



10 DOWNING STREET

For Services H/F 48/7

cc - DASS
Court,

Correspondence in GR

THE PRIME MINISTER

30 July 1980

Dear Mr. Brown,

Thank you for your letter of 15 July with which you enclosed one from the Scottish Action Office of the National Federation of Self Employed and Small Businesses, about the proposals for a statutory sick pay scheme.

The Government remains firmly committed to promoting small businesses, and a number of measures have already been introduced in the fields of taxation, accounting and employment protection to help them in a practical way.

There are, however, very good reasons why we are anxious to put forward these proposals now. First, they will result in the majority of payments made during sickness becoming taxable. This will, in turn, make the job of taxing other incapacity benefits that much more feasible in the next few years. Taxing benefits is an essential part of the Government's policy on incentives, and it is quite unacceptable that someone should get more out of being off work than in it.

Second, the scheme will reduce public expenditure by some £400 million. This will make a very worthwhile contribution to the achievement of the Government's aim of substantially reducing public expenditure - essential if the rate of inflation is to be brought down, interest rates cut, and incentives restored so that people can appreciate in real terms the benefits of hard work. Social Security expenditure is very high, too high for the country to afford at present, and the Green Paper proposals are one way of cutting it. That is why the scheme is a crucial one to the regeneration of a

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cut

strong economy.

Third, the Government expects a saving of about 5,000 civil servants posts to result from the scheme, many of which are concerned with doing jobs that private industry has already accepted as appropriate to them. As the Green Paper points out, a large and evidently growing sector of the business world is now providing income during sickness for employees. Some employers apparently find the complexities of juggling with two inter-related schemes operating side by side time-consuming and wasteful; they would prefer to do the whole job themselves. The tasks of central Government must be reduced, and such duplication of effort avoided. Streamlining the system is essential.

We are mindful, nevertheless, of the difficulties some employers - particularly the smaller ones - may face, and the Green Paper pays close attention both to their needs and to the extent of the help to be made available to them. We propose to ease their lot in two principal ways: by underwriting their increased wage bill costs as a group through a measure of reimbursement, and by keeping the eventual scheme as simple as possible to understand and operate. These are areas in which we are seeking the views of those most closely concerned.

The Green Paper contains many talking points, and we intend to weigh very carefully the reactions of all sections of the community before putting forward legislation. The views and comments being collected by the Department of Health and Social Security will all contribute towards the overall picture beginning to emerge from the vital consultation state of these proposals. I have asked them to note those of the Scottish Action Office.

Yours sincerely,

MT

Ron Brown, Esq., M.P.