

## Furlough or Redundancy – The Harsh Decision Facing Businesses This Christmas

**As the new tier system kicks in, many businesses are finding themselves facing tough times and some very difficult decisions this christmas.**

Over the last six months, you have probably already had to make some hard choices, as your business has seen its work dry up and its income drop off a cliff. More than likely, you would have had to put employees on furlough, cut wages and make some challenging evaluations about your business' survival.

Now that lockdown has finished, things have not really changed, particularly for those of us in Kent who are under the tier 3 system. Yes, some shops are open, but demand is still way down because people are being cautious for health reasons and because we are looking down the barrel of a severe recession.

The decision to let your employees go is a difficult one because, not least of all, you are emotionally attached to your colleagues; in the better times they helped you build your business and you, understandably, want to support them in the tough times.

But, for many businesses, it is getting to the point where this is no longer an option. So, you must try and take the emotion out of it and look at the financial impact on your business.

Then you can weigh up the costs of letting someone go versus the cost of keeping them on furlough.

I know the cost is more than financial, you are risking your long-term growth, but if you cannot make it through to next year without saving costs you are just delaying the inevitable.

### **Furlough vs Redundancy**

The first thing to do is calculate what it will cost you to make someone redundant.

### **Statutory redundancy**

Check your contracts of employment; if you have a clause that overrides the statutory amount of redundancy due, then this is where you will get the information from to calculate the redundancy.

If not, then statutory redundancy applies. You are responsible for calculating, and paying, this to your employee (if we run your payroll, we do this for you.)



The calculation is as follows - if your employee has been working for you for 2 years or more (under 2 years and they are not entitled to anything), they will get:

- Half a week's pay for each full year they were under 22 years of age
- One week's pay for each full year that they were 22 or older, but under 41
- One and half week's pay for each full year they were 41 or older
- Length of service is capped at 20 years.

Their weekly pay is the average they earned per week, over the 12 weeks before the day they were given their redundancy notice.

Let's look at an example. You have an employee Sarah, a 25-year-old female with a £30,000 a year salary, who has worked for you over 5 years. You decide to make Sarah redundant on the 1st January 2021 but want to know how much it would cost to keep her on furlough until the end of March instead.

## Redundancy

Sarah's weekly pay is £576 but is capped at £538. She has 2 years (when she was under 22 years old) at half a week's pay and 3 years at a full week's pay. In total this works out at £2,152.

On top of this any unpaid holiday, and any payment you wish to make in lieu of notice, would need to be added.

Let's assume Sarah has 3 days unpaid holiday, so that's another  $£115 * 3 = £345$ .

A total of £2,496 must be paid to Sarah - £2,152 is tax free.

## Furlough

Furlough is currently due to end on 31st March 2021 and is payable at 80% of the current salary for hours not worked. The employer must pay the National Insurance and Pensions contributions.

So, for Sarah we are going to pay her 80% of her wage for Jan - March and this incurs employers NI of £174 and Pensions contributions of £44. That is £218 a month or £615 over the three months.

## Decision time

Emotions aside, the key to this decision is whether you think your custom will return by the end of March when the furlough scheme ends (although it is unknown yet what this may be replaced with)

If you do think your trade will return, then keeping Sarah on Furlough will cost you £615 over the three months.

If you see no sign of that happening, then letting her go on 1st January will cost you £2,496.

The worst of the two situations is for you to keep Sarah and then the work doesn't come back, and you let her go at the end of March, costing you  $£2,496 + £615$ .



## Not a purely financial decision

This decision is obviously one that is not based solely around finances, as Sarah has kids and a mortgage. If your business is fortunate enough to have lots of cash in the bank and can ride the storm, then £218 a month may seem a small price to pay to keep such a talented person like Sarah on board.

But if you aren't that fortunate, and cash is tight, then you do need to assess if your business can sustain the extra £218 a month.

This decision may be one of the hardest you have to make as a business owner, but only efficient businesses survive a recession, so now is the time to make it.

If you need help analysing your own numbers, please contact your client manager and they will be happy to assess this for you.

