

Funding the Future

Any furlough replacement has to avoid the risk of being...

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I posted the following as a Twitter thread this morning, but it is just as relevant here. I make the point simply to explain the structure of this post:

The government is thought likely to offer a replacement for furlough today that will make employers pay a significant part of the cost of keeping employees on when there is no work for them. This will not solve unemployment. It will encourage it.

Let me offer a simple example. Assume an employer has 10 employees, all on £2,000 a month. The employer has enough work for five people. They could sack 5 people and save £10,000 a month. Or Sunak offers a scheme where all ten are kept.

Under this scheme the company pays for the work the employees do, i.e. £10,000. Then it pays 1/3 of the wages for the time they're not working i.e, £3,333. The government then pays 1/3 of their wages when not working i.e. £3,333. And the employees lose £3,333 in wages in total.

But this means wage cost per employee time worked has gone up by a third when the business is facing a massive downturn in its business and threat to its survival or it would not be thinking about doing this. Wage cost to the business is now £13,333.

So rationally, any business that knows this might last for at least six months, as the government says we should expect, will look at this scenario and sack half its employees and get the same work for much less cost.

In fact, any business facing this situation will probably have no choice but sack staff and not use this scheme if it is to survive. That's because any scheme like this is an invitation to make people redundant, and not a job retention scheme.

Let's sincerely hope that Sunak does not deliver this CBI created idea.