



# A TUC and FSB proposal for a short-term working subsidy

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We believe that Government needs to provide more support to viable firms struggling with short-term economic difficulties during the recession. While we welcome recently announced measures to support those facing unemployment of over six months we believe that further action is necessary to prevent jobs from being unnecessarily lost in the first place.

Across Europe, Governments have made subsidy packages available to employers moving workers to short-term hours or making temporary lay-offs. For example, schemes are in operation in Germany, France, Spain, the Netherlands and Italy. Wales has also recently launched an innovative subsidy scheme (ProAct) which has already received praise from the Prime Minister.<sup>1</sup> And during the economic difficulties of the late 1970s, a national temporary employment subsidy (TES) was available to support employers. Where at least ten redundancies were threatened, the TES programme offered a subsidy of £20 a week for up to 12 months for each job saved.

We are advocating access to a subsidy package for private sector employers who make short-term reductions in staff hours or temporary lay-offs as a means to save costs and give their businesses a better chance of survival. But such a scheme should not be available indefinitely. In common with the examples above we believe that support should be time limited, targeted at firms both in need and with strong long-term prospects and only available to subsidise a proportion of workers' previous wages.

Such support would enable employers to avoid immediate redundancies and retain essential staff and skills - making business success more likely in both the short and longer terms. It would also reduce the personal and social costs incurred by long-term unemployment (evidence from previous recessions suggests that 30 per cent of those who become unemployed enter long-term unemployment) and increase economic demand by limiting the income reductions faced by workers on short-term hours or temporary lay-offs. If linked to training, it would enable longer-term workforce investment. The experience from Wales shows that such a scheme could be introduced quickly – ProAct was conceptualised in November 2008, and began operation in January 2009.

### **Our proposals**

We are advocating reform of Jobseekers Allowance (JSA) rules accompanied by a Government wage subsidy to employers and access to Train to Gain for workers on short-term hours or a temporary lay-off. We are proposing a scheme which would make it easier for subsidy applications to be targeted at only those workers at risk of being laid-off, and provide flexibility over the extent of the subsidy provided. The specific measures we support are set out below.

- **Reform benefit rules that force workers who are on short-term hours or have been temporarily laid-off to look for new work after 13 weeks on benefits.** Until 1996 workers who were temporarily laid-off could claim

Unemployment Benefit (UB) for as long as the lay-off lasted. They had to be available for their normal job but there were no rules requiring them to give it up eventually. Similarly, when firms introduced short-term working, workers could claim UB for the weeks when they were not in work. When JSA replaced UB, these rules changed. Since 1996 there has been a 13-week period when the old rules apply, but after that claimants are expected to be available for full-time jobs even if it means giving up their existing post. It is clear from recent analysis that new claimants and the longer-term unemployed are already spending significantly longer on JSA than they could have expected to at the beginning of last year. But current rules mean that workers with real jobs will have to give them up to look for jobs that do not exist. Government should temporarily rescind these rules and return to the system that existed under Unemployment Benefit, enabling workers affected by reductions in hours or temporary lay-offs to claim benefits.

- **Introduction of a Government subsidy for firms moving to short-term hours or temporary lay-offs.** For some firms, a short-term Government subsidy to support payment of wages could prevent large-scale redundancies and the loss of essential skills, protecting jobs and enabling future growth. But there should be limitations on such a package so that support is targeted where it can have most impact and in the areas of greatest need. We therefore believe that support should be designed around the following key principles:
  - subsidies should be time-limited;
  - the subsidy plus JSA entitlement should guarantee that workers receive 60 per cent of their previous wage for non-working days or weeks;
  - the subsidy should be available for part-time workers;
  - employers should be responsible for meeting workers' National Insurance contributions (at their subsidised wage level) during the lay-off or reduction in hours;
  - where employers are able to make additional contributions towards wages the subsidy should not be lost, allowing workers an increase in wages up to 70 per cent of normal salary on subsidised days;
  - access to the scheme should be contingent upon long-term business viability and genuine need, as assessed and agreed by an independent panel which would enable Government to take advantage of trade union and employer expertise;
  - employers accessing support should enable workers on short-term hours or a temporary lay-off to access training via Train to Gain.

- **Extend new flexible access to Train to Gain to all workers receiving a wage subsidy as a result of short-term hours or a temporary lay-off.** Last Autumn the Government launched a new flexible Train to Gain package for small and medium enterprises (SMEs), which removed much inflexibility in order to support SMEs through the recession. For example, free training is now available to SMEs for accredited units of training while in the past free training was only available for full qualifications. Such flexible access, with an emphasis on training that will support business survival, should be extended to all companies accessing support under the subsidy programme.

### Costs

We believe for a cost of around £1.2 billion annually (excluding training costs) up to 600,000 workers each year could receive support.

The costs and timescales are based on the subsidy being available to full-time workers on the median private sector wage. If large numbers of part-time staff were supported then the number of workers supported by the scheme could increase. If employers were able to make additional contributions to wages, the length of time workers received the subsidy could increase.

If the scheme operated over more than one year it is likely that annual costs would decline, as fewer employers would be in need of support.

We are confident that deadweight costs can be avoided: independent assessment and agreement of applications for the subsidy package will ensure that only cases of genuine need are approved, and its time-limited nature will prevent firms from making applications as the economic conditions improve. Our costs are set out below:

Costs	
Median full-time private sector annual wage <sup>2</sup>	£ 23,920.00
60 per cent of median wage	£ 14,352.00
Six months pay at 60 per cent of median wage	£ 7,176.00
Three months pay at 60 per cent of median wage	£ 3,588.00
Six months wage subsidy x 300000 workers	£ 2,152,800,000.00
Three months subsidy x 300000 workers	£ 1,076,400,000.00
Total annual wage subsidy cost	£ 3,229,200,000.00
Savings	
Benefits at £100/ week <sup>3</sup> for 6 months x 300000 workers	£ 780,000,000.00
Benefits at £100/ week for 3 months x 300000 workers	£ 390,000,000.00
Annual income tax per worker (at 60 per cent pay)	£ 1,663.40
Six months income tax at 60 per cent of median wage	£ 831.70
Three months income tax at 60 per cent of median wage	£ 415.85

Annual NI per worker (at 60 per cent pay)	£	978.12
Six months NI at 60 per cent of median wage	£	489.06
Three months NI at 60 per cent of median wage	£	244.53
Six months employers' NI payments per worker at 60 per cent median wage	£	570.69
Three months employers' NI payments per worker at 60 per cent of median wage	£	285.34
Six months income tax at 60 per cent of median wage x 300000 workers	£	249,510,000.00
Three months income tax at 60 per cent of median wage x 300000 workers	£	124,755,000.00
Six months worker NI at 60 per cent of median wage x 300000 workers	£	146,718,000.00
Three months worker NI at 60 per cent of median wage x 300000 workers	£	73,359,000.00
Six months employer NI at 60 per cent of median wage <sup>4</sup> x 300000 workers	£	171,206,400.00
Three months employer NI at 60 per cent of median wage minus lower earnings limit x 300000 workers	£	85,603,200.00
Total benefit savings	£	1,170,000,000.00
Total tax income	£	851,151,600.00
<b>Subsidy costs minus benefit savings minus additional tax revenue = TOTAL NET COST</b>	<b>£</b>	<b>1,208,048,400.00</b>

**Annex: Examples of subsidy packages in Germany, France and Wales**

Country	Conditions	Amount paid	Timescales
<b>Germany</b>	<p>In most cases the hours of at least one-third of the workforce must be reduced (in some cases this requirement can be waived)</p> <p>The reduction in hours must result from an unavoidable shortage of work resulting from economic conditions</p> <p>Employers must obtain agreement of the company Works Council and gain consent of local labour authorities</p> <p>Employers must pay social insurance contributions for employees receiving the benefit</p> <p>Firms are supported to offer additional training to staff on short-term reductions in hours</p>	<p>The benefit is 60 per cent (67 per cent for employees with children) of the difference between employees' normal pay and the short-time wage</p>	<p>The benefit is usually limited to six months, but until the end of 2009 companies can apply to have payments increased to 18 months</p>
<b>France</b>	<p>Employers are eligible when all or parts of a business are closed, or collective working hours are reduced, because of economic conditions or exceptional circumstances</p> <p>The employer must apply to the public labour authorities for the benefit, which is topped up by a complementary benefit paid by employers and based on collective agreements</p>	<p>The benefit is 60 per cent of normal gross pay, with the minimum level pegged to the national minimum wage</p>	<p>In most sectors the benefit may be paid for 800 hours per worker per year, and for 1000 hours per worker per year in the textiles, clothing and leather industries, the car industry and its subcontractors and car retail.</p> <p>If a company closes a business or plant completely the benefit is payable for up to six-weeks</p>

<p><b>Wales</b></p>	<p>Employers must demonstrate that they are currently on short-hours working to a minimum of 20 per cent of normal employee hours and that they are seriously considering redundancies should ProAct funding not be available</p> <p>Funding is limited to a maximum of 100 employees per company</p> <p>It is compulsory for employers to access the training subsidy as well as the wage subsidy</p> <p>Employers have to demonstrate that the training they are proposing will improve productivity and competitiveness</p> <p>The programme initially prioritised the automotive industry but will be rolled out from April 2009 to other key sectors</p> <p>Applications are assessed by an independent panel using agreed criteria, including workforce engagement and the extent to which the training can be shown to enhance long term business viability</p>	<p>Employers can receive a training subsidy of £2,000 for each worker, in addition to a wage subsidy of £2,000 per worker</p>	<p>The scheme began operation in January 2009, and is currently funded until April 2010. It may be extended depending upon the economic circumstances. £48million is available for the forthcoming financial year.</p>
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<sup>1</sup> On 4<sup>th</sup> Feb 2009 during Prime Ministers’ Questions the Prime Minister stated that “Through the Assembly, Wales has developed a new programme called ProAct to help people to stay in jobs rather than be made unemployed, and a great deal of work is being done by us to look at that scheme and at how it could apply to other parts of the United Kingdom.”

<sup>2</sup> ONS (2008) Annual Survey of Hours and Earnings Cardiff: ONS <http://www.statistics.gov.uk/cci/nugget.asp?id=285>

<sup>3</sup> JSA for a single person without dependents or housing costs is £60.50 per week. We have assumed that the average worker accessing support from this package will have dependents and housing costs so we believe it is a reasonable assumption that the average amount of state benefit payable to each worker per week would be £100.

<sup>4</sup> The Class 1B National Insurance contributions rate for the 2007-08 tax year is 12.8 per cent on wages above the Lower Earnings Limit of £5435.