



Protecting People In and Out of Work

A Labour Party Note on Reforms
to Job Retention and Social Security Schemes
in Response to the Crisis of Coronavirus

1. INTRODUCTION AND CONTEXT

The United Kingdom reported its first Coronavirus cases on 31 January.ⁱ In February it became clear that the disease would have significant economic impacts.ⁱⁱ Since then the Government has made four separate announcements on an economic package:

- An initial £12 billion package at the Budget on 11 March, for public services, individuals and business;
- An updated package for business on 17 March, with the key part of this being a programme of interest-free loans;
- An updated package for individuals on 20 March, centred on a Coronavirus Job Retention Scheme compensating 80% of wages of ‘furloughed’ workers;
- Additional measures for the self-employed to give them protection alongside the Coronavirus Job Retention Scheme on 26 March.

The Labour Party has endeavoured to engage constructively to ensure a comprehensive and effective economic response. In late February we encouraged planning for government intervention and international coordination.ⁱⁱⁱ On 2 March the Shadow Chancellor issued a recommended five-point action plan.^{iv} On 9 March, the Shadow Chancellor underscored the need for reforms to Statutory Sick Pay, protections for those in insecure work, and social security changes.^v After raising concerns about the adequacy of the Budget package, the Shadow Chancellor published a report, *Wages, Welfare, and Wellbeing*, proposing the guarantee of 100% of all workers’ wages (80-90% by the Government, on a sliding scale depending on whether a person is a low or middle or high earner, and the remainder by the employer); increases in benefit levels and removals of barriers to benefit access; and widening eligibility criteria for, and raising levels of, Statutory Sick Pay.^{vi}

It is imperative that omissions and areas of uncertainty in Government economic action are highlighted – and reforms are rapidly implemented where unforeseen consequences arise. This is not done to win votes or score political points. It is done to ensure everyone who needs support in this crisis gets it. The purpose of this note is to draw to the attention of the Government shortcomings with what has been announced so far, and to recommend urgent deliverable reforms. The note is informed by phone calls, emails, and representations made to Labour MPs.

The next part of the report, ‘Gaps in Protection’, explains: (i) difficulties with the concept of ‘furloughing’ for workers on reduced hours; (ii) workers missing out on Statutory Sick Pay and job retention protection; (iii) problems in accessing benefits, especially Universal Credit and concerns about levels of benefits; (iv) why rent and utility bills are becoming an increasing worry for individuals; (v) concerns already raised about the Government’s self-employment announcements on 26 March. The final part, ‘Immediate Reforms’, calls for: (i) more flexibility in ‘furloughing’; (ii) increases in the level of Statutory Sick Pay and expanded eligibility; (iii) widened access to benefits and increases to benefit levels; (iv) action on rent and utilities; (v) urgent tweaks to the Government’s self-employment package.

The stakes could hardly be higher. Human health and wider wellbeing depend on not just getting an economic response to Coronavirus done, but getting it right.

2. GAPS IN PROTECTION

We acknowledge the hard work done by trade unions, business groups, the Government, civil servants, and others to secure the reforms already announced.

But the scale of the crisis, in economic as well as human terms, cannot be denied. Market surveys – which do need to be treated with care, perhaps particularly in times of uncertainty – show a majority of businesses recording a contraction in activity. The chief business economist at IHS Markit, Chris Williamson, has said “the initial blow ... [is] even greater than that seen at the height of the global financial crisis”, meaning “a recession of a scale we have not seen in modern history is looking increasingly likely.”^{vii} Unite has estimated that one million hospitality jobs are at risk;^{viii} early evidence suggests 200,000 people working in hospitality have already lost their jobs.^{ix} It is estimated 50,000 freelancers in the film industry will be out of work because of Coronavirus.^x Almost 500,000 people have applied for Universal Credit in recent days, with people reporting online queues of over 130,000 people on the claims website.^{xi}

It is therefore imperative that problems with existing support schemes are identified quickly, and fixed fast. This section aims to contribute to that task.

(i) Problems with ‘Furloughing’

The Coronavirus Job Retention Scheme hinges on the concept of ‘furloughing’. 80% of workers’ wage costs are covered if a worker is ‘furloughed’: on a leave of absence. The requirement that workers go on a leave of absence to be eligible for wage protection is not the trigger for worker protection in other countries’ schemes. In Denmark a worker must be in a company at risk of redundancies; in New Zealand (in a scheme that accounts for part-time workers) a worker must be in a company facing an actual or potential drop in wages.^{xii}

One significant problem is that the Government’s approach to ‘furloughing’ does not cover workers whose hours have been reduced in response to Coronavirus. Companies need some workers on reduced hours: to review existing work, maintain basic processes, or keep companies afloat. These workers will receive lower wages at a time when everyone faces financial difficulties. The Resolution Foundation has noted that this may create a perverse incentive for individuals not to work at all at a time when it is important that economic activity is supported.^{xiii} The design of the scheme may also encourage what we have heard, anecdotally, is occurring already: workers being officially ‘furloughed’ while being asked to continue working, which may lead employers to make windfall gains as they keep money from wage protection. The Government has said to employers, “those employees who you do place on furlough cannot undertake work for you.” But this exhortation is not enough. The Government could tweak the Scheme quickly, as discussed in the next part of this note, to ensure the Scheme works more flexibly and more fairly. In the interests of ensuring the economy can rebuild as quickly as possible, businesses should be encouraged to retain enough staff to keep in contact with customers.

It is also not clear why workers who started work after 28 February should miss out on the possibility of being furloughed. Workers new to their jobs may be just as likely to be at risk of losing work and income. If the Government is doing 'whatever it takes', all affected workers should be protected.

Finally, there is a problem of delay in implementation of the Job Retention Scheme. It is administratively complex to administer the Scheme and important to avoid fraud or error in implementation. But as Michael Northcott of *Retail Sector* points out in an open letter, entitled 'The furloughs and loans are useless to small businesses': "Furlough measures require small firms to have cash reserves now to pay staff in the hope of a rebate for the wages later. Most small companies, if they are laying people off, do so because there is no cash in the kitty left to pay them. ... [F]or a small company it is much more attractive to simply lay everyone off, sit on the existing sales ledger to keep indispensable suppliers up to date and wait it out in hope till the other side of the curve."^{xiv}

(ii) Workers Missing Out

The Government's clarification that part-time employees, employees on agency contracts, and employees on flexible or zero-hour contracts are eligible for the Job Retention Scheme is welcome.

However, a number of workers are still missing out on Statutory Sick Pay. It excludes low paid workers earning under £118 a week. The Lower Earnings Limit may have the unfortunate effect of excluding a larger group of workers who are receiving reduced pay (say, on reduced hours) during the Coronavirus downturn – and may find themselves unable to claim sick pay. Statutory Sick Pay does not apply to all zero-hours, part-time, and limb (b) (dependent contractor) workers. Workers without occupational sick pay schemes also receive only £94.25 on statutory sick pay, which is not enough to live on, as the Health Secretary has pointed out.^{xv}

As well, the Job Retention Scheme may exclude 'limb (b)' workers (workers who do work personally for a third party to a contract) who are not employees but may not be covered by the Self-Employed Income Support Scheme, either.

(iii) Difficulties in Accessing Benefits – and Low Benefit Levels

Concerns were raised some weeks ago about how existing elements of the social security system will create problems during the Coronavirus crisis. People cannot attend Jobcentre meetings in person; the claimant agreement is difficult to sign in present circumstances; sanctions will have an even more punitive effect; and the five-week wait for Universal Credit, along with the availability only of a loan or advance, is driving people into destitution. As well, benefit levels are manifestly inadequate.

Labour has demanded a series of changes – and some tweaks to social security have been made. Decisions have been made to disapply a series of existing sanctions, with reviews and reassessments suspended for three months. The need for a claimant agreement and attendance for Jobcentre meetings appears to have been suspended for three months. But the Government could be clearer about these

changes. Moreover, nothing has been done to reform the availability of only a loan or an advance. And while the Government has made some changes to the level of Universal Credit and the Working Tax Credit – increasing the standard allowance in Universal Credit and the basic element in Working Tax Credit by £20, as well as adjusting the Minimum Income Floor – no changes have been made to Child Benefit or Carer’s Allowance.

(iv) Rent and Utilities

Prior to the Budget, the Resolution Foundation noted that there was a “rising proportion of lower-income families without savings to fall back on to support their consumption in the face of a shock.”^{xvi} Incomes also fell in 2018-19, an “historically very unusual” occurrence “outside of recessions”, with the Director of the IFS describing average income growth over the last decade as “astonishingly poor by historic standards”.^{xvii} In short, the least well-off were in a very vulnerable position even before the outbreak of Coronavirus.

80% of the wages of some workers are now covered by wage protection and self-employment schemes. But many workers will continue to face paying 100% of their utility bills and rents, at a time when there may be other financial pressures. The Government has announced the need for three months’ notice for landlords to evict tenants, with all existing housing possession action postponed for 90 days. But tenants’ liability for rent has been unchanged.^{xviii} Some renters have called for a rent strike and rent relief.^{xix} Further action on rent and utilities is urgently needed, and is discussed further below.

(v) Uncertainties about the Self-Employment Scheme

The Labour Party was relieved to see, following the advocacy of business groups and trade unions and the self-employed, a scheme brought forward for the self-employed on 26 March, providing for a grant at the level of 80% of the self-employed’s profits.

However, the delay in implementation – the Scheme may not be operational until June – will deeply affect the livelihoods of self-employed people. The self-employed are far more likely than employees to be in relative poverty and to be in sectors affected by Coronavirus; almost a million are in construction.^{xx} If the delay is caused in part by fears about fraudulent claiming, this does not justify the delay. As well, it is not clear that limb (b) workers are covered. Those who have not submitted a tax return for 2019, and have only recently become self-employed, are not covered. No further resources have been allocated to HMRC to administer the Scheme. Some urgent updates to the Scheme are needed.^{xxi} Also excluded are those who pay themselves a salary and dividend through their company but are not operating PAYE schemes. No particular attention has been paid to the position of construction workers, often designated falsely as self-employed. One commentator has estimated when all of the carve-outs and caveats of the scheme are taken into account, almost two million self-employed people are not covered.^{xxii}

3. URGENT REFORMS

Any suggested changes need to be practical and deliverable. But without urgent action, more people will slip through the widening cracks in between (and within) the Government's announced schemes, and we risk widespread harm to human health and the economy.

(i) Make 'Furloughing' More Flexible

- Extend the Coronavirus Job Retention Scheme to all working on reduced hours

There is no good reason for the Job Retention Scheme only to apply to workers fully furloughed. Workers part-furloughed, or on reduced hours, are also in need of support. There is a simple way to do this: cover 80% of all lost wages, whether people end all of their hours or a proportion of them.^{xxiii} This should be integrated into the Scheme as it is being made operational now. It would ensure that workers on reduced hours do not face lower pay; it would reduce the incentive for businesses to drop more workers than needed; and would therefore be a useful support for overall economic activity. This is consistent with just-released guidance from the International Labour Organization, which has said: "Governments should take measures to extend unemployment benefits to workers facing a loss of earnings, due to partial unemployment, particularly in cases of temporary reduction in hours of work."^{xxiv} The reference to unemployment benefits can be taken here to encompass benefits such as those provided by the Job Retention Scheme.

The Scheme should also apply to any worker employed before the day the Scheme was announced, 20 March, rather than any worker employed before 28 February.

Many workers also report not being furloughed because employers continue to require work in industries where social distancing is impossible, and workers are at significant health risk. Consideration should be given to fining, or otherwise penalising, employers who keep workers at work – rather than furloughing them – without social distancing. The employers' actions may be in violation of existing health and safety legislation.

(ii) Make Statutory Sick Pay More Accessible and More Generous

- Make all workers, including low-paid workers, eligible for Statutory Sick Pay

The Government should remove the Lower Earnings Limit of £118, which may exclude more people in this moment of crisis. It should make clear that all zero-hours contract and agency workers, and limb (b) workers, are eligible for Statutory Sick Pay (while also indicating that limb (b) workers are eligible for the Job Retention Scheme). The Government must clarify that it will continue to cover the costs of

Statutory Sick Pay for businesses, having initially announced that it would cover these costs over a short-term period.

- Increase the level of Statutory Sick Pay

We reiterate our call for the Government to lift the level of Statutory Sick Pay for all those sick or self-isolating, to the real living wage or 90% of wages, whichever is lower. The United Kingdom has some of the lowest statutory sick pay in Europe. There are workers who have not been furloughed but need to stay home to self-isolate, and do not feel able to because of a lack of sufficient financial support. This change is urgent, as a measure grounded in not just social justice but also public health. The Government has said it will do 'whatever it takes'. So far it has not done 'whatever it takes' on Statutory Sick Pay.

(iii) Act to Provide Immediate UC Support and Increase Benefit Levels

- Turning UC advances into grants and other changes to accessing UC

We reiterate our call, echoing the Trussell Trust and others, for the UC advance to be made non-repayable: so that UC advances become grants rather than loans. Programming difficulties are the main reason given for this not being possible.^{xxv} But the Government should explain why it cannot simply lift the requirement that these be paid back.

- Increasing benefit levels

We have earlier made calls to increase the level of UC and related benefits, as well as Child Benefit and Carer's Allowance. We reiterate those calls for significant increases to Child Benefit and Carer's Allowance, since children and carers have received relatively little attention in the Government's economic policy response.

To address the inadequacy of other benefits, the Government must now consider a range of other proposals including an increase in core benefits and the potential for a minimum income guarantee. The Resolution Foundation had proposed increasing the main adult rate of unemployment benefit in Universal Credit, Jobseeker's Allowance, and Employment and Support Allowance to £100 per week.^{xxvi} The New Economics Foundation has also called for a three-month minimum income guarantee of £221 a week, secured by increasing the main adult element of Universal Credit and legacy benefits to this level.^{xxvii} The New Economics Foundation proposal is for the payment to be non-conditional and non-means-tested. What is clear is that at this time we need to build resilience in our community.

Increases in levels of benefits do not require new administrative machinery and can be done quickly. These further increases, beyond what the Government has announced, provide an essential bridge during a period where people are waiting for self-employment and other support.

(iv) Action on Rent and Utility Bill Payments

- Allow suspension of rent payments

As discussed, Government exhortation for tenants and landlords to come to arrangements where necessary is profoundly insufficient. Where necessary rent payments should be suspended for a three-month period to enable people to feed themselves and their loved ones, and to avoid driving people into destitution; at a time of widespread job losses and wage cuts of at least 20%, it is not unreasonable for landlords – many benefiting from a mortgage holiday – to prepare for small declines in their regular income. In addition, the Bedroom Tax and Benefit Cap must be suspended, with the Local Housing Allowance restored from the 30th percentile to 50th percentile of market rates (the 2010 position). New Zealand has frozen residential rents increases for the next six months, and this could be introduced as part of the package of measures outlined above.^{xxviii}

- No utility disconnections

The Government must introduce, alongside its moratorium on evictions, a moratorium on utility disconnections. This is unlikely to cause financial hardship for household utility companies, which had their share prices increase between 2 January and 23 March, according to analysis by the IFS (while share prices of tourism and leisure sectors, the automotive sector, and the building sector plummeted).^{xxix} There needs to be ongoing public oversight of utilities, given potential threats to capacity and affordability. Western Australia's freeze on household fees, including electricity and water charges, provides a feasible model of what can be done alongside a moratorium on disconnections.^{xxx} The United Kingdom is fast becoming an outlier in taking no meaningful action on utility bills.

(v) Clarify Uncertainties with the Self-Employment Scheme

It is important for the Government to clarify why it has excluded those who pay themselves a salary and dividends through their own company, but without a PAYE scheme. We also ask that the Government, when considering eligibility for the Self-Employment Income Support Scheme, uses its discretion to determine whether people who have been designated as self-employed should gain the protection of the Job Retention Scheme. This includes those paid via the Construction Industry Scheme and via payroll and umbrella companies. The Government must at the conclusion of this crisis, as Unite has called for, reassess the artificial divisions between categories of workers – and the damaging impact this has, in relation to social security, Statutory Sick Pay, and many other parts of our system of social protection.

We propose these urgent reforms in a constructive spirit. We are willing to engage with the Government further on them, and hope that the Government will act urgently to fill the gaps in protection that currently exist.

NOTES

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- ⁱ <https://www.bbc.co.uk/news/health-51325192>
- ⁱⁱ See, e.g., <https://www.theguardian.com/business/2020/feb/23/economic-impact-of-coronavirus-outbreak-deepens>.
- ⁱⁱⁱ <https://twitter.com/johnmcdonnellMP/status/1233471993732837379?s=20h>
- ^{iv} <https://labour.org.uk/press/john-mcdonnell-mp-labours-shadow-chancellor-has-set-out-a-five-point-plan-to-deal-with-the-potential-economic-impact-of-a-coronavirus-outbreak/>
- ^v <https://labour.org.uk/press/john-mcdonnell-speech-ahead-of-budget/>
- ^{vi} <https://labour.org.uk/wp-content/uploads/2020/03/Labour%E2%80%99s-Economic-Plan-for-Individuals-Affected-By-Coronavirus-Final.pdf>
- ^{vii} <https://www.ft.com/content/61989bfa-6db6-11ea-89df-41bea055720b>
- ^{viii} <https://www.independent.co.uk/news/business/news/coronavirus-pubs-restaurants-million-jobs-risk-a9405501.html>
- ^{ix} <https://www.ft.com/content/175f1646-690a-11ea-800d-da70cff6e4d3>
- ^x <https://www.theguardian.com/film/2020/mar/19/loss-of-jobs-income-film-industry-hollywood-coronavirus-pandemic-covid-19>
- ^{xi} <https://www.theguardian.com/world/2020/mar/25/almost-500000-people-in-uk-apply-for-universal-credit-in-nine-days>
- ^{xii} <https://labour.org.uk/wp-content/uploads/2020/03/Labour%E2%80%99s-Economic-Plan-for-Individuals-Affected-By-Coronavirus-Final.pdf>
- ^{xiii} <https://www.resolutionfoundation.org/publications/next-steps-to-support-family-incomes-in-the-face-of-the-coronavirus-crisis/>
- ^{xiv} <https://www.retailsector.co.uk/51795-the-furloughs-and-loans-are-useless-to-small-businesses/>
- ^{xv} <https://www.express.co.uk/news/uk/1257765/bbc-qt-matt-hancock-statutory-sick-pay-not-enough-coronavirus-pandemic>
- ^{xvi} <https://www.resolutionfoundation.org/publications/a-budget-action-plan/>
- ^{xvii} <https://twitter.com/PJTheEconomist/status/1243125663089012737>
- ^{xviii} <https://www.gov.uk/guidance/government-support-available-for-landlords-and-renters-reflecting-the-current-coronavirus-covid-19-outbreak>
- ^{xix} <https://www.prospectmagazine.co.uk/politics/during-coronavirus-rent-help-uk-freeze>
- ^{xx} <https://www.ifs.org.uk/publications/14768>
- ^{xxi} <https://leftfootforward.org/2020/03/lets-look-behind-the-fine-print-of-the-governments-self-employment-package/>
- ^{xxii} <https://twitter.com/paullewisemoney/status/1243415340958138368?s=20>
- ^{xxiii} <https://www.resolutionfoundation.org/publications/next-steps-to-support-family-incomes-in-the-face-of-the-coronavirus-crisis/>
- ^{xxiv} https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---normes/documents/publication/wcms_739937.pdf
- ^{xxv} <https://www.politicshome.com/news/article/government-insists-it-wont-ditch-fiveweek-wait-for-uc-despite-coronavirus-outbreak>
- ^{xxvi} <https://www.resolutionfoundation.org/app/uploads/2020/03/Doing-what-it-takes.pdf>
- ^{xxvii} See <https://neweconomics.org/2020/03/building-a-minimum-income-protection>
- ^{xxviii} <https://www.beehive.govt.nz/release/covid-19-rent-increase-freeze-and-more-protection-tenants>
- ^{xxix} <https://www.ifs.org.uk/publications/14773>
- ^{xxx} <https://www.abc.net.au/news/2020-03-16/coronavirus-wa-stimulus-package-freeze-household-fees-charges/12060388>

