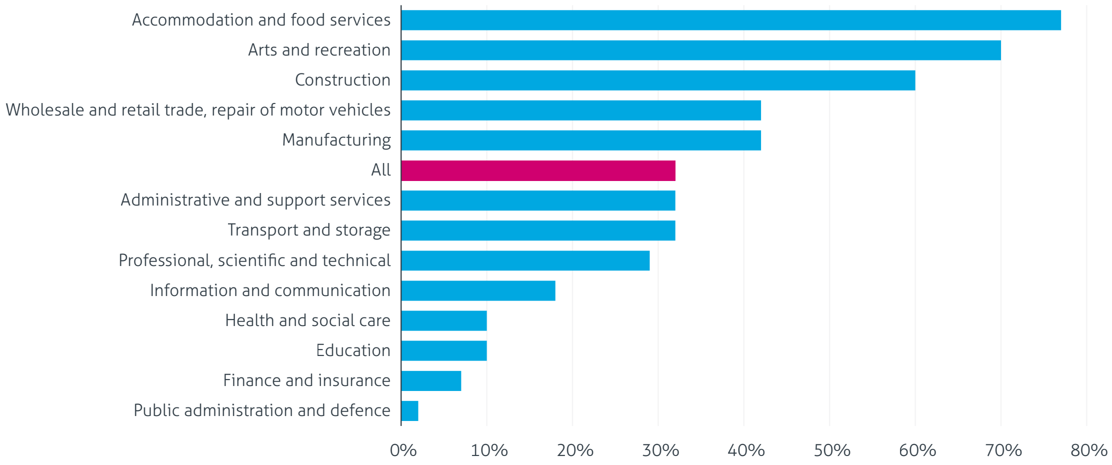
Workers in hospitality, arts and recreation and construction were furloughed the most, and those in finance and the public sector were least likely to be furloughed

Differences in CJRS usage by age, income and employer size are at least partly explained by differences in the type of industry that people work in. Much more extensive use has been made of the furlough scheme by businesses in some sectors than others. This is not surprising. Some sectors have been badly affected by coronavirus restrictions, with retail and hospitality forced to close entirely until early July. The arts were also heavily affected, meaning employees were furloughed at high rates,* as were manufacturing and construction – all sectors that require in-person working.

* In some sectors of the arts, many people are self-employed. They are not included in these statistics and had access to other government support (the self-employed income support scheme).

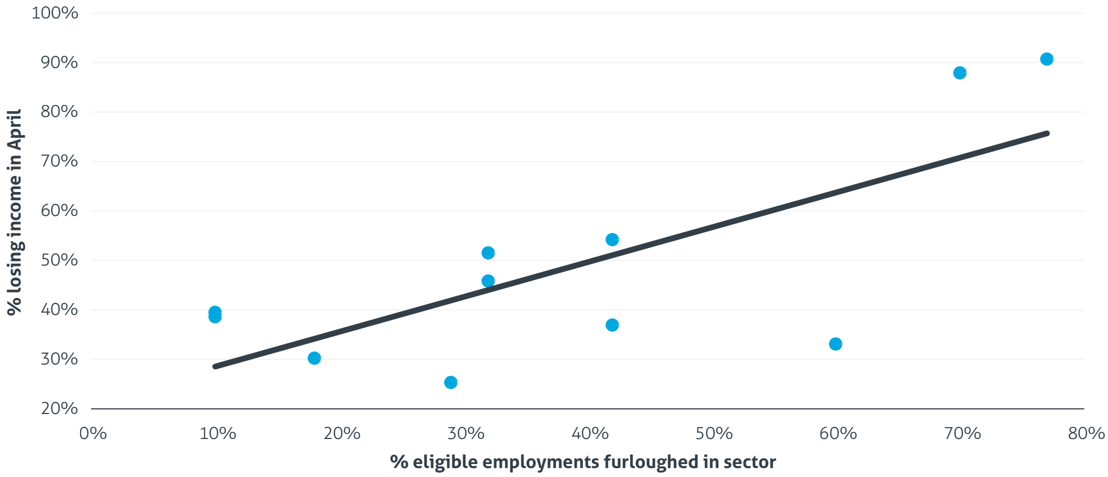
Those sectors where workers are able to work from home were less heavily affected, although more than 10% of employees were furloughed in almost every sector (Figure 5). Unsurprisingly, those sectors that furloughed the most at the height of the crisis are also the ones that experienced the biggest falls in revenue (Figure 6).

Figure 6 **Percent of employees furloughed at any point, by sector**



Source: UK government, Coronavirus Job Retention Scheme statistics, August 2020.

Figure 7 **Correlation between % of workforce furloughed and lost income in April by sector**



Source: Institute for Government analysis of UK government, Coronavirus Job Retention Scheme statistics, August 2020, and Office for National Statistics Byusiness Impact of Covid-19 Survey, April 2020.

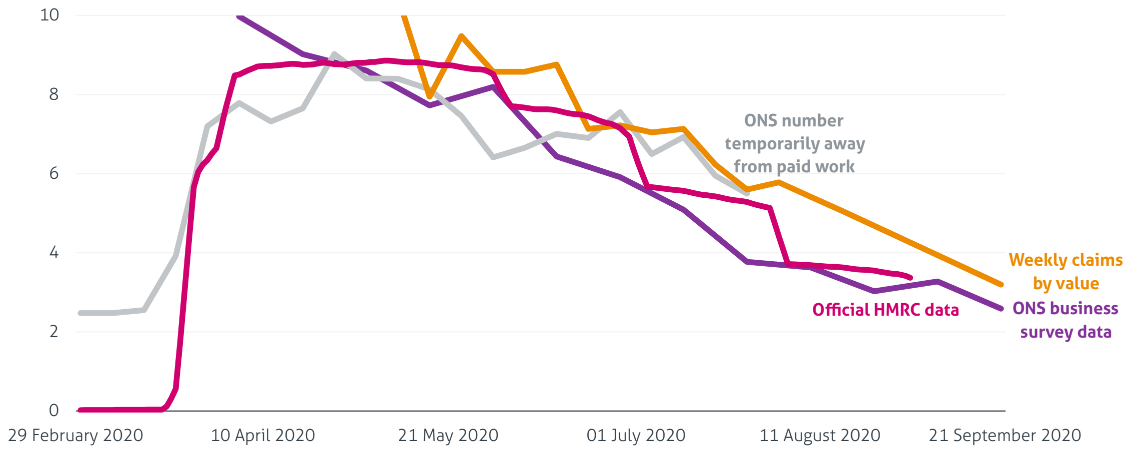
How is use of the CJRS changing?

Some sectors were able to bring many of their workers back as social distancing restrictions were eased – such as construction and manufacturing. But other sectors have taken longer to get their staff back to work.

Numbers on furlough peaked in April and have gone down since

The number of jobs furloughed peaked in April when the restrictions on economic activity were at their tightest. The latest official data from HMRC shows that 3.3m jobs were furloughed at the end of July, down from 8.9 million at the peak. Since then, other surveys indicate that the number of people on the scheme has continued to fall. The value of payments through the scheme announced by HMRC between 16 August to 20 September suggests that on average 3.3 million people were furloughed in these weeks, although numbers are likely to have fallen over time so fewer than 3.3 million were furloughed by the end of the period. According to the ONS business survey, 9.4% of jobs were furloughed on 20 September – this suggests that around 2.6 million jobs were furloughed.* In mid-September, then, we estimate 2-3 million jobs were still furloughed.**

Figure 8 **Estimates of the number of employments furloughed over time (millions)**



Source: Institute for Government analysis of UK government, Coronavirus Job Retention Scheme statistics, HMRC coronavirus statistics, and Office for National Statistics Labour Force Survey and Business Impact of Covid-19 Survey, February–September 2020. Weekly claims by value obtained by dividing a four-week rolling average of the value of claims announced by HMRC by the OBR's estimated weekly cost per person, £277, to get an estimate of total claims paid out each week. ONS business survey data calculated by multiplying the weighted percentage of employments furloughed by private sector employment in the UK as of March 2020, which was 27.5 million.

There have been big falls in furloughing in all sectors

Comparing the group of employees furloughed at the beginning of April with those furloughed in the middle of September shows that some sectors have returned to work much more quickly than others (Figure 9). Construction, manufacturing and wholesale and retail trade all had relatively high furlough rates in April but now have under 10% of staff furloughed. Those falls mostly occurred before the end of June.

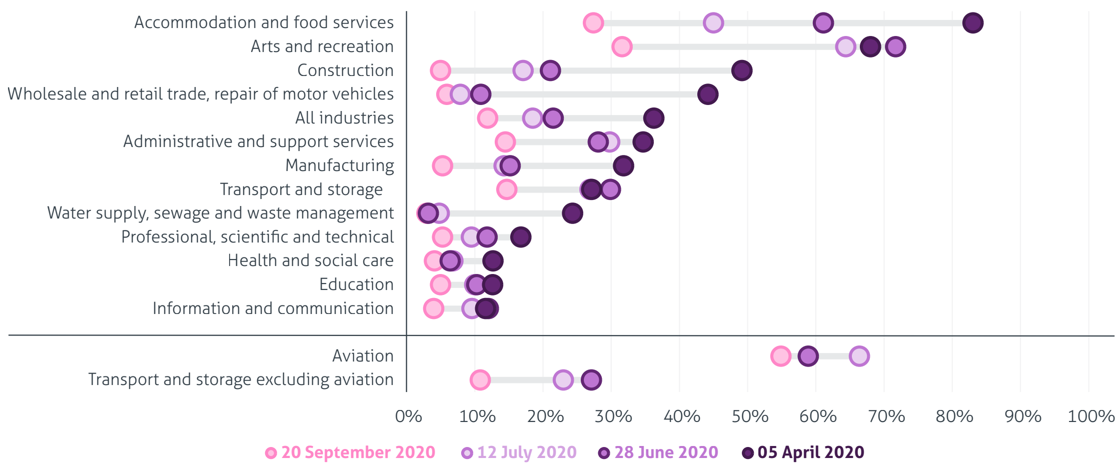
* This is calculated based on 9.4% of the number of jobs in the private sector. Very few public sector jobs have been furloughed.

** The different estimates do not line up perfectly because some are based on surveys while others on administrative data, but the trends are fairly consistent.

Four sectors continue to have high furlough rates: accommodation and food, arts and recreation, administrative and support services and transport and storage. Higher furlough rates in transport and storage are driven by one sub-sector: aviation. Aviation accounts for only 9% of transport and storage employment, but for one-third of people furloughed in the sector. When aviation is removed, the furlough rate in the rest of the transportation and storage sector is close to average furlough rates in other sectors in mid-September.* Throughout the rest of this paper, we refer to accommodation and food, arts and recreation, administrative and support services and aviation as the worst-affected sectors.

Even in the worst-affected sectors, furlough rates were much lower in September than earlier in the pandemic. In accommodation and food, for example, 30% of employees are furloughed as opposed to over 80% in early April. Even in aviation, where over 50% of employees are still on furlough, this is lower than the 67% in mid-July (Figure 9).**

Figure 9 **Proportion of employees furloughed, selected dates**



Source: Office for National Statistics, Business Impact of Covid-19 Survey, April to September 2020.

Reductions in furlough use coincide with restrictions being lifted

Figure 10 shows how furlough rates and the fraction of businesses open has changed over time in three sectors: construction, arts and recreation and food and accommodation. Furlough rates have tracked coronavirus restrictions quite closely. The percentage of the construction workforce that was furloughed fell relatively quickly as workplaces opened and fell especially after 1 June when the 'stay at home' order was relaxed in England[14] and building sites were allowed to open in Scotland.[15] The percentage of workers in accommodation and food services who were furloughed only started to fall substantially when hospitality businesses were able to reopen in England on 4 July. In arts and recreation, where restrictions have so far only lifted for parts of the sector, furlough rates among employees started to fall in July but remain high.

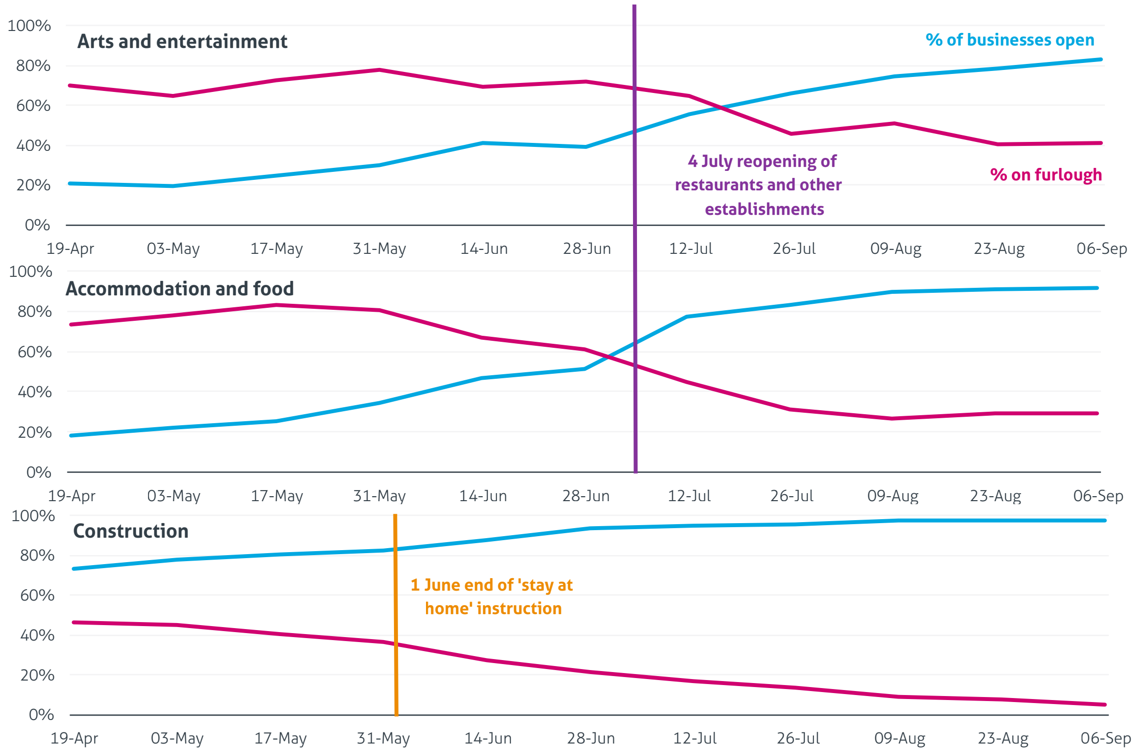
* The travel agency and tour operator sub-sector of administrative and support services is also especially badly affected, but data is not available on furlough usage in that sub-sector. Other sub-sectors in administrative and support services have also experienced large falls in economic activity during the crisis.

** The data is not available for the aviation sub-sector before July.

Figure 11 shows how the number of people on the CJRS has changed week-by-week in each sector. The six industries that accounted for the largest number of furloughs in April are shown individually in Figure 11. These sectors accounted for 80% of all furloughs in April and were the ones most heavily affected by the social distancing restrictions imposed by the UK government and the devolved administrations.

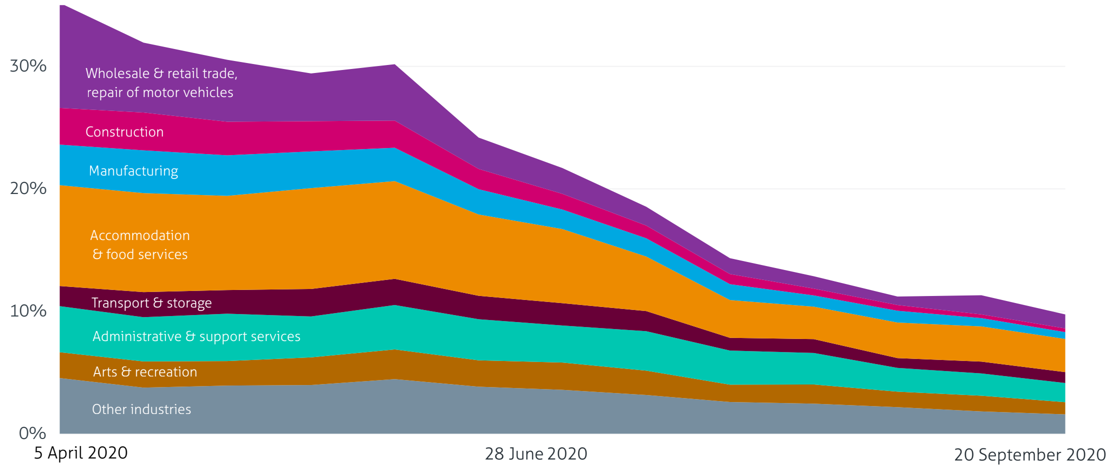
However, by September they accounted for only 70% of furloughed jobs, showing that use of the scheme has become less concentrated in these sectors as time has gone on. The four sectors that made most use of furlough in mid-September – arts and recreation, administrative and support services and accommodation and food – account for just under half of those who were still furloughed at that point.

Figure 10 **Furlough rates and share of businesses open in selected sectors**



Source: Institute for Government analysis of Office for National Statistics, Business Impact of Covid-19 Survey, April to September 2020.

Figure 11 **Number of employees furloughed by sector (% of total workforce)**



Source: Institute for Government calculations using Office for National Statistics, Business Impact of Covid-19 Survey, April to September 2020 and ONS employment by sector. Calculated by obtaining the percentage of employees in surveyed businesses in each who are furloughed, and multiplying by the fraction of total employment each sector takes up and the fraction of that employment which is in the private sector. (There is some minor variation from week to week as the weighting used by the ONS changes. For the first week's data, 5 April 2020, there is no weighting by employment; from 19 April to 23 August data is apportioned by employment; and for the last two data points, the % furloughed has been weighted by employment size.)

What happens next?

The CJRS will end on 31 October. The government has announced two new schemes to replace it – the job retention bonus and the job support scheme.

The chancellor announced the **Job Retention Bonus (JRB)** on 8 July 2020. The JRB is a £1,000 payment to an employer for each employee who has ever been on the CJRS (or made use of the new JSS), is continuously employed up to the end of January 2021, and who is still at that point paid more than £520 per week. There is no requirement that the employee be on the CJRS until October, or even until July when the announcement was made. Employers can put their employees onto different (worse) terms of employment – for example switching employees to working part-time or on a lower wage – and still qualify for the JRB, provided the employee continues to earn at least £520 per week.

The chancellor announced the original **Job Support Scheme (JSS)** on 24 September. Under the scheme, which can cover all employees regardless of whether they used the CJRS, the government will pay one-third of an employee's salary for hours they are not working so long as:

(i) they are employed (and paid at their normal hourly rate by their employer) for at least one-third of their usual hours
(ii) the employer also pays for one-third of salary for hours not worked
(iii) there is no change to terms of employment between when the policy was announced and the employee joining the scheme.

On 9 October, the chancellor announced that for businesses required to close by local restrictions, the government would pay two thirds of wages and the employee would not need to work.

On 22 October, he announced a radical overhaul of the JSS. Under the new scheme:

- the government will pay 62% of the salary for the hours they are not working
- the employer is only required to pay 5%
- the employee must work at least 20% of the time.
- Under the new scheme, the employee will receive at least 73% of their normal wages, with 24% of their usual salary being paid by their employer and 49% by the government. This compares to employees receiving 80% of their usual salary on the CJRS, with (in October) at least 20% paid by their employer and up to 60% paid by the government.

The JSS will run from 1 November 2020 to 30 April 2021.

As support changes, two questions have come to the fore: will people lose their jobs, and will those who do be able to find new ones? To answer these questions, we first explore what has happened to unemployment and jobs since the start of the crisis, including as CJRS usage has changed. We then explore who the 2-3 million employees still on the CJRS are and infer the likely prospects for their jobs. Finally, we look at the state of the labour market to examine whether those who do lose their jobs are likely to be able to find new employment and whether there is any evidence that the CJRS is discouraging people from seeking out new jobs.

What has happened to jobs since March?

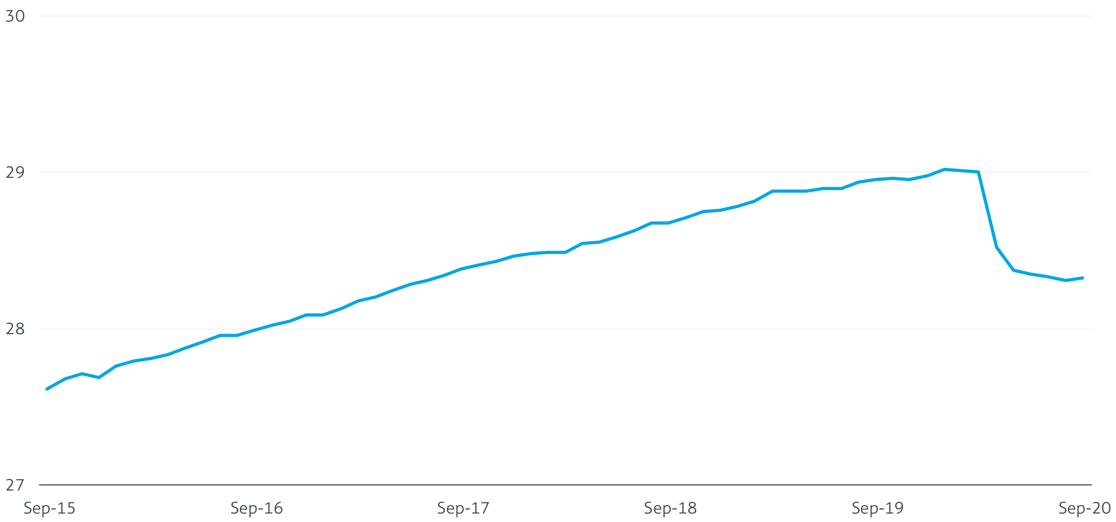
Employment fell in April

At the onset of the crisis, there was a substantial fall in the number of jobs despite the introduction of the CJRS. Between March and April, the number of employees on payrolls fell by 500,000, reversing the growth that had occurred over the previous three years (Figure 12).

Job losses were concentrated in the sectors that were hardest hit by the crisis and which have also made the most use of furlough. In arts and recreation, administrative and support services and food and accommodation, 4–5% of all jobs were lost (Figure 13).

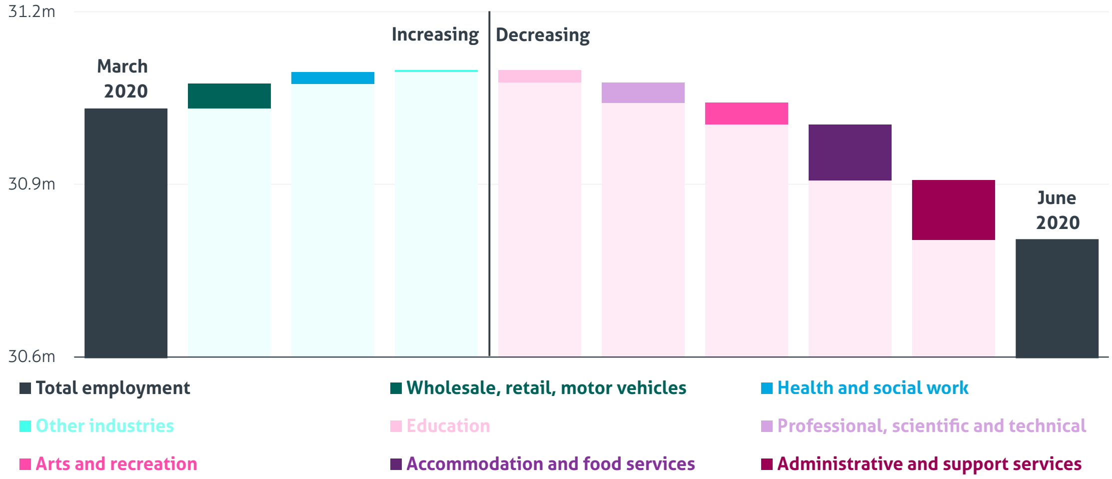
Job losses were also concentrated geographically, with 49% of the jobs being lost in London and the east of England, even though these regions only account for 26% of jobs (Figure 14).

Figure 12 **Number of payroll employments (million)**



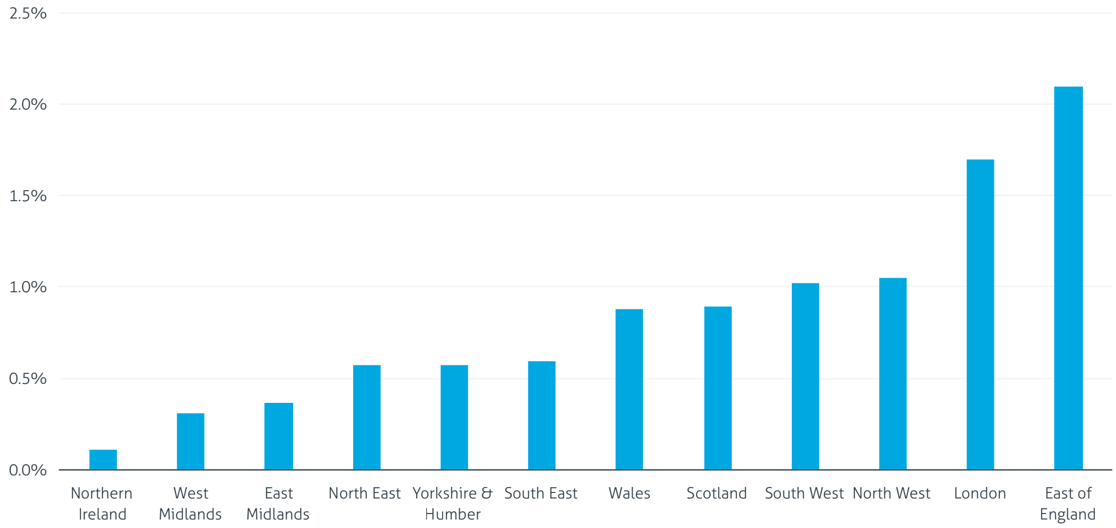
Source: Office for National Statistics analysis of HM Revenue and Customs Pay as you earn data, September 2020.

Figure 13 **Change in composition of jobs by sector, March to June 2020**



Source: Institute for Government analysis of Office for National Statistics Labour Force Survey, March-June 2020.

Figure 14: **Total job losses by region (per cent of March total) March to June 2020**



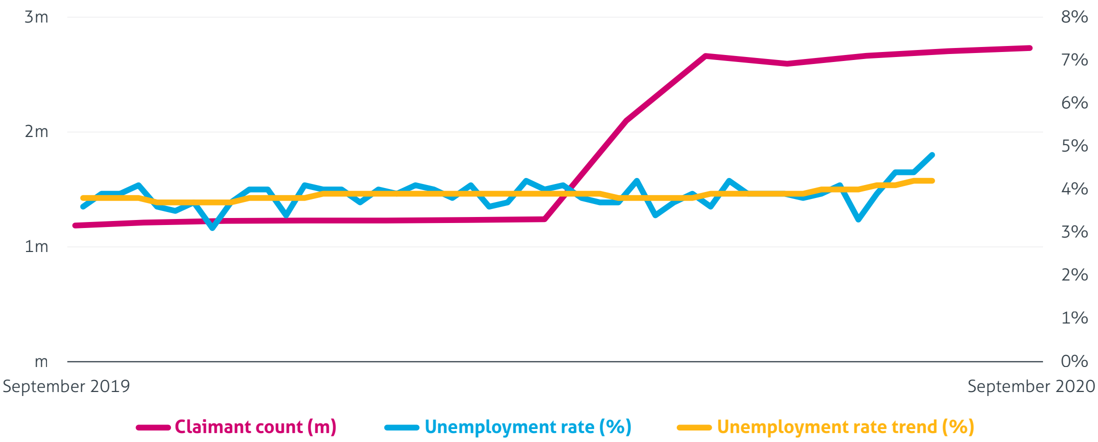
Source: Institute for Government analysis of Office for National Statistics Labour Force Survey, March-June 2020.

Data on payrolls shown in Figure 12 paint the most reliable and up-to-date picture of how many people have lost their jobs. The two main official measures of unemployment – which policymakers, journalists and the public would normally look at to gauge job losses – are currently either not a reliable guide to the state of the labour market or are less up-to-date.

- The claimant count – the number of people receiving working-age benefits that require the recipient to search for work – has increased by around 1.5 million since March (Figure 15). However, the claimant count includes people working on low wages as well as those who are out of work, meaning the increase in the claimant count is likely to be larger than the number who have actually lost their jobs.[16]
- Official 'unemployment' statistics are likely to have understated the true numbers who lost their jobs in the early months of the crisis because to count as 'unemployed' someone must be available for and actively seeking work. Many people were not able to do that when the 'stay at home' directive was in place. As a result, there has been a marked increase in the number of people classed as 'economically inactive' – that is, not working but also not seeking work. In July, around 1.5 million people were unemployed, 200,000 more than at the start of the crisis.[*] This amounts to an unemployment rate of only 4.5%, far less than the peak level of unemployment during the financial crisis (8.5%, 2.7 million).[17] However, there were 400,000 fewer people in employment because of an increase in rates of economic inactivity.

* The increase in unemployment could be smaller than the fall in payrolls for several reasons. People may work more than one job, people could be technically employed but not receiving any pay, or people could have become self-employed.

Figure 15 **Claimant count and official unemployment figures**



Source: Institute for Government analysis of Office for National Statistics Labour Force Survey, September 2019-September 2020, and DWP claimant count data.

Most of those who have left the CJRS before August returned to their jobs

While the number of employees on company payrolls fell (and the claimant count increased) in April, it has since stabilised. By the end of July, 4.8 million employees were still being supported by the CJRS, down from 8.9 million at the peak. This fall in CJRS use was accompanied by a much smaller (200,000) fall in the number of employees on payrolls between May and July. Furthermore, we show below (Figure 19) that during this period there was less 'churn' in the labour market than usual. Only 1.4 million people left their job in total between May and July, and many of those will have left voluntarily to new jobs rather than being fired. Overall, this indicates that almost all of the 5 million or so employees who left the CJRS over that period are likely to have returned to work.

This shows the success of the CJRS. There were only 650,000 fewer employment jobs in August than in March. Many of the 5 million or so who were furloughed but returned to work by the end of July might have become unemployed at the start of the crisis, at least temporarily, had that support not existed.

There is little evidence that those who have left the CJRS since July have become unemployed

Since the start of August, a further (roughly) 2 million workers have left the CJRS. This has coincided with a time when employers have been asked to increase their contribution to wages for those employees left on the CJRS. Up to the end of July, businesses did not have to pay employees who were on the CJRS. From August, they have had to make an increasingly large contribution, rising to 20% of the employee's normal wages in October.

Provisional payrolls data is now available up to the end of September and shows that the number of employees in September was almost the same as in July. This indicates that unemployment is unlikely to have increased substantially over this period (although official unemployment statistics are not yet available). This pattern of sustained employment levels even as around 2 million people have left the CJRS is consistent with most of those leaving the CJRS between July and September returning to their old jobs. However, 'churn' in the labour market has begun to pick up again so we cannot rule out that those on the CJRS lost their jobs while other, previously unemployed or inactive, people found new ones.

What are the job prospects for those who remain on the CJRS?

The fate of those who have left the CJRS so far, at least up to the end of September, appears to have been broadly positive, with many returning to their jobs. However, bigger question marks remain about the 2-3 million employees still making use of the scheme.

Chancellor Rishi Sunak said that he was ending the CJRS and replacing it with the original JSS in order to ensure that the government only supported 'viable' jobs. The evidence points to a rump of jobs being propped up by the CJRS that may not have a long-term future. But there are also several indications that many of the jobs that are still supported by the CJRS are viable – if viability is defined as there being a longer-term need for the job, even if the person cannot currently be used. The new JSS, announced on 22 October, will likely preserve both viable and unviable jobs.

E*mployees on the CJRS are mostly working for open firms who are paying some of their salary*

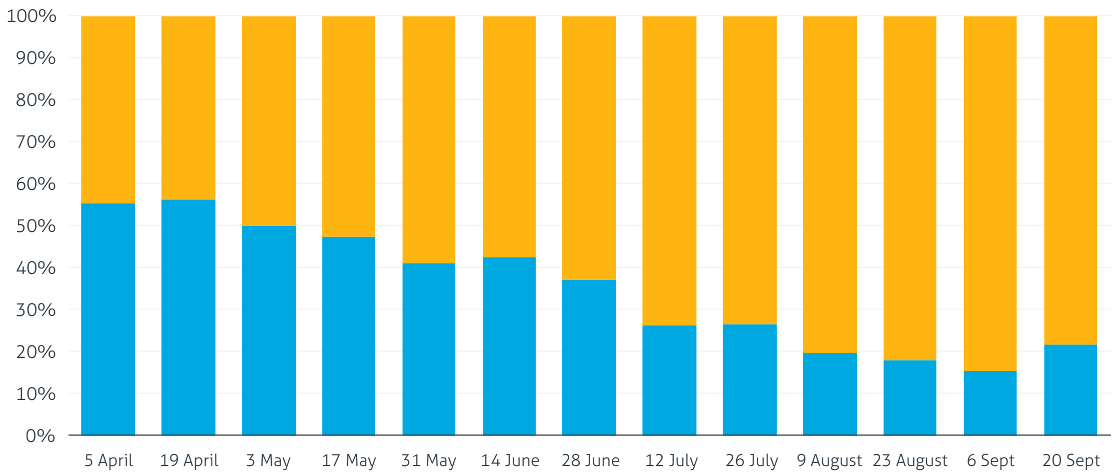
One piece of evidence that suggests jobs on the CJRS may have a longer-term future is that employers are already having to pay some of the wages for those workers, even though they are not working. This began in August, when employers had to pay employer NICs and statutory pension contributions, and the fraction of salary that needs to be paid was increased to 10% in September and 20% in October. Around 30% of employers are even paying more than necessary and topping up wages beyond the amount required by the scheme.[18]

This is positive evidence of 'viability' in two respects.

First, it indicates that the businesses these employees work for are in reasonable health and not about to fail because at the very least they have the cashflow to pay a portion of the wages. Most furloughed workers (2 million out of the 2-3 million total) are employed by businesses that are open and trading in some capacity (Figure 16), suggesting that many of the businesses that these furloughed employees work for may have long-term futures.

Second, businesses are not only able but also willing to pay some of the wages of furloughed staff. This suggests that businesses want to retain the relationship with their employee – suggesting that they expect to need them again at some point in the future. In October, an employer is already required to pay 20% of wages for the time a furloughed employee is not working.

Figure 16 **Share of furloughed employees in open and closed firms**



Source: Institute for Government analysis of Office for National Statistics, Business Impact of Covid-19 Survey, April to September 2020.

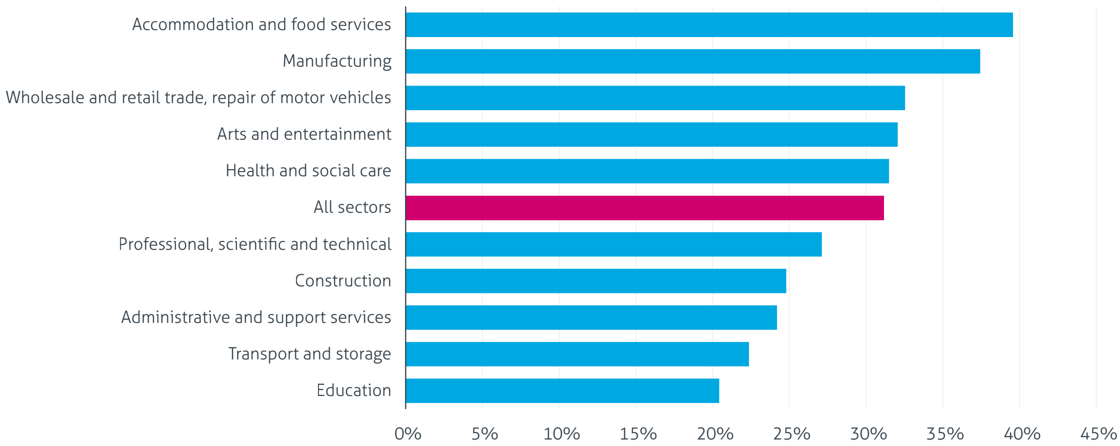
Most are fully furloughed rather than part-time furloughed

A less positive sign of the 'viability' of furloughed jobs is that the vast majority are not working at all, despite their employers having been able to take them back part-time since July. Under the 'part-furlough' option, if – for example – there was not enough work for an employee to do their usual hours, but there was one-fifth of the work, the employee could return to work for just those hours and the employer could continue to get support from the government to pay for the employee's remaining usual hours.

Only a minority of furloughed employees in any sector are working part-time (Figure 17). In July, the first month when this option was available, just one in five of the 4.8 million furloughed workers did any work, with many of those being in sectors in which shift work is most common – such as manufacturing and hospitality. In August, still less than one third of the 3.3 million employees left on the scheme were doing any part-time work.

Employers may not have brought workers back part-time if it is administratively complicated to do so – and   may have preferred to bring one person back full-time rather than three people for one-third of the time each. Throughout the crisis, employers have reported bringing more people back from furlough each fortnight than the overall fall in furlough numbers. This 'churn' indicates that some employers have been rotating employees on and off furlough. However, overall the minimal use of part furlough indicates there is (at least at the moment) low demand for these employees' time.

Figure 17 **Share of furloughed employees on part-furlough as of 31 July 2020**



Source: Institute for Government analysis of UK government Coronavirus Job Retention Scheme statistics, October 2020.

Only half of furloughed employees are in the four worst affected sectors

Four sectors continue to make disproportionate use of the furlough scheme. Arts and recreation remains heavily affected by government-imposed restrictions,[*] followed by food and accommodation. Firms in both of these sectors are most likely to report that complying with coronavirus regulations has significantly increased their costs.[**] Most of administrative and support services are not directly affected by restrictions but this sector mainly comprises businesses that provide employees to other businesses (e.g. temporary employment agencies)[19] and are disproportionately based in large cities,[20] suggesting the sector has been harmed by the move to online working and away from office life. The worst-affected sub-sector of administrative and support services comprises travel agents and tour operators who have been badly affected by a big reduction in overseas travel, which has also affected the aviation sector – a sub-sector of the wider transport and storage sector.

These four sectors employ half of those who remain furloughed. In each of these sectors, there is a clear story which explains why employees might still be furloughed. The majority of furloughed employees in these sectors are in businesses that are open, but complying with public health regulations has increased costs and/or demand has fallen substantially. Just because there is a 'good' reason why these employees are furloughed does not mean that these jobs will survive longer-term; however, ongoing restrictions do mean that current performance is not necessarily a reliable guide to future, post-pandemic, prospects.

* Many of those furloughed in arts and recreation are involved in sports, events and gambling. This accounts for two thirds of those in this sector furloughed in September. In contrast, arts and heritage only accounts for one third, even though half of workers in those industries are furloughed.

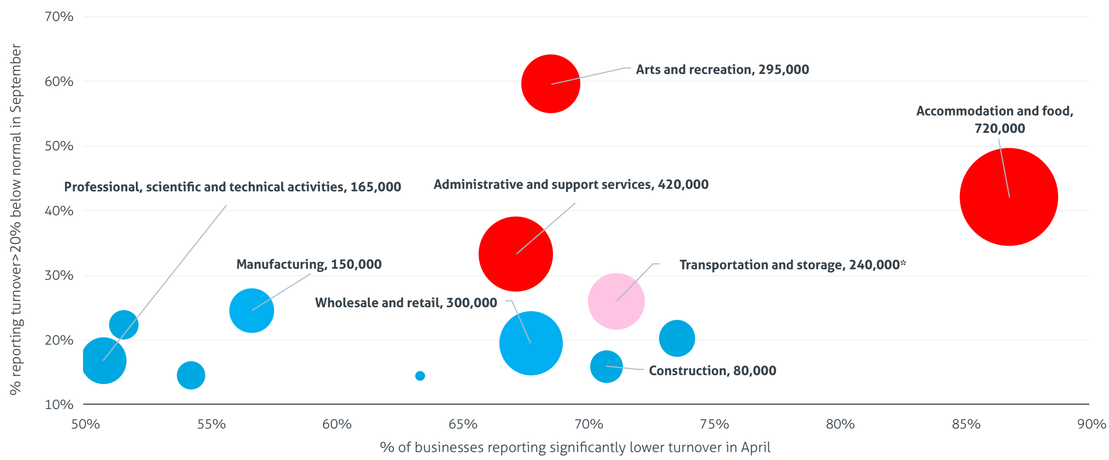
** 28% of businesses in arts and recreation and 34% in food and accommodation report substantially higher operating costs in September than pre-crisis. These are the most affected sectors according to this measure. In contrast, costs have significantly increased for just 8% of administrative and support services firms.

The other half of the 2-3 million employees still on the CJRS are not in these worst affected sectors. Instead, they are employed in sectors that are recovering and are not directly affected by public health restrictions. In most of these sectors, most businesses have managed to get their revenues back to close to pre-pandemic levels: less than one in four of the businesses in each of these sectors reported that revenues were more than 20% below normal levels in September (Figure 18).* The prospects for these employees are not good, since their employers have not yet brought them back even though business and revenues have generally recovered in the sector in which they work.

Prospects are particularly poor for the 9% of the furloughed employees in these sectors (5% of all employees still on furlough) who work for businesses that are still closed, even though competitors have been able to resume trading.

This analysis suggests that many of the over one million jobs that remain furloughed outside the arts, entertainment, hospitality, administrative and support services and aviation are in underperforming businesses in sectors that are otherwise recovering (even if not yet fully recovered). Even if restrictions were relaxed further from their September levels, it is likely that these jobs would still not be required.

Figure 18 **Furloughed employees in September by sector**



Source: Institute for Government analysis of Office for National Statistics, Business Impact of Covid-19 Survey, April to September 2020. * = Transportation and storage includes aviation, which has 80,000 furloughed employees. Data on the share of businesses in aviation with turnover more than 20% below normal levels is not available.

A growth in redundancy notices suggests employers are planning to fire some employees

Any businesses planning to lay off more than 20 people must notify HMRC of their intention at least 30 days before the first dismissal (and 45 days if more than 100 redundancies are planned). Companies reported over 350,000 planned redundancies between June and August, compared to well under 100,000 in the same period of 2019.[21] Not all of these notifications will necessarily result in job losses, but they indicate that many large employers intended to lay workers off as the CJRS unwound.

* This cannot be accounted for by pockets of affected sub-sectors within these sectors: for example, aerospace accounts for only a small minority of those furloughed in manufacturing.

In addition, many employees at risk of losing their jobs will not be captured in these figures because they work for small employers, who are not required to make these notifications. Between June and August, actual redundancies totalled 200,000 (even though, as we showed above, the total number of workers of firms' payrolls was quite stable over that period). This level of redundancies was almost double the number in the previous quarter (March to May) and not far from the quarterly peak in 2008, of just over 300,000.[22]

Is the CJRS preventing people moving to new jobs?

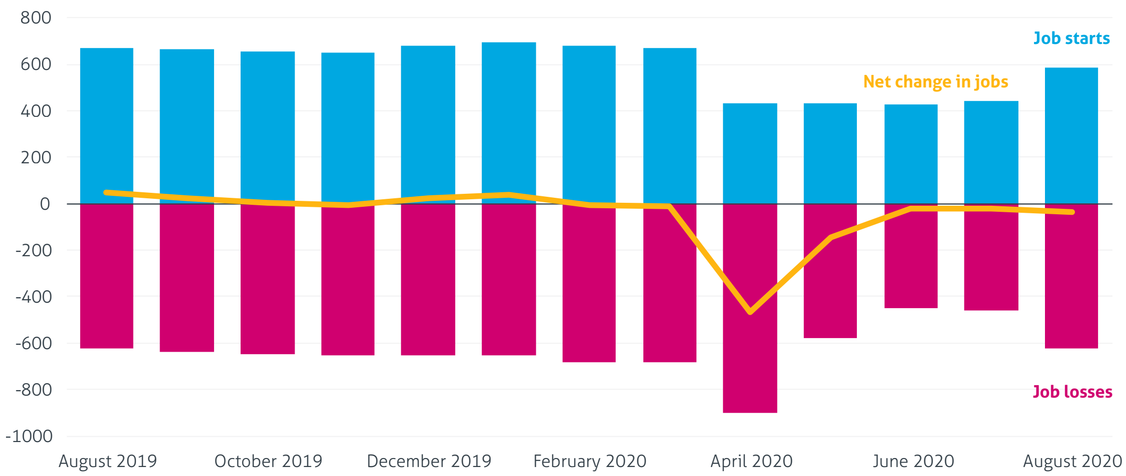
Whether any spike in unemployment is temporary or prolonged depends in large part on whether there are other jobs that the newly unemployed can move to. One fear about the CJRS was that it might prevent people from moving from their furloughed job to another job with better prospects and so slow down the natural churn of jobs that normally helps drive economic growth. While the CJRS did not stop people from looking for a new job – or even from taking up work with a different employer while furloughed – furloughed workers may still be less likely to look for alternative work if they continue to be employed by their previous firm. Those taking new jobs are not able to have their wages subsidised through the CJRS, meaning there is a disincentive to moving jobs because this risked losing the security of a subsidised job, especially in the early stage of the crisis. Overall, there are not many available jobs for people to move to and there is no evidence that the CJRS is stopping people from finding new jobs.

Many fewer people are leaving and entering jobs…

Figure 19 shows that the CJRS was relatively effective in putting the economy on ice at the start of the pandemic. The number of people starting new jobs was, understandably, much lower than usual. But, after April, so too was the number of people leaving their job. In normal times, there is regular churn in the workforce, with people leaving and starting new jobs. But this happened much less frequently in May and June.

Since then, there has been some return to normality, although both job exits and job starts remain below pre-pandemic levels.

Figure 19 **Job starts and job losses per month (thousands)**

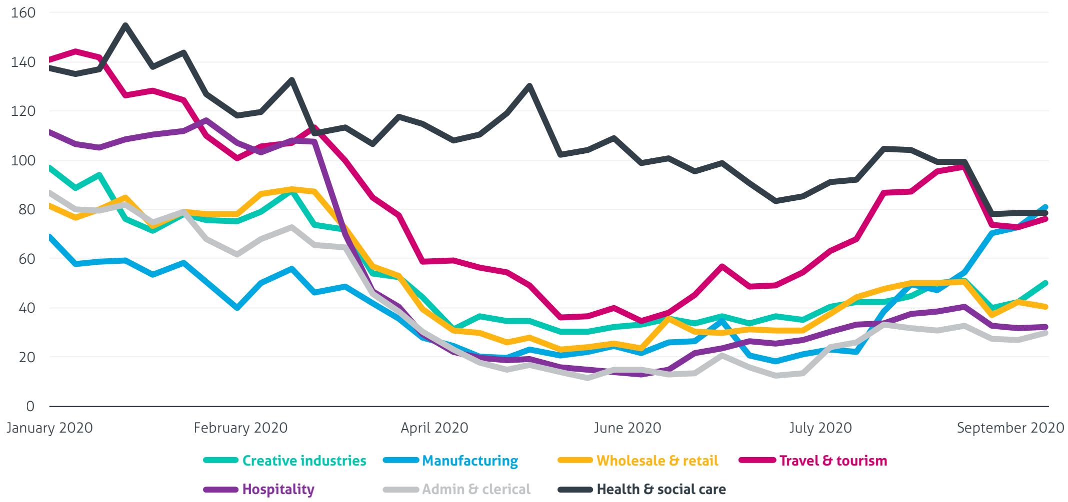


Source: Institute for Government analysis of Office for National Statistics, labour force statistics, September 2020.

Vacancies are down in every industry

Vacancies indicate how many roles businesses are hiring for. The number of jobs available collapsed during the pandemic. While they recovered in July and August, they remain below normal levels (Figure 20). This suggests that there would not have been jobs for workers to go to even if the CJRS had not encouraged them to stay with their existing employer. It also implies that there are not yet sectors or employers that are looking to expand substantially to absorb the soon-to-be unemployed from struggling sectors like hospitality.

Figure 20 **Vacancies by sector vs. a year earlier (same week previous year=100)**



Source: Institute for Government analysis of Office for National Statistics, labour force statistics, September 2020.

There is more competition for almost all jobs

Vacancies are scarcer than usual, and those vacancies that are posted are getting a lot of applications on average. Between the start of April and the end of June, overall applications per job were just over double their level a year earlier.[23] This ratio has decreased as the number of jobs available has picked up, but in September 2020 there were still 1.5 times as many applicants per job on average as in the same month the previous year.[24]

The very high number of applications suggests that there are enough people applying for jobs and that the CJRS is not slowing down labour market adjustment.

Job searchers have also become less picky when it comes to applying for jobs, with more searchers using the online recruitment site Indeed searching for *any* job rather than taking a more selective approach.[25]

Overall, this suggests that employers could, if they had the capacity to expand, employ quality candidates in the current job market. The fact that they are not doing this implies that the constraint on new jobs is the current economic situation, and a lack of demand, rather than any effect the CJRS is having on the labour market.

Vacancies are unevenly distributed across the country

As discussed earlier, job losses in the spring were concentrated in London and the east of England, while the number of jobs in Northern Ireland and the Midlands remained close to pre-crisis levels. London has also been worst hit in terms of the fall in the number of job vacancies being advertised. There were 55% fewer jobs in London posted on Indeed between February and September this year than last year's trends would have suggested, while in Wales, the north-east and the Midlands vacancies were down by less than 40%.

Although this is not yet reflected in the data, local lockdowns will also have an impact both on redundancies and vacancies. As we showed above, the number of people on the CJRS (an indicator of the health of the labour market) fell when restrictions were lifted.

Given the lack of vacancies and the high competition for every job, especially in some badly affected regions, the CJRS is not a big barrier to people finding different jobs. Many of those on the scheme would likely be unemployed, at least initially, if the scheme were to stop with no replacement.

How should the government support the labour market?

The evidence in this paper has shown how widely the CJRS has been used, but also how its use has changed. It is now supporting around three million jobs rather than the nine million it was supporting at the peak. Employees who are still furloughed are now mostly working for businesses that are trading in some capacity, although most of those supported by the CJRS are themselves doing no work.

This section evaluates what this implies about whether the Treasury's initial reasons for creating the scheme still hold, and whether the next phase of government support – the job retention bonus and job support scheme – is appropriate.

The CJRS has so far achieved its objective

When it was first introduced, the CJRS was designed to save jobs in the wake of a temporary collapse in economic activity, rather than allow unemployment to increase.

The rationale of the CJRS was, primarily, to preserve linkages between employees temporarily unable to work and businesses, allowing those businesses to recover more quickly when restrictions were lifted. The main disadvantages were twofold. First, there is the considerable expense associated with the scheme, and in particular a 'deadweight' cost if a job is being retained but has no longer-term prospect. Second, the scheme could even be economically damaging if it dissuades people from searching for new jobs or helps 'zombie' firms to survive for longer. Reallocation of workers and capital to more productive sectors with better prospects is in normal times an important vehicle for economic growth and retaining defunct employer-employee relationships risks slowing this down.

The CJRS has been a big success on these terms. The UK did not experience the spike in unemployment that some other countries – including the US – experienced.[26] Furthermore, most of the six-to-seven million people who have left the furlough scheme have returned to work, rather than becoming unemployed. This indicates that job linkages have been preserved and most of the 'cost' at the height of the crisis was spent on jobs that had a future.

The CJRS is a less appropriate policy instrument now

The patterns of CJRS usage and the state of the labour market revealed in this paper can help us to work out whether the conditions that originally motivated the scheme remain. They also shed light on whether the negative side effects of the scheme – in terms of their detrimental impact on economic restructuring and growth – have become bigger.

The CJRS is supporting both 'viable' and 'unviable' jobs

When announcing the new Job Support Scheme, Sunak said that a new approach to wage support was needed to ensure the government was only supporting 'viable jobs'. One key question then is whether the CJRS appears to be supporting unviable jobs and whether the new scheme will be sufficient to help sustain those jobs that are viable in the longer-term. Some evidence on this can be gleaned by examining who remains on the CJRS.

Broadly, we can divide those on the furlough scheme into three groups

First, there are **those in sectors that continue to be most affected by the coronavirus restrictions.** Half of all furloughed employees in September worked in four sectors: arts and recreation, accommodation and food, administrative and support services and aviation. This amounts to approximately 1.5 million people. Of those, around 200,000 are employed by businesses that are closed – predominantly these are in the arts and food and accommodation. Around one-third of those furloughed in accommodation and food are working part-time – perhaps because it is a sector that tends to use shift work. Only around 15% of furloughed workers in arts and recreation and administrative and support activities are working at all.[*] Given the impact of public health restrictions, it is difficult to know which of these jobs will be viable when restrictions lift. It is possible that some will not be, for example if a shift away from office working reduces demand for administrative staff. However, making this judgment relies on knowing how the economy will restructure in future. More generally, the high level of restrictions that continue to affect these sectors means that how a business is currently performing, or whether a job is needed right now,is unlikely to be a good indicator of the long-term viability of the job.

Second, there are **those operating in sectors that are recovering but where the business they are employed by remains closed.** This is a small group – around 100,000 people in total. They work in sectors in which almost all other businesses are open but their employer is still closed. We might identify these as 'zombie firms' – businesses that are unlikely to survive and may have failed anyway even without the pandemic.

* This data is not available for aviation.

(The number of business closures has been lower so far this year than they were over the same period in 2019). However, it is important to emphasise that this is a small group of employees and accounts for less than 5% of those still furloughed.

Third, **there are those operating in businesses that are open in sectors that are recovering.** This group accounts for half of those still on the CJRS and is the most difficult to assess. Only one-fifth of this group are working part-time, as opposed to being fully furloughed. If this is because there is currently no productive work for them to do, it may be unlikely that these jobs are viable given that the sectors are already operating at something approaching normality. However, it is possible that these jobs could return as demand picks up. Either way, it is likely that this group includes some – and possibly many – jobs that would have been lost through the regular churn of the labour market if the pandemic had not happened.

One piece of evidence that suggests the jobs still being supported by the CJRS are viable is that businesses are already having to pay something to keep employees furloughed: 10% of their wage in September, and 20% in October. However, that is still a relatively small sum given that many furloughed workers are on low incomes.

At the start of the crisis, the CJRS was designed to preserve employer-employee links. It was successful at that as six million people have now left the scheme and returned to work. But of those remaining on the scheme – in particular the half who work in sectors that are not directly affected by ongoing public health restrictions – it is likely that many are in unviable jobs. This suggests that the fraction of the CJRS spend that is 'deadweight' – not preserving long-term employer-employee links – is bigger now than it was at the start of the crisis. The jobs it is preserving are worse value for money, because they are less likely to return.

Sectoral re-allocation does not appear to have been slowed by the scheme

The other main potential cost of the scheme is that keeping people attached to employers will slow the reallocation of workers to more productive firms and sectors. If this were a problem at the moment, we would expect there to be firms willing to hire but unable to do so. This does not appear to be the case. Vacancies are scarce and there are many more applicants than normal for each job vacancy. It is therefore unlikely that firms would like to hire but are not posting vacancies due to a lack of good applicants.

In sum, there is little evidence that, in the absence of the CJRS, there would be a rapid reallocation of workers towards more productive firms. It is more likely there would have been a spike in unemployment.

The benefits of the CJRS are smaller now than they were at the start of the pandemic

While the CJRS does not seem to be actively slowing down reallocation between sectors and firms, the evidence suggests that a much greater share of the outlay now is 'deadweight' as many more of the jobs being supported seem unlikely to return. As a result, the policy is less well-targeted, and worse value for money, than it was in April.

Is the government's next phase of support appropriate?

The government has announced that the CJRS will end on 31 October. It will be replaced by the Job Retention Bonus (payable at the end of January if a once-furloughed employee is still on the books then) and the JSS (now a very similar scheme to the CJRS, but open to new entrants and running until April).

The analysis in this paper allows us to draw several conclusions about the effectiveness of this policy mix in achieving the chancellor's stated goal of supporting 'viable' jobs, especially as public health restrictions have become more stringent.

The Job Retention Bonus is a poorly targeted policy

Two thirds of those who were once on the furlough scheme have now ceased using it. Most of those have returned to their jobs with no need for their employer to be given additional incentives. This means that the Job Retention Bonus, which pays £1,000 for any employee who was furloughed at some point if they are still employed at the end of January, will waste a lot of money. In total, the scheme is expected to cost £8 billion, a substantial sum – equivalent, for example, to the cost of extending the CJRS for a further two months.[27] If 7 million employees who were previously on the furlough scheme but have now left are now still employed by their previous employer and require no further government support, that is £7 billion of 'deadweight' cost – public money spent without making any difference to behaviour.

Just because a policy entails a deadweight cost does not mean it is a bad policy. When the CJRS was first introduced, the government knew that its design would lead to some fraud and that some employees would benefit from it even though their employer may have kept them on even without it. However, the design allowed the policy to be implemented quickly and achieved the government's objective of avoiding widespread unemployment as the economy was shutdown. But it is not clear that the Job Retention Bonus has many merits that offset the high deadweight cost. It will represent a big incentive to retain lower-paid staff – since the sum available will cover up to 64% of the lowest paid workers' wages.[*] But it is only a small incentive to retain higher-paid employees – contributing as little as 13% to the wage costs for the highest paid.[**] On its own, the scheme encourages businesses to re-hire workers on less generous contracts, rather than existing terms.

Following a further deterioration in the economic outlook, the government announced the JSS in September, indicating that the government did not believe the JRB would be effective at retaining viable jobs.

The original Job Support Scheme would not have saved all 'viable' jobs

The aim of the JSS – to save viable jobs (but, by implication, not those that are unviable) – is an understandable one. Supporting viable jobs will allow good businesses to recover more quickly when restrictions lift and promote a stronger recovery. The alternative would likely mean more unemployment in the short term (with possible

* The minimum monthly earnings that qualify for the Job Retention Bonus is £520.
** The maximum contribution under the CJRS is wages of £2,500 per month.

long-term adverse effects for the people concerned) and big hiring costs for businesses when restrictions lift, particularly if they had previously relied on experienced and/or skilled staff. However, it is also easy to understand why the Treasury is becoming increasingly concerned about wasting taxpayer money, given (as we noted above) that a greater share of CJRS spending now is likely to be 'deadweight' than was the case at the start of the pandemic.

The JSS announced on 24 September was much less generous than either the CJRS or the reformed JSS announced on 22 October. Its requirements – that the employee work one third of the time and the employer pays for one third of the wages for time not working – implied quite a limited definition of what constitutes a 'viable' job. The government would consider your job to be viable if there were currently enough work for you to be employed one third of your normal hours and your employer expected that you would return to full-time work sufficiently soon, such that they are willing to make a sizeable contribution towards the hours you are not working.

This 'viability' test was reasonable – if stringent – for businesses in recovering sectors. Most sectors were open and operating at something approaching normal capacity. Only a small minority faced significant extra costs to comply with coronavirus restrictions. For those sectors, if someone still cannot even be employed one third of the time, their future job prospects are surely poor.

But in four sectors in particular – arts and recreation, accommodation and food, administrative and support activities, and aviation – activity remained well below normal pre-pandemic levels even before the tiered approach to public health restrictions was introduced. In those sectors, there may be jobs that have a long-term future but that would not meet these stringent conditions. Somebody working in a closed theatre,* for example, will currently have no work to do but their job may still be viable in a world without coronavirus restrictions.

The new scheme should protect 'viable' jobs in badly affected sectors but will also prop up unviable jobs in recovering sectors

In response to substantial criticism, and in light of the government's latest public health announcements that have imposed more restrictions on some areas of the country, the chancellor has announced radical changes to the JSS. The new scheme for open businesses is much more generous than the old JSS, and more similar to the CJRS.

The new JSS is a better approach for the worst-affected sectors. It now only requires a minimal contribution from employers (and no contribution at all if the business is mandated by public health restrictions to close). This will allow employers to retain staff for longer, even if there is currently little demand for their time. The main difference to the CJRS is that the option of full furlough is no longer available (employees must work at least 20% of their normal hours). This may generate administrative complexity for some businesses in the worst-affected sectors who would find it easier to take one person back full-time rather than multiple people back part-time.

* In England many theatres are closed but they are not required to be closed so they would not qualify for the recently announced more generous job support scheme support.

However, overall the required employer contribution should be low enough that most employees supported on the CJRS will continue to be supported on the JSS.

However, the new JSS incentives also apply to those in recovering sectors that are not badly affected by restrictions. Over one million people are still furloughed in these industries, and many of those employees are now likely to be retained on the JSS. The new JSS has foregone the stringent 'viability' test of the old scheme that would have been effective at weeding out unviable jobs in those sectors. As a result, the JSS will now support more unviable jobs for longer than would otherwise be the case.

Overall, the new JSS is an improvement on the old one because it will be effective at retaining viable jobs in badly affected sectors. The main costs will be additional deadweight spending on unviable jobs. But the scheme is unlikely to do active harm to economic performance beyond this: just like the CJRS, it is unlikely that the JSS will prevent people looking for new jobs and therefore slow any reallocation that will aid economic recovery.

A sectoral approach could make the JSS better targeted

The original JSS did too little to protect viable jobs in the worst-affected sectors, while the new JSS arguably makes it too easy for employees to be retained in unviable jobs in relatively unaffected sectors. In each case, the problem is that both schemes are economy-wide, but different sectors need different treatment.

A better approach would be to apply more stringent rules to recovering sectors and more lenient ones to the worst affected. This would allow the scheme to support as many viable jobs as possible while not supporting many unviable ones.

The major obstacle to the government taking a more expansive approach to targeted business support would be identifying which sectors should be supported and which firms fall into which sectors. This may change over time, as restrictions are eased or tightened, and would differ across regions that face different public health restrictions. But these are not insurmountable problems. The government does have ways of identifying which firms are in which sectors: for example, it was able to apply a business rates holiday only to those businesses in retail, hospitality and nurseries that occupy business premises.

Even if it were not possible to identify firms perfectly, an imperfect approach – with some inevitable deadweight – may still be appropriate and would be in line with the Treasury's approach at earlier stages of the pandemic and its new approach to business support in tier two and three regions is also targeted at specific sectors.[28] Other countries, such as France, have also managed to target job support on specific sectors – providing a more generous level of support for hospitality since July.[29]

The government has now decided to prolong more generous labour market support, which will preserve viable jobs. In order to focus support on those jobs, it should vary the JSS across sectors and tiers of coronavirus restrictions, providing more generous support for jobs in the most affected businesses. This would help the government to achieve its objective while getting best value for taxpayer money.

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About the authors

Thomas Pope

Thomas is the Institute for Government's senior economist and works across its programme areas. He was previously an economist at the Institute for Fiscal Studies, working on tax and the public finances. Thomas has an MSC in Economics from UCL and a BA in Philosophy, Politics and Economics from the University of Oxford.

Grant Dalton

Grant is a research assistant on the Institute's public finances project. He joined the Institute from the Department for International Trade, where he worked in private office as a briefings manager and a ministerial private secretary. Grant previously completed a degree in History at University College, Oxford, before working in fundraising for a school in Oxford.

Gemma Tetlow

Gemma is chief economist at the Institute for Government, working across the Institute's programme areas. She joined the organisation in April 2018 from the *Financial Times*, where she was economics correspondent. Previously, Gemma led the Institute for Fiscal Studies' work on public finances and pensions. She has a PhD in Economics from University College London, and an MSc and BSc in Economics from the University of Warwick.

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+44 (0) 20 7747 0400 **+44 (0) 20 7766 0700**

@instituteforgov

Institute for Government, 2 Carlton Gardens
London SW1Y 5AA, United Kingdom

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