

Update on furlough scheme extension in UK

The government introduced the furlough scheme as a major financial measure at the start of the Coronavirus lockdown. The scheme is a measure to counter redundancies, with the government paying 80% of wages, up to £2,500 per month.

The scheme was originally expected to run (from 1 March) till the end of May and was then extended for a further month to the end of June (announced on 17 April). So far, a quarter of the workforce, some 7.5 million people are covered by the scheme which has cost £14bn a month.

On 12 May, Chancellor Rishi Sunak announced the scheme will be extended to October but will ask companies to “start sharing” the cost of the scheme; the full details are still to be announced.

One of the features of the scheme is that employees need to be furloughed for a minimum of three weeks to be eligible to qualify for the government’s contribution. From August, employers using the scheme will be able to bring back furloughed employees part-time.

Generally, the scheme is seen as a success, not only in its ability to preserve jobs but also to keep a source of income to a large number of households who otherwise could have faced redundancy, during an unprecedented time filled with uncertainty.

An alternative way to look at this is that it provides the government with a mechanism to pay people who would alternatively need to seek unemployment benefits. Regardless, the ability to keep cash getting into households was, and remains, a top priority.

Despite this, there have been some consequences to the scheme, not least the financial cost to the taxpayer, hence Mr Sunak’s plan to share the future cost. There will also be a small minority who will try and take advantage of the scheme, rather than adopt it in the true spirit of what it was meant for. Finally, despite the scheme, some businesses have taken the difficult decision to still make some redundancies. Mr Sunak has said the number of job losses “breaks my heart” and has decided to extend the scheme as he won’t give up on the people that rely on it.

There is no doubt many businesses have retained their staff as a conscious and moral decision to help them; staff, who in some instances, would have faced redundancy. With the end of the furlough scheme looming, businesses will no doubt turn their heads to look at this as a business decision. After several months of difficulty, many businesses may not find it financially viable to employ staff who would otherwise have been made redundant, had the scheme not been introduced.

It stands to reason that the end of the scheme will trigger the start of mass redundancies. Any company seeking to cut more than 100 jobs must run a 45-day consultation, meaning 18 May was the last day employers could start the process before the initial 30 June furlough end date. Mr Sunak’s announcement was therefore well timed to head this off!

However, the latest announcement may have only deferred the inevitable. With the government’s plan to share the cost, businesses may still be faced with the prospect of costs they cannot afford.

Whilst there is no doubt there are good intentions here; unfortunately, the underlying damage to the economy, businesses and ultimately the people they employ suggests further government intervention and potentially a revised approach is needed.

If your business has been affected and you need further information or advice, please do not hesitate to contact **Alex Chrysiades at Adler Shine LLP, Chartered Accountants and Business Advisors.**