

On Notice: Estimating the impact on redundancies of the Covid-19 crisis

14 September 2020

Introduction

This briefing note uses newly released data from employers planning 20 or more redundancies alongside historic estimates of *actual* redundancies, in order to estimate the potential path of job losses this year. The figures on planned redundancies are from official returns to the Insolvency Service via '[HR1 forms](#)'. These must be completed in all cases where an employer intends to make 20 or more redundancies in a single establishment. Data covering the period January 2008 to July 2020 was released to IES on Monday 7 September, following a Freedom of Information request. Estimates of the actual historic level of redundancies are taken from the Labour Force Survey.¹

Our analysis finds that redundancy notifications by employers are running at more than double the levels seen in the 2008/9 recession. Our central estimate is that this may lead to around 450 thousand redundancies in the third quarter of 2020 – significantly higher than the quarterly peak in the last recession (of just over 300 thousand) – and a further 200 thousand redundancies in the final quarter of the year.

The briefing note concludes with recommended measures to seek to minimise and respond to these job losses, through:

- A reduction in labour costs, so as to stimulate employment demand and new hiring;
- Tightly targeted wage support for disrupted but otherwise viable industries and areas;
- Guaranteed access to rapid, high quality employment and training support for those at risk of redundancy;
- Increased and visible enforcement of employment and redundancy rights; and
- Regular publishing of detailed HR1 data, to enable local economic partners to respond.

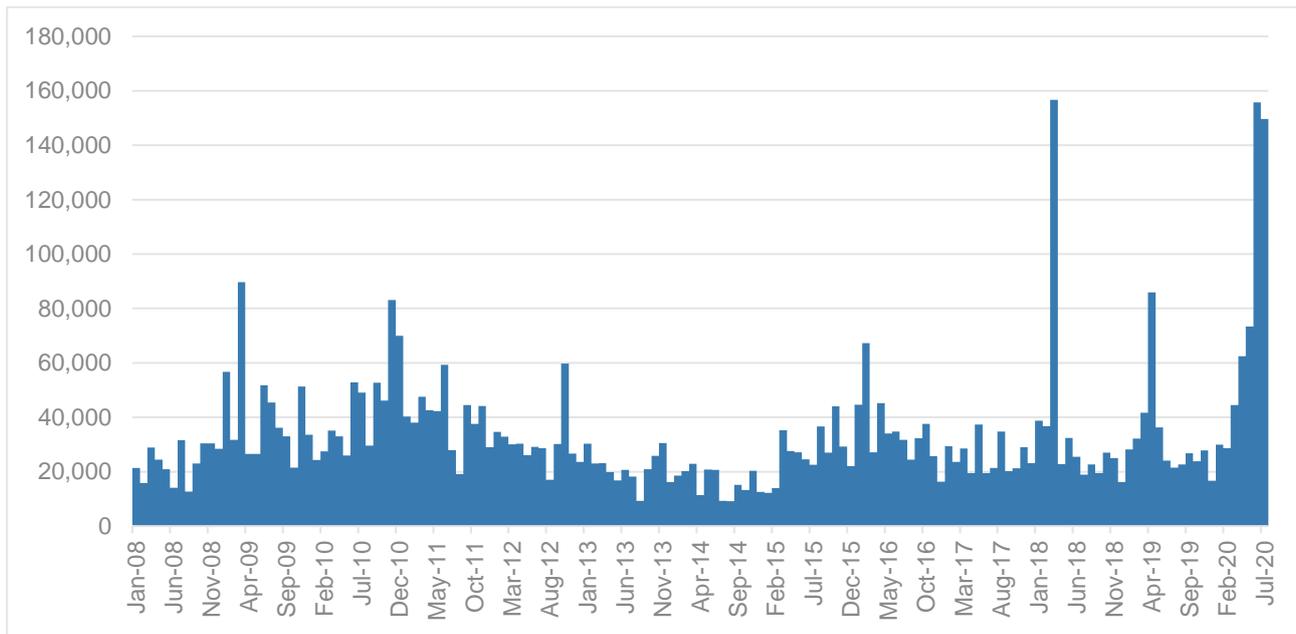
¹ Note that the HR1 data supplied covers Great Britain, while Labour Force Survey data is for the UK. Data on HR1 notifications for Northern Ireland are published by the Northern Ireland Statistics and Research Agency at: <https://www.nisra.gov.uk/statistics/labour-market-and-social-welfare/redundancies>

Redundancy notifications are more than double the levels seen in the Great Recession

The monthly HR1 data are set out in Figure 1 below. This shows that in the last two months combined (June and July 2020), more than 300 thousand employees have been notified in HR1 forms as being at risk of redundancy – with 156 thousand reported in June and 150 thousand in July 2020. By comparison, the highest monthly figure reported in the last recession was 90 thousand (in March 2009).

Redundancy notifications in the last two months are running at five times the monthly average between 2008 and 2020 (of 32 thousand). Note however that the highest single-month figure since 2008 pre-dates the Covid-19 pandemic, in March 2018 (157 thousand). A potential explanation for this outlier is explored on page 7 below.

Figure 1: Number of employees notified in HR1 forms as being at risk of redundancy, by month of notification



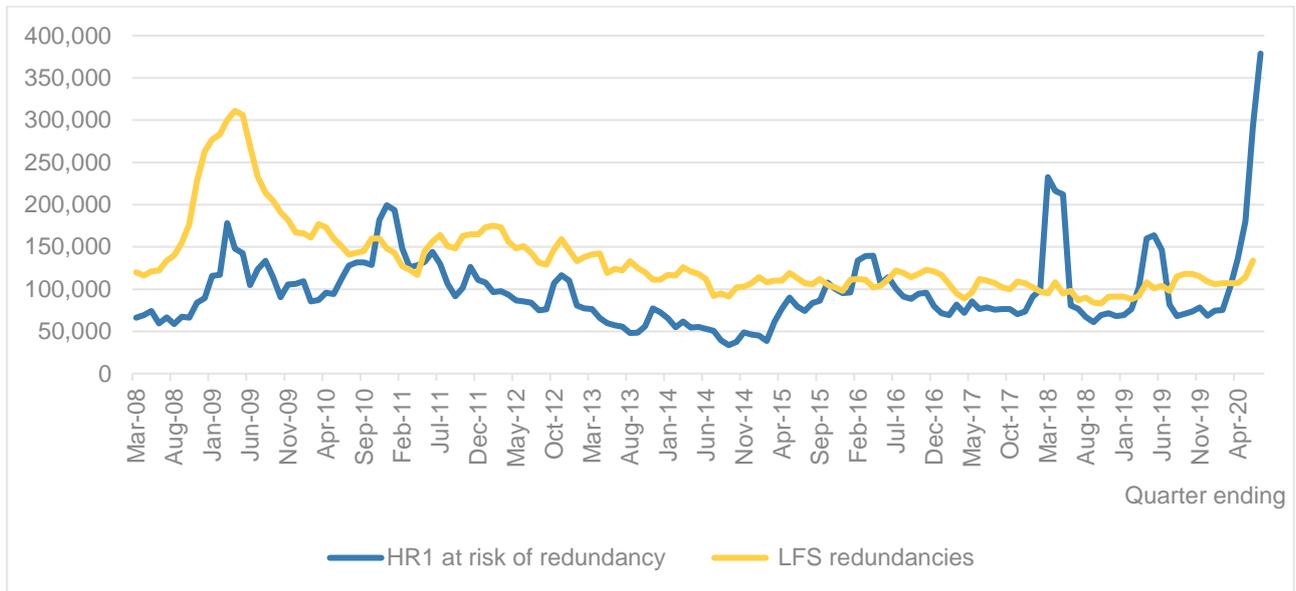
Source: Insolvency Service

There is a correlation between HR1 notifications and actual redundancies

In Figure 2 overleaf we have compared HR1 notifications with Labour Force Survey (LFS) data on the number of people reporting having been made redundant. The LFS asks respondents whether they have been made redundant or taken voluntary redundancy in the past three months. As the LFS figures are presented on a quarterly basis, we have

aggregated up the HR1 data to rolling quarters. This also brings out more clearly the scale of the increase in redundancy notifications over the last couple of months.

Figure 2: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

Figure 2 shows that there is a relationship between HR1 notifications and actual redundancies. This is most clear in the period between 2008 and 2015, where the number of actual redundancies was consistently higher than the numbers notified as being at risk in HR1 forms. There are two possible explanations for this difference:

- Redundancy exercises affecting fewer than 20 people – as these are not captured in HR1 notifications but would lead to actual redundancies in the LFS; and/ or
- Under-reporting or non-reporting by employers of planned larger-scale redundancies – even though it is a legal requirement to do so.

Set against this, there are also circumstances where HR1 notifications could be *higher* than actual redundancies – for example²:

- Where workers leave employment before actually being made redundant; or
- Where employers err on the side of caution in the number of jobs that they report as being at risk of redundancy.

² In 2012, the government estimated that in practice just one in six of those covered in HR1 notifications were subsequently made redundant – see:

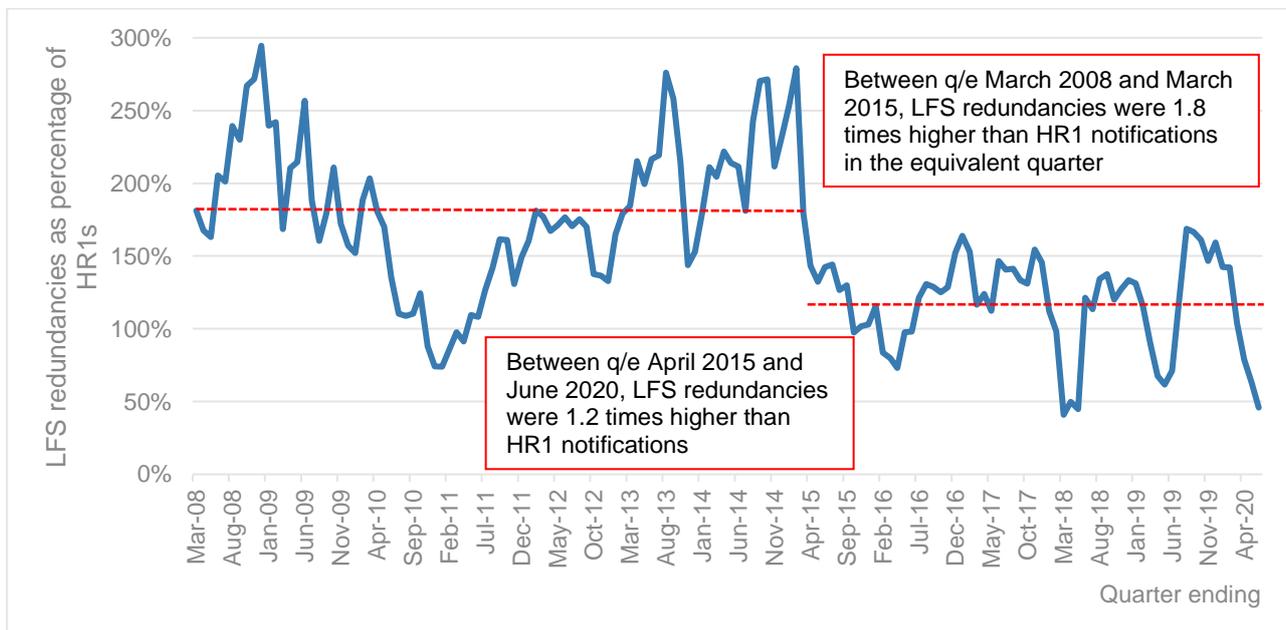
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31361/12-808-collective-redundancies-consultation.pdf

From 2015 onwards, the yellow line and the blue line converge – which could be explained by relatively fewer smaller redundancy exercises, by increased compliance with (or over-reporting in) HR1s, or both. There also appears to be greater volatility in the HR1 data in recent years – with spikes in early 2018 and early 2019 that do not appear to feed through into actual redundancies. These issues are explored in more depth on page 5.

Finally, it is worth noting that the graph does appear to show a lag between HR1 and LFS data – with impacts in the LFS typically appearing a couple of months after they are seen in the HR1 data. This lag is because HR1 forms are required to be notified to the Insolvency Service in advance of the first dismissal: at least 30 days in advance for exercises affecting 20-99 people, and at least 45 days for exercises affecting 100 or more (which was reduced from 90 days in April 2013).

In order to draw out more clearly the apparent difference in trends before and after 2015, Figure 3 shows the difference between quarterly actual redundancies (LFS) and notifications (HR1) over time. On average, LFS redundancies were 182% of the level of HR1 notifications between quarter-ending March 2008 and March 2015 (i.e. they were 1.8 times higher). However, between quarter-ending April 2015 and July 2020 they were just 117% of the level of HR1 notifications (i.e. 1.2 times higher).

Figure 3: Level of redundancies as a percentage of number of employees notified as being at risk of redundancy



Source: IES analysis of Insolvency Service and Labour Force Survey data

As noted above, this difference could reflect a greater share of smaller redundancy exercises in the earlier period, or by increased compliance with the HR1 process after 2012. Taking these possible explanations in turn, if the main cause was changes in the share of larger and smaller exercises, then the shape of Figure 3 could be explained by:

- The recession itself seeing a larger share of smaller redundancies/ firm failures;

- Post-recession restructuring (combined with large-scale public sector job losses) in 2010 and 2011 tipping the balance towards larger exercises;
- From 2012-15 there were fewer large-scale events but continued smaller exercises; then
- A stronger recovery from 2015, with lower levels of redundancies overall, more stability for smaller employers, interspersed with occasional very significant events.

However there is also a strong argument that the difference between pre- and post-2015 could be explained by a step-change from 2015 in firms' compliance with the requirement to notify via HR1s. This requirement has not historically been enforced, but in early 2015:

- The government ran a public consultation specifically seeking views on how to strengthen requirements to notify and consult where companies face insolvency – which almost certainly would have raised awareness among insolvency practitioners and employers of how government intended to enforce the requirements³; and
- It subsequently prosecuted two employers (CityLink and USC/ Sports Direct) for failure to notify possible redundancies – the first time that firms had faced court action for this.

Greater awareness and compliance would then also explain why HR1 numbers are generally higher in the period from 2015 onwards even though actual redundancies remained broadly flat; as well as why there appear to be more pronounced spikes in HR1 data after 2015 that did not subsequently translate into actual redundancies (as employers or insolvency practitioners erred on the side of caution in notifying).

What may explain the other divergences between HR1 and LFS data?

Looking in more detail at Figure 2, there are four points where the differences between HR1 and LFS data appear to be most pronounced: late 2010; early 2016; early 2018 and mid-2019. We have sought below to set out possible explanations for these differences, however it should be noted that this is fairly speculative – in the absence of HR1 data on sectors, geographies or establishment sizes, it is very hard to draw firm conclusions.

The **late 2010** increase in the HR1 data (Nov-Dec 2010) is likely explained by public sector job losses. It coincides with the [October 2010 Spending Review](#) which set out plans for an 8.3% real-terms reduction in public sector administrative spending. We also know that the increase in LFS redundancies between April and September 2011 is largely explained by public sector workers (a quarter of all redundancies were in public administration, education and health; compared with fewer than one in six in the previous year⁴). Given generally longer consultation periods in the public sector, it is plausible that these were mostly notified in HR1s in late 2010.

³ See: <https://www.gov.uk/government/consultations/collective-redundancy-consultation-for-employers-facing-insolvency>

⁴ Source: ONS, [Redundancies by industry, age, sex and re-employment rates](#)

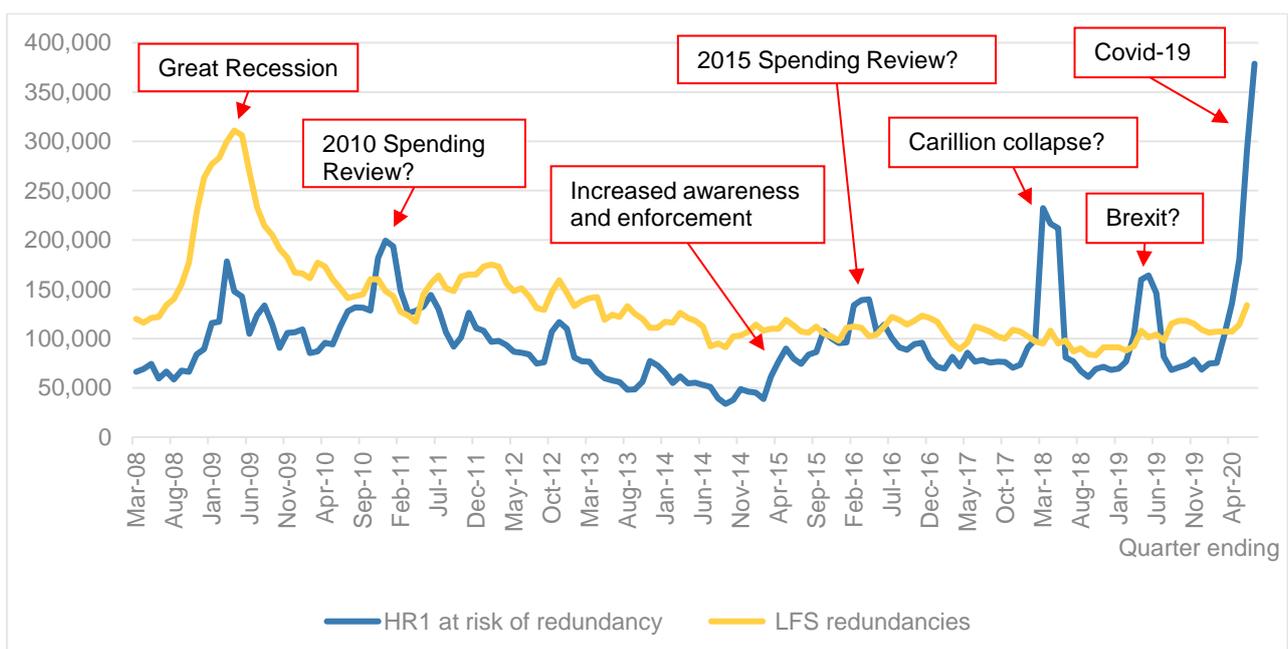
The **early 2016** increase (Jan-Feb 2016) may also be explained by the cuts in public spending announced in the [November 2015 Spending Review](#). In this case the cuts fell mainly on local rather than central government, with local government seeing a 6.7% real-terms cut in spending. Again, we can see a delayed impact on the LFS figures in the second half of 2016 – with again the share of redundancies in public administration increasing over that period (although by less than was observed in 2011).

The single-month spikes in **March 2018** and **April 2019**, however, are much harder to explain. Neither resulted in any significant increase in actual redundancies and so appear to have been notifications of events that largely did not materialise (although there may be a small, delayed impact from the April 2019 spike – which could indicate that this included further public sector job losses).

One possibility is that both spikes related to Brexit uncertainty. This appears to be more likely for April 2019, when we were on the verge of crashing out in June until the emergency EU summit on 10 April granted an extension. However it could also partially explain March 2018, as the draft withdrawal agreement was published on 28 February that year. A more likely contributor to the 2018 spike could be the collapse of Carillion, which occurred in January 2018 and put 20 thousand jobs at risk and many more in supply chains. We also know that Carillion's contracts were in the end picked up by other suppliers, which could explain why the LFS numbers did not increase.

All told, in the absence of more data on the industries and geographies of these events it is very hard to explain the later spikes. Nonetheless they both *may* suggest a greater likelihood of employers to now report possible redundancies that do not subsequently materialise. An annotated version of Figure 2 is presented below.

Figure 4: Quarterly number of employees notified as at risk of redundancy (HR1 forms) and reporting having been made redundant (Labour Force Survey)



Source: IES analysis of Insolvency Service and Labour Force Survey data

How high might redundancies reach in the second half of this year?

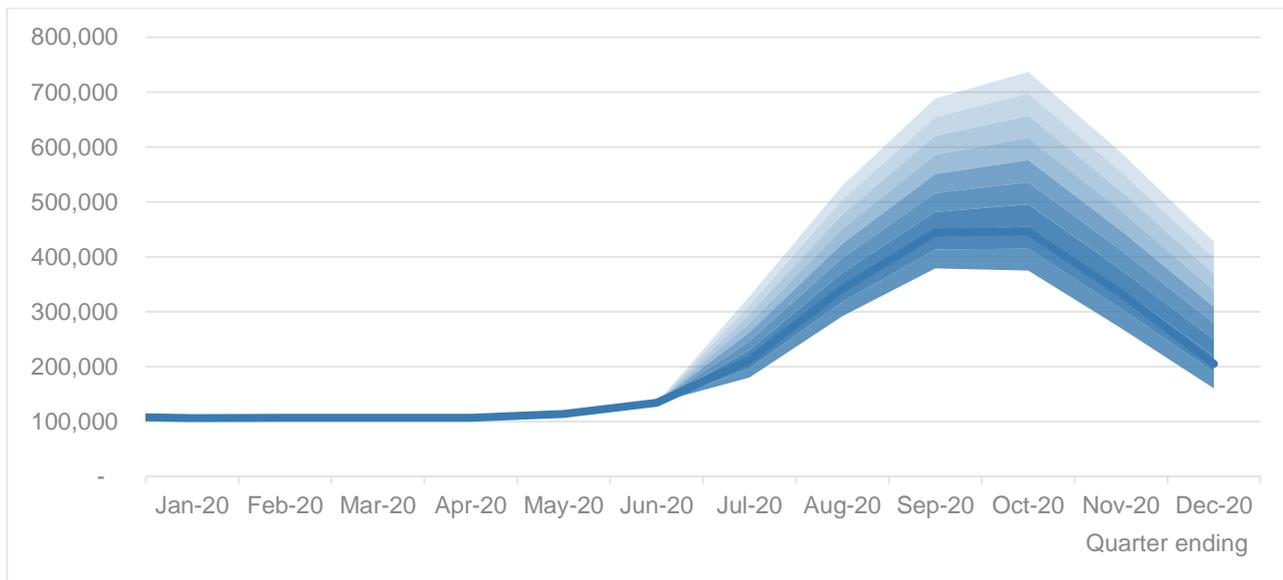
So far, Labour Force Survey data on redundancies is only available up to June 2020. This shows that 240 thousand people reported having been made redundant in the first six months of the year. Data covering the three months to July 2020 will be released on 15 September.

Based on the relationship between HR1 and LFS data set out above, we have presented in Figure 5 our estimate of the potential scale of redundancies that we will see in the second half of 2020 (between July and December).

The central scenario (the thick blue line) takes as a starting point that actual redundancies will be 1.2 times higher than the HR1 notified redundancies, i.e. that it will follow the same relationship as we have seen on average over the period since spring 2015. This has then been lagged by two months – so HR1 notifications from June lead to redundancies in August; those from July will occur in September; and so on. This means that estimates for the period up to September 2020 are based on the actual HR1 data provided to IES.

For the period from October to December, we need to make assumptions for the path of HR1 notifications between August and October. In our central scenario we have made a relatively cautious assumption that HR1 notifications for August, September and October will fall back quite quickly (to 75,000, 60,000 and then 40,000 over the three months).

Figure 5: Potential scale of actual redundancies, rolling quarters, July to December 2020



Source: IES estimates based on analysis of Insolvency Service and Labour Force Survey data

This analysis leads to a central estimate that there will be 650 thousand redundancies in the second half of 2020: with 445 thousand redundancies in the three months between July and September (mostly occurring in August and September) and a further 205 thousand redundancies between October and December. The quarterly peak of 445

thousand significantly exceeds the highest quarterly figure recorded in the last crisis, when there were an estimated 305 thousand redundancies between January and March 2009. It would also be comfortably the highest level since this data series began in 1995.

Inevitably there is significant uncertainty around the timing of redundancies, and the peak shown above may occur further to the right if in practice the redundancy process takes more than two months. One important reason why it could take longer in this crisis would be if staff were currently being paid through the Job Retention Scheme: this would significantly reduce the need for employers to lay people off quickly, as government will be paying (most of) the wage costs of affected staff. This could push more of the redundancies back into the October-December period, but would not reduce the likelihood of them happening. We may get some indication of this in the LFS data released on 15 September, as one third of the interviews reported will have been conducted in July.

It is possible that redundancies will be lower than the central scenario set out above if a significant share of those notified have been over-reported by employers and do not materialise. This would be consistent with what occurred following the recent, sharp rises in 2018 and 2019; but would not be consistent with the impacts on the labour market in 2009 (or the public sector impacts in 2010 and 2015). On balance it feels unlikely that many of the redundancies announced since the summer will *not* materialise, so as a lower bound in Figure 5 we have assumed a 1:1 relationship between HR1 and LFS figures.

There is arguably a greater risk that redundancies will exceed our central scenario, and this is reflected in the graph above. A higher level of redundancies could be driven either by a larger proportional increase in actual redundancies relative to notifications (as happened in 2009) or if notifications do not fall as sharply in August/ September as we forecast in our central scenario.

So for the upper bound estimate, we assume a relationship of 1.8 (i.e. in line with the 2008-2015 trend), and that redundancy notifications fall less steeply – to 100,000 in August; 75,000 in September; and 60,000 in October. This leads to an upper estimate of 690 thousand redundancies in the three months to September, rising to a peak of 735 thousand occurring in the (overlapping) three months to October⁵.

Finally, it is also important to note that none of scenarios assume any further increases in redundancies as a direct result of furlough ending after October, or as a consequence of tighter social distancing restrictions. Both of these factors could lead to further increases in lay-offs over and above those estimated in the scenarios above.

⁵ Note that Figure 5 presents data as rolling quarters, e.g. quarter-ending September covers July-September, while quarter-ending October covers August-October. This means that the figures for consecutive months overlap and cannot be added together to produce cumulative figures. Cumulative totals can only be produced from non-overlapping quarters (e.g. July to September plus October to December).

Conclusion and recommendations

This analysis sets out that redundancies in the autumn will almost certainly exceed anything that we have experienced in at least a generation – with likely around 650 thousand people (and potentially significantly more) facing the prospect of losing their jobs in the second half of this year.

Sadly, much of this restructuring appears now to be inevitable and reflects both significant structural changes (either a result of, or accelerated by, the pandemic) and the damage already done to those firms most affected by the crisis. However, it is not inevitable that this level of redundancies must lead to mass unemployment. Even during the full lockdown period from April to June, more than half a million people started new jobs every month⁶ – just 5% fewer than in the same period a year earlier. So we must ensure that we are supporting those facing redundancy to move back into work, while at the same time taking steps to minimise the number of job losses that occur. We would propose that action should be taken in five areas.

1. Boost employment demand by reducing labour costs

In the medium and longer term, investment in infrastructure and job creation should support more and better jobs. However, in the shorter term more support is needed to boost labour demand – both to support new hiring and potentially to reduce the scale of job losses. We would recommend doing this through a targeted reduction in employer National Insurance Contributions (NICs). These are the single largest non-wage labour cost that employers pay, adding around £2,400 to the cost of employing someone on an average wage. Reducing non-wage labour costs will have a short-term positive impact on labour demand⁷ and can be brought on-stream immediately.

NICs are levied at a rate of 13.8% on earnings above £8,788 a year. The best way to reduce these costs would be to raise the threshold at which they start being paid. Raising this threshold by £2,000 – to £10,800 – would reduce the NICs paid for any employee earning above this amount by £275 a year and would mean that no tax at all was paid on staff that earn below this amount. The net cost of doing this would be around £5.5 billion⁸, which could potentially be financed this year through under-spends from the £9 billion set aside for the Job Retention Bonus.

The extent to which this £5 billion cut in labour costs would lead to increased employment depends inevitably on how employers respond. The literature suggests that there would be a positive impact, that this would be felt in higher employment more than in higher

⁶ Source: [X02: Labour Force Survey Flows estimates](#), ONS

⁷ See for example Eurofound (2017), [Employment effects of reduced non-wage labour costs](#), Luxembourg

⁸ Based on the government's [Direct Effects of Illustrative Tax Changes](#) ready-reckoner. The gross cost would be £6.2 billion, but around one fifth of this would flow back through lower NICs for public sector workers.

wages, and it would be most pronounced for lower paid staff and women⁹. A reduction in employer NICs would be particularly supportive of new hiring, but it is also plausible that those employers planning redundancies due to short/ medium term disruption could also be responsive to a cut in labour taxes – redundancies are costly and disruptive, and an immediate reduction in payroll costs would create a strong incentive to retain more staff.

2. Targeted support for viable firms facing ongoing disruption

The continued impacts of the virus and social distancing measures, in some areas and industries, means that there is a strong case for further support for firms that would otherwise be viable but that face having to make significant redundancies in the coming months. This could be achieved through time-limited, targeted wage subsidies as Resolution Foundation,¹⁰ Joseph Rowntree Foundation¹¹ and Learning and Work Institute¹² have called for. In practice these would need to be carefully designed, for example by:

- Restricting access to those sectors facing the greatest ongoing disruption (like aviation, entertainment and hospitality) and/ or to specific parts of the country facing temporary local lockdowns (which could affect wider industries and so require broader eligibility);
- Requiring employers to demonstrate that they are taking action to avoid job losses and that they have consulted staff – in Germany for example, applications for short-time working need to be agreed with works councils/ unions (while in France, unions must be consulted and in one subsidy scheme their agreement is required); and /or
- Restricting support to those firms that can demonstrate significant losses of revenue – in New Zealand for example, firms are required to demonstrate at least a 40% impact.

Resolution Foundation proposes a 10% subsidy at a cost of around £400 million a month; while Learning and Work Institute proposes a 20% subsidy at a cost of £500-830 million a month. These estimates assume that the wages of up to two million employees are subsidised,. With the number of workers on furlough continuing to decline¹³ it is conceivable that demand could be lower than this by November, although further social distancing measures or local lockdowns could lead to higher needs over the winter.

⁹ The literature is reviewed in Eurofound (2017) cited above, which concludes that demand elasticities have generally increased, and impacts are greater on employment (as opposed to wages) when labour supply is higher (as it will be in this crisis) and in more flexible labour markets.

¹⁰ Cominetti, N., Gardiner, L. and Slaughter, H. (2020) [The Full Monty: Facing up to the challenge of the coronavirus labour market crisis](#), Resolution Foundation, June 2020

¹¹ Sandher, J. and Innes, D. (2020) [Storm ready - how to keep us afloat as unemployment hits](#), Joseph Rowntree Foundation, September 2020

¹² Evans, S. (2020) [Missing Millions: Where will the jobs come from?](#) Learning and Work Institute, Sept 2020

¹³ The latest [Business Impacts of Coronavirus Survey](#) data suggests that one in nine private sector employees are on furlough or off sick due to covid-19 – equivalent to around 2.5 million workers. However there are significant disparities between data from the BIC Survey, LFS and CJRS administrative data.

3. Guaranteed access to rapid, high quality employment and training support

Even with the above measures, we are still likely to see redundancy levels that exceed those in the last recession. So it is imperative that we quickly mobilise support for those facing redundancy this autumn. The government announced in its 'Plan for Jobs' a welcome investment in 'rapid response' services for those affected by large scale redundancies, which is delivered through Jobcentre Plus working in partnership with local colleges, training providers and local government. This could be further strengthened by:

- Ensuring that in all areas, economic recovery boards are bringing together local government, employment and skills services, and employer bodies to oversee and co-ordinate the response to redundancies;
- Producing a consistent, transparent national offer of support and services for those facing redundancy and ensuring that this offer is available in all places – including careers advice, skills assessment, jobsearch support, support with claiming benefits, employment and welfare rights support, and access to appropriate upskilling and re-training (in particular through the new National Retraining Scheme); and
- Providing early access to specialist, sector-based recruitment/ re-employment support where appropriate, to support rapid re-entry to work and reduce demands on Jobcentre Plus services.

The government's response should also recognise that those who were *already* out of work are very often further disadvantaged by large-scale redundancies, as these increase competition for jobs from those with more recent work experience. Therefore as far as possible, the response needs to ensure that additional support is also made available to the existing unemployed in areas experiencing large-scale lay-offs.

4. Invest in enforcement of employment rights

There is already worrying evidence emerging, reported by Citizens Advice¹⁴ in particular, which suggests potential direct and indirect discrimination in redundancy decisions. Many of these cases will be in smaller scale exercises, that are not being reported to the Insolvency Service or being reached through 'rapid response' services. Given the nature of this crisis, it is likely that in particular people with health conditions and caring responsibilities may continue to face greater risks of redundancy and of unfair dismissal.

The analysis in this briefing note shows that clear messaging to employers and practitioners, alongside visible enforcement and prosecution, can lead to increased compliance with employment law. So we would urge government to increase investment in local and national enforcement bodies; to proactively work with employer bodies, social

¹⁴ Citizens Advice (2020) [An unequal crisis: Why workers need better enforcement of their rights](#), August 2020

partners and employment rights organisations to raise awareness of legal requirements and to monitor compliance; and to accelerate its plans to establish a single enforcement body.

5. Publish, monitor and act on redundancy data

Finally, we would argue that government should regularly publish data on potential redundancies as supplied in HR1 forms, as happens currently in Northern Ireland (where administrative data on actual redundancies is also published). Ideally this would include breakdowns by industry and region. There would be significant potential benefit in then sharing this data with local economic partners and recovery boards too, so as to support areas to better prepare for and respond to future redundancies.

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