



# HOUSE OF LORDS

*Economic Affairs Committee*

## Corrected oral evidence: Employment and Covid-19

Tuesday 8 September 2020

3 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Livingston of Parkhead; Lord Monks; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 1

Virtual Proceeding

Questions 1 - 8

### Witnesses

**I:** Rain Newton-Smith, Chief Economist, Confederation of British Industry; Martin McTague, National Vice-Chair Policy and Advocacy; Federation of Small Businesses; Kate Bell, Head of Rights, International, Social and Economics, Trades Union Congress; Andy Chamberlain, Director of Policy, The Association of Independent Professionals and the Self-Employed (IPSE).

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## Examination of witnesses

Rain Newton-Smith, Martin McTague, Kate Bell and Andy Chamberlain.

Q1 **The Chair:** Rain Newton-Smith, Martin McTague, Kate Bell and Andy Chamberlain, welcome to the Economic Affairs Committee. Thank you all for coming to the Committee for this important inquiry. This is the first day of the inquiry and perhaps I could begin by asking the first question. Should the job retention scheme and support for the self-employed be extended beyond October?

**Rain Newton-Smith:** We do not think the scheme in its current guise should be extended beyond October, but we would like to see a new scheme in its place. We need something to bridge us to the other side of the crisis. We do not think that the job retention bonus in its current form is enough to soften the cliff edge when the job retention scheme is set to end in its current form.

Estimates vary of the number of people who are still on furlough at the moment. I think the ONS puts it as one in eight. We think that is too many at this stage to put at risk of unemployment, given the weak demand in so many parts of the economy. We would like to see a working support scheme put in place, with the characteristic that it was available to individuals working about 50% of their original contract. The company would pay for the hours that the individual was working, but there would be a co-payment for some of the time when the individual was not working. We think a three-way sharing model of around 30% would make sense. That is what we recommend.

There should be some conditionality on that. We do not think it would be appropriate for a business to be paying dividends, for example, while it was drawing on such a scheme. A short-time working support scheme would be invaluable in carrying our economy through, and, in some sense, paying dividends on the huge investment we have already put into the job retention scheme in its current form, which has been an absolute lifeline for businesses and households around the country.

**The Chair:** Do you think it makes sense to pay £1,000 for people who are retained on the scheme, which applies even to people who had come back to work before the £1,000 was announced? Is that not an enormous deadweight cost that would be better spent in other ways?

**Rain Newton-Smith:** We are concerned about the deadweight cost associated with the job retention bonus in its current form. I think that will be alleviated. Of the many businesses we have been talking to, some have said that where their business is doing well, and they can see that they can manage through the next six months of this crisis, they are not intending to claim the bonus. That will minimise some of the deadweight loss, but we need something that is more targeted and a bit more generous. We think there should be a contribution of more like 30%, whereas the job retention scheme only softens it with a contribution of 10% to 15%, depending on the pay of the individual. We need something

a bit more generous targeted at firms and sectors that are in distress, to try to minimise the rise in unemployment.

**Martin McTague:** I agree largely with what Rain was saying. There is a need to avoid the cliff edge that is likely to happen if we have a sudden end to furloughing at the end of October. There are clearly special cases. There are sectors that are largely or completely unable to trade, and that would be death for many of those businesses. In other areas where there are local lockdowns, clearly, you need special measures as well. Maybe this sort of temporary arrangement should last until the end of 2020 because, without being too gloomy, the second peak is likely to appear at some time during that period, and we will know more about what we are facing. We have to learn to live with this virus for the foreseeable future.

My priority would be the self-employed. We have just come from a conference where I saw some Resolution Foundation data. It is quite stark. We have a situation where the self-employed were losing 50% of their earnings and the forecast is that it will only be down to 35% by the end of this year, and that is double the level for the employed. The focus should be on trying to get a replacement for the self-employed support scheme, but we certainly agree that job retention needs to be addressed quickly.

**Kate Bell:** I very much agree with a lot of what Rain said. On Friday, we set out a new plan for a successor to the job retention scheme, which we called the job protection and upskilling scheme. It would have four elements that are different from the job retention scheme. We think that support needs to be more targeted; businesses should have to show that they have been affected by coronavirus restrictions in an ongoing way. That might include in situations of local lockdown.

Secondly, businesses would have to bring workers back for a minimum threshold of their working time. We suggest 10%, but there is some discussion about how much they should have to bring people back. That is a test of continued business viability. Thirdly, we think it should come with conditions attached. We do not think that businesses should pay dividends or make redundancies while they claim the support. We also think they should be putting in place measures to ensure that they produce decent jobs in the UK.

Finally, we think this is an opportunity to upskill our workforce. We have suggested that people who are working less than 50% of their time should have a funded offer of training from the Government. That is in line with a lot of what the Government said about their ambitions. They have talked about a national skills fund. This is an opportunity to bring that spending forward to upskill those who cannot do their full work at the current time, and to put in place measures that will, as Rain and Martin said, get us over this difficult period, and protect jobs and skills in the future.

It is worth noting that this approach is being taken in many other European countries. In Germany, the short-time work scheme will be

extended until December 2021. In France, a new scheme is in place that applies until June 2022. The Netherlands has just extended its scheme for nine months. Across Europe, we see that those are the right forms of support for jobs, but we can do more with this scheme. We can help to upskill people too, and that is what we would like to see the Chancellor announce soon.

**Andy Chamberlain:** I agree with each of the other witnesses that the Government should be ready to extend the support and they should look specifically at badly affected sectors where it is clear already that they are unlikely to return to pre-pandemic levels of buoyancy for the foreseeable future. We also think that support should be targeted in light of local lockdowns and on businesses that are affected by test and trace and quarantine following trips abroad.

If I may, I will quickly focus on the self-employment income support scheme, because, as it is for Martin, that is very much our focus. The SEISS scheme has provided support to many people who perhaps did not really need it and at the same time denied support to lots of people who really did need it. If that was to be looked at again, we would encourage the boundaries and structure to be reshaped so that it targets support better to get help to the people who need it. All of that is particularly important if there is a further spike or second wave, or whatever we want to call it, of the pandemic.

HMRC deserves a lot of credit for devising the scheme, rolling it out and getting payments to people very efficiently. Part of making it efficient was making it simple, but there is now perhaps an opportunity to think about whether it could be tweaked so that we get support to the people who need it.

**The Chair:** Thank you very much. As this is the first meeting of a new inquiry, we are all required to declare our interests. They are already on the register, but I should declare that I am chairman of Secure Trust Bank and the senior independent director at J. & J. Denholm.

Q2 **Baroness Bowles of Berkhamsted:** I declare my interest as a director of London Stock Exchange plc.

What factors should inform how long schemes should last and the level of support that should be provided by the Government? To some extent, we have already ventured into those areas, but it would be good to elaborate a little on comparisons with schemes that have already endured for much longer in other European countries and, if that is possible, in a kind of compare-and-contrast way. Did we do more over a shorter period, whereas they already had schemes in place most of the time so they did not have to invent things? Relevant to the size of the country, how does the scale of the packages compare in percentage terms? Kate, you mentioned other countries, so possibly you have statistics. Can you lead on that?

**Kate Bell:** I do not have exact statistics on the scale of the interventions, but, as you said, many of the countries we are talking about had existing

short-time work schemes. During the pandemic they made them more generous and eligible to more companies, and in some cases they are now returning to a narrower and more targeted scheme.

Our Government did an amazing job in getting the scheme running so quickly. The proportion of people furloughed here was pretty similar to that in France, although I do not have the exact statistics in front of me. What we are talking about for the next phase is something that looks more like the conventional short-time work schemes that have been effective in preventing episodes of mass unemployment in previous downturns. The German scheme, during the 2008-09 recession, had a positive effect in stopping unemployment.

You asked about the duration of the scheme. We think another six months should be enough to get companies back on their feet. It is a difficult question. We had all hoped that by now we would be in the situation where the phasing-out of the furlough scheme would be happening together with the phasing-in of more economic activity. Unfortunately, we are not there, but we are learning, and there are fewer people on furlough now. The number of people on the scheme has probably halved from around its peak. These schemes are naturally becoming more targeted, but there are good and viable businesses that need that support, and we think a six-month scheme of this type could help provide it.

**Rain Newton-Smith:** We need something that runs over the course of next year and gets us through the critical winter period, when we are at risk from a rise in infections in particular. Having a lever and a mechanism that is available if and when we see further local lockdowns is particularly important.

As to what the scheme should look like, to echo what Kate was saying, having training as a component of the non-working hours seems sensible. We want to build our skills for the future. We hope that the demand for a working support scheme will naturally fall away over the course of next year, but if we have a mechanism in place it could be used in future recessions. The job retention scheme has been a huge lifeline. It was very generous. All credit to the Treasury and HMRC that it was put together at speed and scale to deliver something quickly. Now we need a different scheme that is less generous and is more for the recovery phase, but we all recognise that something needs to be put in place to see us through the recovery.

From what I have seen, the overall generosity of our job retention scheme was certainly equal to, if not more generous than, that of some other countries. Where we have done less is on direct support to businesses through grants. One of the things we want to see is that the grants to local authorities, which have been given money to provide support during local lockdowns, are kept in place and not clawed back. We understand that in some local areas it has been quite hard to get that money targeted at the businesses that need it in the time that has been available.

**Q3 Lord Burns:** I am either a director or trustee of organisations that have used the job retention scheme, particularly in the performing arts, which have been quite heavily affected.

I would like to move on to the question of how effective targeting can be in these circumstances, whether it is with an extension of the current scheme or, as you all seem to be arguing, for a different type of scheme. I understand the argument about places where further restrictions have been put in place, and of course there are a lot of activities where restrictions of one kind or another will be in place for quite a long time. Should there be some expectation that the jobs will return when the constraints are removed? How effective can conditionality be in this area, so that we do not have very high deadweight costs from any new proposal?

Targeting is a popular thing but it is also very difficult. It creates all kinds of grey areas and crossovers. We see that with some of the schemes at the moment. What should be the priorities? What are the workable ways in which we can distinguish some of the areas that are priorities?

**Kate Bell:** This is obviously a difficult challenge for government, but again, we can learn from the experience of other countries. There is a range of options for the Government as to how they want to target. We think it is clear that it should be targeted at viable businesses, and requiring people to be back for a certain proportion of their working time is one way of targeting it. You have to be doing some work. That would target businesses with a future.

There is a range of different options. In France, the new scheme says that you have to set out a business plan, so we could require businesses to set out some kind of plan. It might be administratively quite complex, but at least it is a test of viability. Many of the schemes, particularly in Germany and the Netherlands, have turnover thresholds; you have to show that a certain proportion of your turnover has been hit by the restrictions. That might be one of the simplest ways to do it, although there could be exceptions for local lockdowns, for example.

There is an interesting example in the second phase of the income support scheme for self-employed people. People claiming the second grant were asked to show that their business had been hit by coronavirus restrictions. We could do something similar again. There could be extra conditionality around businesses being prepared to say they are not going to make redundancies, that they will not pay dividends and that they have a plan to tackle fair pay. We said that they should have a plan to pay their tax in the UK too. Those would be additional tests, in a way, to say that they are businesses that are serious about protecting jobs and trying to survive for the next phase, and those are the businesses and jobs we want to support.

**Rain Newton-Smith:** One way of targeting it, as Kate was saying, is by identifying viable businesses through the proportion of people who are in work. It is for the Treasury to decide what the right proportion is. It could be as low as 10%. We suggest 50%. The idea is that they are people who

are in work at least part of the time. We think it is really important to keep people building skills, with the training element as part of that.

The other thing you can do by way of conditionality is that, because we want this to be support for jobs that last, you could claw back the support. You would say that the job needs to last for a minimum of six months or 12 months from when businesses first claim; if not, they have to repay the money. That would be an appropriate clawback. Ideally, you would target it at sectors that are closed or at particular regions. There could be criteria that you are in a local lockdown, or in a particular area. That would seem to be one way of targeting it.

The problem with sectors and regions more generally is the boundary issues. We have spoken to many businesses. If you are a laundry supplier to a hotel business, you might have had no direct government support in the same way as the hospitality sector has, but all your business relates to sectors that at times have been completely shut down. The challenge is how you identify the supply chains of some of the affected businesses and provide them with support.

Equally, you could say that consumer service is an area that will be impacted for a while, but we know from talking to businesses that there are some businesses that are doing very well. Consumer services in some of the smaller towns and cities where people are working from home are working well, but the centres of London or Birmingham, where there are far fewer tourists and students at the moment, and of course fewer workers commuting into city centres, are the regions and sectors that are impacted, whereas some of those companies in different regions are doing well. There is a challenge in targeting by general sector or region.

**Andy Chamberlain:** To pick up on what Rain was saying, doing it by sector is a challenge, there is no doubt about it, yet there is some precedent. There are some schemes that target certain sectors. Perhaps a sector that is a bit easier to identify than others is the construction industry. There are specific rules around the construction industry such as the Construction Industry Training Board levy, which is applied to certain firms if they are identified as working in that sector, or, indeed, the construction industry scheme, which is a tax rule that applies there.

It is clearly the case, and Lord Burns was making the point, that in other sectors there is less clear definition. Our plea to government would be that we should not let the perfect be the enemy of good. The performing arts sector, for example, has been very badly impacted, and we should attempt to identify which businesses they are and provide support there. There will of course be blurry boundaries, and there will be examples that common sense would say should be inside the support scheme but, because of the way it has been structured, they fall outside it. We would still argue the case for giving it a go and trying to get support to a lot of the businesses within that sector, even if it means that because of the way it is structured some, unfortunately, will fall outside it.

**Lord Burns:** I mentioned in my opening remarks that I have some

involvement in the performing arts area. It seems to me that quite a lot of the constraints that have been mentioned would leave out the whole performing arts sector. Many of them are subject to a lot of restrictions on what they are allowed to do or what their audiences are allowed to do. Some of them may want some balance between keeping people on and making some people redundant. In their time horizon, it might yet be a few months before they get back to anywhere near normal. Are we going to end up leaving that sector badly exposed?

**Martin McTague:** I agree with Lord Burns in that respect. You are right. The danger is that there are boundary issues. We deal with a lot of supply chain companies that supply sectors that could not possibly be defined, in the hospitality industry, for example. If you are an electrician who spends 50% of your time working in pubs, clubs and cinemas, do you get support or do you not get support? That becomes really difficult.

It is important to remember that whatever scheme you come up with must have a reasonable duration. The Kurzarbeit system in Germany at least gives firms a sense that there is a future if they want to plan ahead. Equally, it is not dredged in bureaucracy. Let us remember that 60% of employees work for tiny firms with fewer than 50 employees. Are you going to create a bureaucratic nightmare that could lead to those firms deciding that it is just too difficult and getting rid of the employees anyway?

**Lord Burns:** The witnesses have all more or less written off the job retention scheme, but there have been some proposals to take the present job retention scheme and to continue the process of phasing it out and changing the balance of what is paid by the state and what is paid by the employer, which would take several months. The balance has shifted gradually and there have been some proposals to carry on with that. There does not seem to be any interest in that from our witnesses. You have more or less said that we need to start again.

**Kate Bell:** It would probably be fair to describe the schemes that we are proposing as evolution from the job retention scheme rather than ripping it up and starting again. The principle in the job retention scheme is that workers take a proportion of the hit in their wages, in that they are only getting 80% of their wages, and we would argue strongly that it should not go below that; that the Government support some of the cost; and that businesses support some of the cost. That is a principle that we suggest should continue, but we suggest that it is more closely targeted and that it has the extra element of upskilling and training. There may be businesses that are not able to survive even beyond this period, but their workers will have had that additional support, and we think that is an important extra element.

**Lord Stern of Brentford:** We have been discussing targeting types of firms, and the future of firms, the employed, self-employed, regions and so on, but we know that at different times individuals have been affected in different ways, some much more harshly than others, by this whole experience over the last months—young people, men, women, skilled or

unskilled. How far do you think it is wise or possible to bring observations about who has been hit hardest into a scheme that operates in large measure through firms?

**Martin McTague:** Kate and I sit on the Low Pay Commission and we have seen evidence of the impact on younger workers. Under-25s are likely to be hit significantly. There is a real sense of disappointment about the Kickstart scheme.

**The Chair:** I am sorry to interrupt you, but Viscount Chandos will ask about that in the next question.

**Martin McTague:** I do not want to jump in too quickly. I thought it was linked, but perhaps not. I will leave it there and let someone else answer.

**The Chair:** Mr Chamberlain, do you want to come in?

**Andy Chamberlain:** I was not going to jump in on that question, but I would say that it is difficult. With the job retention scheme, the firm is the intermediary; the employer becomes the intermediary in dishing out the support that ends up with the individual. You can devise a targeted scheme, and Kickstart is an example that targets under-25s, but it becomes more difficult if the firm says, "We don't have anyone here like that so we want the scheme to be provided for someone else". That is a bit of a barrier.

**The Chair:** Does anyone want to answer Lord Stern's question directly?

**Kate Bell:** Let me have a go. Two groups that we know have really benefited from the furlough scheme, because they faced particular disadvantage during this period, are people with caring responsibilities, which means that it has been harder for them to go back to work, or even, possibly, to do their work from their home; and those in the group who were told formerly to shield. We tried to write into our proposals specific protections for those groups.

We suggested that the requirement that you would have to work for some of your working time would not apply to those specific groups, so they could be furloughed even if they could not come back to work. We know that the people who are most disadvantaged in the labour market are those mostly likely to do badly in a recession, so we think that particular measures need to be put in place for those groups and could be designed very explicitly in the next phase of the scheme.

**The Chair:** Viscount Chandos, I have given you a trailer.

Q4 **Viscount Chandos:** Mr McTague, thank you for your patience. My question, in the first instance, is very much directed to you and Ms Newton-Smith as representatives of organisations with employers as members. How do your members view the Kickstart scheme, and where you have identified problems how might they be addressed?

**Martin McTague:** I will pick up from where I left off. Essentially, it was a real disappointment. It had provision for 30-plus employees, and firms had to deal through an intermediary if that was not the case. That got the reaction from most small employers that, "This is not aimed at me. This is not for me". They did not hear the complications that followed from that.

You might remember that SMEs were the most adaptable and innovative in the last recession and, in fact, picked up something like 80% of the new jobs post recession. What you are trying to do is encourage people who are flexible and innovative to look at ways in which they can employ people post Covid, post the lockdown. I think it has fallen short. However, I have to say that the DWP appears to be listening to our concerns, so I am optimistic that something will come out of this that could improve it.

**Rain Newton-Smith:** Everyone really welcomes the scheme. I think everyone recognises that, as Lord Stern and others alluded to, we are very worried about the scarring effects on young people of a period of unemployment. Having a scheme in place to address that is hugely welcome. We have seen the success of how it has worked in the past. Wales has a very successful similar scheme running at the moment.

We need something, but there are challenges, particularly in how it works for smaller businesses. For some, the minimum requirement of 30 placements is a challenge. You cannot always get a consortium of businesses together quickly to meet that minimum requirement. We are working with government departments on some of the guidance. Businesses have been asking us how it interacts with the apprenticeship schemes. Many businesses are hugely dedicated to apprenticeship schemes, but are wondering whether they can bring someone in on a Kickstart scheme for a period and then move them on to an apprenticeship, and how that works. There needs to be more guidance around that and some thought given to how we support the apprenticeship schemes as well.

The other thing that can be a challenge for larger employers, particularly if they have lots of different sites around the country, is when they have an outlet in the centre of London that has been hugely impacted and there are challenges in the viability of that particular outlet. They may have had to make redundancies of people who were working in that area, but in another region of the country they see growth opportunities, and they are keen to bring on some young people through the Kickstart scheme. Some people are worried about whether they will be put under the microscope for making redundancies that may be necessary, sad though it may be for the company, in one region, and taking on young people in another. If there is anything we can do to tell companies that it is a great scheme, and encourage businesses to offer it where there are opportunities, that is really important. As with anything, there are always teething problems, but we are keen to work with the Government to make it a success, in particular for smaller businesses.

**Viscount Chandos:** Before I asked the first question, I should have declared my interests as a board member of a company and a non-profit institution that has used the job retention scheme, and as chairman of the Credit Services Association.

Mr McTague, representing smaller employers, is there a threshold that is lower than 30 but more than one that you feel strikes the right balance in bringing the maximum number of people into the Kickstart scheme while still being administratively reasonably efficient?

**Martin McTague:** The argument, as I understood it from Ministers, was that they felt that the problem was a lack of HR skills in smaller businesses. The answer could be that if I have a supplier or a customer that is a major company, with an HR department that could buddy up with me and provide that facility, I see no reason why smaller companies, no matter how small, could not take on employees. I seriously do not want to cheese off about 50% of my membership by telling them that they should not be involved in the scheme, but wherever you draw the line, that could be the impact.

**The Chair:** I think it is a great scheme and it broadly follows a scheme that was introduced by the previous Labour Government. It worked quite well, so we know it can work, but of course the big difference is that in the former scheme everyone was at work. If you are going to take on youngsters and a large proportion of your workforce is working from home, is anyone concerned about who will guide and support them and provide leadership? If I were a Minister, I would not be worried about the HR department; I would be worried about the management structure and the ability to fit them into the world of work and to profit from it. Am I just imagining a problem there? It seems to me that it is an important one.

**Martin McTague:** It is funny. We heard exactly the opposite of that problem. Quite a few companies were keen to take on young undergraduates to work with the owner managers of the business because they felt they were entering a new world that they were not familiar with, so they needed improved IT skills and the kind of new innovative ideas that they thought a young graduate could bring. They were quite happy to take that person into their company. I guess it would have to happen face to face, but they were very keen to involve people at that level.

**Baroness Bowles of Berkhamsted:** What HR do they need that they think is missing? You can go right down to the start-ups where there are only a few people, but most small businesses employ people, pay their taxes and are on the system. As many of them have managed to ask for bounce back loans and things like that, I am sure that they are capable of filling in a minimal amount of information that shows whether they qualify or not.

Are they actually saying that the government side does not want to interact with so many people and they want somebody else to do the

lifting? I know start-ups that would quite happily take on two or three graduates and give them something meaty to do, some proper training. That will be very important for new graduates because, if they do not get a job and some work experience under their belt, the lot coming along next year will leapfrog them in the queue and there will be a year, or more than a year, that misses out. Missing out on those opportunities seems to me a really bad thing, and I cannot see that it is HR, unless it is HR on the government side.

**The Chair:** Does anyone disagree? Kate Bell, you want to say something.

**Kate Bell:** It is not really a disagreement. One of the things we have been concerned about, but that might have a common solution, is the quality of the jobs and whether they are real opportunities. We have talked about some kind of governance of the schemes, perhaps bringing together the stakeholders represented here today. We talked about whether that governance could help design something like a standard employment contract for a Kickstart job, which might help get past some of the issues, if there is a lack of HR, and would give us the reassurance we want that they are real quality jobs.

The other thing we have been a bit concerned about is whether the jobs are going to be sufficiently linked to local labour markets and local skills needs, and whether they are going to provide real training. That kind of social partnership approach to the governance of the scheme could help to address some of the problems that Martin's members are facing, and that our members are concerned about, as to whether the jobs are really additional. The Government still have time to put something of that sort in place, which could help with the delivery of the scheme.

**The Chair:** On that note, let us move to Lord Livingston.

Q5 **Lord Livingston of Parkhead:** I declare my interests. I am chairman of a retailer that has used the job retention scheme and other government support measures relating to Covid.

We have talked a lot about protecting jobs, which is hugely important. May I move on to creating new jobs for the future? We have just talked about Kickstart, but beyond Kickstart what other measures would people like to see that would help create future jobs?

**Andy Chamberlain:** In the 2008 financial crash, the UK had comparatively low levels of unemployment when compared with other European countries. Part of the success story then was that there was a terrific rise in the number of self-employed people. I will get the numbers in a second, but they increased significantly between 2008 and 2012, and now self-employment represents about 15% of the labour market.

Recent ONS statistics have shown that self-employment numbers have dipped. We think that could be as a result of the pandemic and the recession, and it could be because of the gaps in government support. It could be due to other policies, too. A short while ago this Committee did an excellent report on IR35, which is a barrier to firms hiring some self-

employed people. What the Government should be doing is creating an environment that makes it easier for firms to hire both employees and self-employed people. We would like the Government to talk a bit less about pernicious tax rises, particularly for the self-employed, around whom there is now a suspicion that I do not think existed so much in 2008. I think that would help people to start their own business and become self-employed and keep the unemployment numbers down.

**Lord Livingston of Parkhead:** Martin McTague, I guess you support some of that.

**Martin McTague:** I agree with much of what Andy said. I would add to that start-up loans, which have been successfully introduced after some early teething problems. They are now well bedded down and they could play a significant part in helping some people who are leaving the jobs market as employees and starting up new businesses with new ideas. The other thing is the new enterprise allowance. The Government came in and gave that a shot in the arm. They could adapt it to the new conditions. The new enterprise allowance would be a useful addition to support for job creation.

**Rain Newton-Smith:** There is a series of measures to support businesses through the next phase. Some employment support is necessary, and we spend a lot of time speaking about that. We are worried about the crunch time on cash over the next three to six months, particularly as a range of government schemes comes to an end.

There are a few things, again targeted, the Government could do that would be cost effective. One thing they could do is allow businesses the option to defer VAT payments for Q2. Essentially, that passes a cash-flow issue from businesses to government, but given the dangers of a rise in insolvency, and losing some critical businesses and the jobs that go with them over this time, it would seem a sensible thing to do. We know from our own surveys that six in 10 businesses used the Q1 VAT deferral, and it was hugely helpful in alleviating the pressure on cash flow. Pressure on cash flow is also a huge disincentive for businesses to invest. Helping to alleviate the cash-flow issues should, hopefully, get businesses investing again.

There could be an evolution of the bank lending schemes. We would like the EFG mechanism to evolve through the British Business Bank. We would like mechanisms to allow fintech businesses to compete with some of the larger established banks on lending to SMEs. We see that as critical over the next few months.

There are two other big elements. One is getting the testing system right and getting confidence in the system. Where there are bottlenecks, fix them. If people have confidence that we have a testing regime that works, it will help us through these critical months. The other area, which the Government have already committed to, is following through on some of the big infrastructure investments. There is a lot of opportunity from, for example, the green energy efficiency grants that have been

announced, but we have not seen some of the details behind how those mechanisms will work in practice. If we can get some of those co-funded schemes, where the Government are putting in some money, and businesses and individuals are investing behind decarbonising our economy, those are some of the large-scale investments we need to give confidence in the wider UK economy.

**Lord Livingston of Parkhead:** Kate Bell, could I pick you up on something you mentioned earlier as part of the answer when you talked about a new job protection and upskilling scheme? You came back to the point about conditionality, with no redundancies, fair pay, et cetera. So that I understand that, because there are quite a lot of wounded companies that are perhaps saving some jobs but losing others, restaurants being a terrible case in point, are you saying that if they make redundancies there would be no scheme for them? Are you asking people to commit to zero redundancies? I am trying to understand the balance between putting in protections, as you see it, and protecting many jobs.

**Kate Bell:** While you are claiming the support, you should not be making redundancies. Rain talked about other mechanisms you could put in place. If at the end of that period a firm made people redundant, there could be a clawback. We want this to be about protecting jobs.

To come back to your point about job creation, picking up on what Rain was just talking about, we think there is a real need for the Government to get going with their investment ambitions, meeting the challenge of net zero and levelling up the country, as they have talked about. Our research shows that investment over the next two years could create around 1.2 million jobs, not only in broadband but in the electrification of transport, in social housing and retrofitting, and decarbonising our manufacturing industry. Those are things that we need to be doing. They are job-rich sectors and the Government could be investing now, particularly when the cost of borrowing is low.

There is of course potential for job creation in the public sector. We have seen how much our social care system needs investment. There are currently over 100,000 vacancies in social care, even without meeting the increased need, which I think has been pretty evident to everybody during this period. That should be an opportunity to create good, decent jobs, with the right investment, and jobs that are right across the country. The Government need to set out a plan for their investment both in infrastructure, as Rain talked about, and in the public services we need, and that can be used to create jobs.

**The Chair:** It would be very helpful for the Committee, as all the witnesses have various proposals as to things we might be doing, if they were able to drop us a note with their estimate of the cost of each of the programmes they consider should be implemented.

Q6 **Lord Monks:** This is a question about other aspects of the Government's Covid measures, particularly the four government loan schemes, which

have paid out something like £53 billion so far, a pretty huge injection of money. It is a change of tack. It is a question particularly towards the employer representatives. Are you worried about the risks of default on many of these loans? Is a major problem of indebtedness going to arise? I should be very interested to know your views on that.

**Martin McTague:** The short answer is yes. There is a real threat appearing in quarter 1 next year with the culmination of many things, some of which Rain touched on earlier. There will be the VAT that has been held over, national insurance contributions for people who are coming off furlough, debt repayments that may have been held over or postponed and are now starting to fall due, and rent that has been postponed that is now coming due. Self-assessment for a lot of self-employed people falls due in January.

There will be a perfect storm of all sorts of conditions that could cause major defaults on a lot of existing debt, and potential defaults on government debt as well. We have argued for a student loan-style approach and that has been supported by an inquiry they did at TheCityUK. They came up with what they called contingent tax liabilities, which is putting the debt in a basket as a long-term liability against tax. We feel that is a sensible approach to managing that condition, because, if we do not deal with it urgently, not only will significant numbers of businesses fail in the new year, but none of the businesses will have the resources to invest in anything that is likely to help them to escape from the clutches of the pandemic.

**Rain Newton-Smith:** The Bounce Back Loan Scheme absolutely was needed. There were so many small businesses, many of which had not had to borrow before because they grew their business through family and friends, that really needed some sort of lifeline. It was hugely necessary, but we knew there was always potential for the risk of default. From our estimates, as many as 70% of people who took out a bounce-back loan may never have had a formal loan scheme before. There is potential for perhaps half of those businesses being at risk of default.

We need some sort of resolution mechanism. It needs to be a collaborative business banking resolution scheme, where those who can pay back the loans. We are concerned that over the medium term we get back to a more normal financial system where people borrow as and when they need to, and get back to more normal lending schemes once the economy has recovered, but we need a transition to that new normal. The challenge is how we have resolution of some of the debts. TheCityUK and others have done work on debt recapitalisation, and that may need to happen at some stage. At the moment, it is about working with small businesses directly and working with the banks that have been lending, and coming to an appropriate resolution.

Q7 **Lord Stern of Brentford:** I want to ask about returning to places of work: how far, to what extent, and how fast? Remember that we are thinking here about employment and Covid, so we worry of course, as we have been, about the extent of employment and unemployment, the

distribution across various dimensions, whether it is reach, geography or types of people; and of course the productivity of employment, how far people are employed in a valuable way; and the future of employment, what we are doing to people's prospects.

Those are various aspects of the key question about employment and Covid. Could you help us understand from those perspectives how fast and far we should be encouraging return to places of work, and what the Government can do to help remove obstacles to that?

**Rain Newton-Smith:** I will talk a bit about some of the positives of what we have seen over the past few months and some of the challenges ahead.

**The Chair:** I am conscious of time. Could you focus on the things that the Government need to do to get people back to work, which is what Lord Stern was asking?

**Rain Newton-Smith:** Absolutely. One of the biggest challenges as we go back is transportation costs. If I were the Government thinking about a targeted measure, I would be looking at the cost to individuals. They need to feel safe on public transport, but cost can be a barrier as well. There may be some sort of scheme that could help on that.

About 35% of businesses have been able easily to work from home, given the structure of their business. Most of those businesses say that they think their overall office capacity over the long term will be about 70% of what it was pre-Covid. I do not think we will go back to the same number of people going to their office every day across some of the professional services. We do not want a brutal adjustment to that new normal because of the impact on some regions, but we have to do it safely. We are at a really tricky time at the moment where infection rates are going up. We need to prioritise keeping our schools open. That is absolutely vital. It has already facilitated people being able to go back to a place of work. We have to facilitate a gradual return to places of work where it is safe to do so and when individuals want to do so. We have to balance that as we go ahead.

**The Chair:** Does anyone else want to tackle that question?

**Andy Chamberlain:** We agree massively with Rain about schools. That is key to people going back.

The Government should continue to do all they can to roll out superfast broadband to more and more areas of the country. If people are going to work more remotely, and we are seeing an increase in infections, it may be that they are not going to return to the office, so let us help people to work from home.

**Martin McTague:** The only thing I would add is that a lot of small employers need good advice about making sure that their workplaces are safe. That is where the HSE and local authorities can do more, probably with the help of central government.

**Kate Bell:** I echo what Rain was saying earlier about the importance of a decent testing system. Accompanying that should be decent sick pay so that, if people are told to self-isolate, they are not forced to come into work because they are worried about the cost of staying at home.

Childcare will be absolutely essential. New research from us found that two in five working mums say they are worried about not having enough childcare to go back to work in the autumn term. There is evidence that we are facing a widespread collapse in the childcare sector, so, without support there, it will be very difficult for people to go back.

As Rain said, people need to know that they are going to be safe. For a long time we have been asking government to require businesses to publish their risk assessment of what they have done to make their workplace Covid secure. We still think that would be an important step forward in making sure that people can have confidence that the right steps have been taken to make them feel safe at work.

**Q8 Lord Tugendhat:** A constant subject of conversation wherever one goes is which practices that have been introduced during the present situation are going to endure and which will fade away. To some extent, recent developments have accelerated trends, but recent developments have also led to the introduction of some completely new working practices. What do our witnesses feel are the main trends in flexible working practices that are likely to become permanent as a result of this extended period of abnormality?

**Martin McTague:** We picked up some interesting data from the Resolution Foundation that in the period we are talking about the number of people working from home in their main job went from 3% to 5%, but in the same period the number of people who worked just one day away from the office at home went from 7% to 11%. We think that will be the trend. There will be a mixture of people working from offices in smaller numbers and working from home, and that seems to be the biggest enduring change from this coronavirus crisis.

**Rain Newton-Smith:** Absolutely. Generally, I am talking about business and professional services in 35% of the economy where it is relatively easy to do some of that work from home. Businesses are telling us that the mixed mode is here to stay. That is what individuals want and I think it has helped with some of the balancing of family and work life. It has helped with productivity. It has certainly accelerated digital adoption in companies, which has been helpful.

It will bring about a more flexible approach from employers to working from home. We should emphasise that meeting face to face can be important to building teams over the long term. Coming together for days of collaboration will still be with us. It has helped with digital adoption, and we hope that is something we will be able to take with us through the other side of this pandemic.

**The Chair:** Does anyone have a contrary view or a different view?

**Kate Bell:** Of course we want more flexibility where it is in workers' interests, but it is really important that we remember the many workers, most of them low paid, who have not been able to work from home, who were working throughout the pandemic and were key workers. When we talk about flexibility and changes in working practices, we are also talking about their control over their working time, so it is about banning practices such as zero-hours contracts, which means not only that they have [many key workers] to come into work but that they do not even know when they will have to come into work, and giving them the kind of security of employment and greater flexibility about how to choose their working hours that many people in higher-paid jobs have enjoyed during this period.

**Lord Tugendhat:** In the light of the answers we have been given, would our witnesses agree that there is a poor outlook for city centres? What we have seen with Pret A Manger will be followed by a lot more, whether it is hospitality, clothes shops, or whatever it might be. Do you agree that the outlook for city centres in general, and perhaps for the centre of London in particular, in the light of what they have said, is pretty grim?

**Rain Newton-Smith:** It is certainly an area that we are hugely concerned about. Of course, the other factor is tourism, which has certainly hit city centres in London and other cities around the UK, so there is a double effect. Of course, there are some local areas that have benefited, so it is a balanced picture, but you are right: there are certain city centres that are really going to feel the impact.

**The Chair:** Does anyone else want to comment? If not, our next set of witnesses is here. I thank all four of our witnesses. There is a remarkable degree of consensus on all the issues, which we love in this Committee. We like that.

We are very grateful to you for taking the time and sorry that we have not been able to meet in person, but we have just discussed why. If our witnesses wish to stay on and listen to the next session, they can do so. If, on the other hand, they have more important things to do, we quite understand.