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Social Services



QUEEN ANNE'S GATE LONDON SW1H 9AT

✓ MAD

29 November 1981

Dear Patrick

EMPLOYERS' STATUTORY SICK PAY

Your Private Secretary wrote to mine on 20th November about the employers' statutory sick pay scheme. I have also seen the letter of 21st November from the Prime Minister's Private Secretary.

I understand that you were able to secure our other colleagues' approval to your proposals and have noted what you said during the debate on the Address. I also note that you and the Parliamentary Under-Secretary of State, Department of Industry, will be consulting representatives of small firms on whether small firms should be liable to pay to an employee, without reimbursement, the first £15 of sick pay in any tax year or £15 in respect of each separate spell of sickness, and that you will report back to H Committee with the formula that you recommend. It would be helpful if that report could spell out the shape of the scheme as you now envisage it since, although announcements have now been made on two major points on which we did not reach a final view at our meeting on 5th November, I am sure the Committee would still welcome an opportunity for further consideration of the scheme, as agreed at that meeting, before legislation is introduced.

I am sending copies of this letter to the Prime Minister, the members of H Committee, the Secretary of State for Energy, the Parliamentary Under-Secretary of State, Department of Industry, and Sir Robert Armstrong.

[Handwritten signature]

The Rt. Hon. Patrick Jenkin, M.P.

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Top Copy: Nat. Health, April 80,
Position on Smoking + Health

CC HO
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~~CC~~ Press Office



10 DOWNING STREET

From the Private Secretary

21 November 1980

Thank you for sending us copies of your letters of 19 November, about tobacco advertising and promotion and 20 November about employers' statutory sick pay, seeking policy clearance before your Secretary of State speaks in the Debate on the Address.

As I told you on the telephone in the course of yesterday, the Prime Minister is content that your Secretary of State should proceed as proposed on both matters.

I am sending copies of this letter to Stephen Boys-Smith (Home Office) and David Wright (Cabinet Office).

M. A. PATTISON

B.C. Merkel, Esq.,
Department of Health and Social Security.

Gr.



Top Copy :
Nast Health, April 80
Policy on Smoking + Health

PRIME MINISTER

Patrick Jenkin is seeking urgent policy approval on two points, now that tomorrow is to be the Social Services day.

The first is on employers' statutory sick pay. H Committee agreed a number of amendments to the Green Paper Scheme several weeks ago, but asked Mr. Jenkin to look for some further concessions to the small businessman, in view of the prospect of Parliamentary difficulty.

The additional changes are:

(1) A small employer should receive no reimbursement on the first £15 of statutory sick pay for which he is liable, but will get 50 per cent reimbursement thereafter. (Mr. Jenkin does not intend to define at this stage whether the "first £15" relates to a single tax year, or to each separate spell of sickness.)

(2) Reimbursement should be 100 per cent where the sickness began within 8 weeks of the employee joining the firm.

(3) Small firms to be defined by reference to the total amount of earnings on which the employer was liable to pay NI contributions, with the dividing line somewhere in the range between 7 and 10 times the national male average wage. This will allow coverage by some 70 to 80 per cent of all employers.

Colleagues seem ready to accept these proposals, and the Conservative Backbench Committee on Health and Social Services have apparently viewed them favourably.

Full details are in the letter at Flag A. Content for Mr. Jenkin to go ahead?

Agree the statement on Statutory Sick Pay /Mr. Jenkin
On tobacco advertising - I have been George Young's mistress

Mr. Jenkin would also like to announce a new voluntary arrangement on tobacco advertising and promotion. The industry have been looking for a 4-year-plus agreement. Mr. Jenkin has made less progress than he had hoped, and he feels that the current industry offer will only do until July 1982. It covers about a one-third reduction in that period in the level of poster advertising, with something on product modification over a slightly longer period. The price is that Mr. Jenkin will undertake to seek to block the implementation of any legislation up to July 1982, although he has made it clear that the House must be free to express its view on smoking and initiate such action as it might see fit.

I understand that Mr. Younger is far from happy with these proposals, which he sees as a sell-out. If he and Mr. Jenkin can reach agreement on this basis before Mr. Jenkin speaks tomorrow, are you content with what is proposed?

Details at Flag B. - *filed only on April 80, Nat Health Policy on Smoking + Health*

MAD

20 November 1980



cc Press Office
Mr Duguid
Mr Vercher
Mr Wolfson

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Secretary of State for Social Services

Stephen Boys-Smith Esq
Private Secretary
to the Secretary of State for the
Home Department
Home Office
50 Queen Anne's Gate
London SW1

20 November 1980

Dear Stephen

EMPLOYERS' STATUTORY SICK PAY

At the meeting on 5 November of Home Affairs Committee, it was agreed

- (i) that the proposals to make employers responsible for sick pay during the early weeks of sickness should proceed;
- (ii) that employers should be offered an additional 0.1 per cent reduction in their contribution liability (equivalent to over £100 million to industry as a whole) but that pressure for a further concession should be resisted;
- (iii) that special help should be made available for small employers on the lines of the scheme proposed in my memorandum H(80)72; but that Mr Jenkin should discuss the details of the package with Mr Mitchell, Parliamentary Under Secretary (Industry); and
- (iv) that an announcement of our intention to proceed with the scheme should be included in the Queen's Speech.

My Secretary of State is now able to record the outcome of his discussions with Mr Mitchell, and would welcome colleagues' approval for what is proposed and for announcing some of the details in the debate on the Queen's Address. He is scheduled to speak tomorrow morning, and accordingly will need clearance by 6pm this evening if, as he hopes, he is to be able to assure Conservative backbenchers that many of their misgivings about the scheme will now be met.

The Chief Secretary has agreed that a reimbursement scheme - both in respect of new employees and small businesses - should be constructed within a cost of about £40 million. This would ^{still} allow the public expenditure savings which have already been recorded to be achieved. Bearing in mind this limit on expenditure and also the need to secure savings of 5,000 staff, the Parliamentary Under Secretary (Industry) and Mr Jenkin have agreed that the scheme for small businesses should have the following salient features:

- i. a small employer should receive no reimbursement on the first £15 of statutory sick-pay for which he is liable, but thereafter should be able to claim reimbursement of 50% of his statutory liability;
- ii. the level of reimbursement should increase to 100% where the relevant incapacity began within 8 weeks of his taking the employee concerned on to his books;
- iii. a small firm should, for this purpose, be defined by reference to the total amount of earnings on which the employer was liable to pay national insurance contributions, and the dividing line should lie somewhere in the range between 7 and 10 times the national (male) average wage. This will allow coverage to extend to some 70% or 80% of all employers.

Proposals of this kind were outlined to the Conservative backbench committee on health and social services, and appeared to be very acceptable to them.

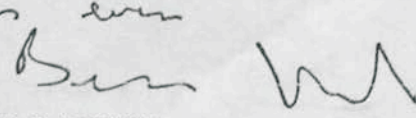
In one important area the details of the package have still to be worked out. The question which remains open is whether a small firm should be liable to pay to an employee, without reimbursement, £15 sick pay in any tax year or £15 in each of his separate spells of sickness. On the answer to this question will depend the exact level at which the upper limit for "small firms" can be set, while still allowing us to achieve our target savings in public expenditure and civil service manpower. It is, however, an issue which both the Parliamentary Under Secretary (Industry) and Mr Jenkin would prefer to leave open until there has been an opportunity to consult representatives of small firms, and elicit whether their preference is for more comprehensive help or for a scheme which provides reimbursement for the maximum number of employers. It will be easier to carry out these consultations after the general line of the Government's approach has been made public, and they will report back to H Committee with the formula which they eventually recommend.

My Secretary of State should welcome the Committee's agreement

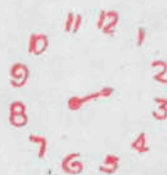
- i. that the contribution reduction for employers in general should be 0.1% higher than was envisaged in the Green Paper; and
- ii. that concessions for small businesses should be worked out, within an overall reimbursement cost of about £40 million, on the lines indicated in paragraph 3,

and that, when he speaks tomorrow on the Queen's Address, he should announce both the general contribution reduction and indicate the general purport of the Government's thinking on small businesses. In view of the short time available, I am afraid that I have to ask for urgent clearance of this.

I am copying this letter to the Private Secretaries to the Prime Minister, David Howell, members of H Committee, David Mitchell and Sir Robert Armstrong.

Yours ever


B C MERKEL
 Private Secretary





~~MAP~~
MAP (O/R)

to see

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7/10

With the Compliments of
the Private Secretary to
the Secretary of State

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House
Elephant and Castle
London, S.E.1.

Note.

Standard letter

As requested.

Jimmy Whitelinton 3/10/50



Social Services

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

I enclose a copy of a summary of the main proposals for a statutory sick pay scheme. A green Paper entitled "Income During Initial Sickness: A New Strategy" (Command 7864), was published last April to set out the background to these proposals and the considerations involved.

There are three main reasons why the Government has 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; 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 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

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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.

Primary reimbursement would be made through a general reduction in the rate of the employers' national insurance contribution, without regard to the individual employers' actual outlay. The estimate mentioned in the Green Paper that employers' wage bills could rise by about £415 million overall would be more than offset by the suggested reduction of 0.5 per cent in the contribution. On the basis of figures supplied by the Government Actuary in another connection, a variation of one quarter per cent in the rate affects income for the National Insurance Fund by close to £250 million. Secondary reimbursement would, however, be related directly to the sick pay paid to new employees. The figures are quoted simply as a guide to help the discussion, and much depends upon the final shape of the scheme and the amounts involved at the time of its introduction.

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 now coming in will all contribute towards the overall picture now emerging from the vital consultation stage of these proposals.

SUMMARY OF THE MAIN PROPOSALS IN THE GREEN PAPER "INCOME DURING INITIAL SICKNESS: A NEW STRATEGY" (COMMAND 7864)

The main proposals for a statutory sick-pay scheme are:-

- (i) entitlement to continuing wages during sickness should be conferred on all employees for whom national insurance contributions are payable, (other than married women and widows who have opted to pay the reduced contributions);
- (ii) though there would be no payment due for the first three days of any spell of incapacity, employers' sick-pay would last for up to eight weeks in any tax year after which title to national insurance benefit would begin;
- (iii) the minimum amount of sick-pay should - subject to 'waiting days' - be £30 a week if it were replacing the present (November 1979) sickness benefit rates; but
- (iv) a low earner who falls sick should have a statutory entitlement to a proportion of normal earnings instead of the £30 flat-rate;
- (v) employers' national insurance contribution liability should be reduced by an amount broadly reflecting their collective liability for extra wage costs;
- (vi) within the total available for compensating employers, they would be entitled to claim a direct re-imbusement of one-half of the sick-pay disbursed to employees with less than eight weeks' service;
- (vii) on balance, it would not be appropriate to treat small firms differently from other employers by allowing a further re-imbusement provision for very small firms;
- (viii) decisions about entitlement to sick-pay should be taken on the basis of doctors' advice concerning incapacity for work and, as far as possible, within the rules of sick-pay schemes which are negotiated by the employer and employees concerned.

The Government would welcome comments on these proposals and on the following questions:-

(i) should there, after the first fortnight of sickness, be a higher minimum rate of sick-pay for employees with dependent children than is available in general?

(ii) how should the normal pay of low earners be defined, and is 75% of ~~sick~~^{Sock} pay an appropriate level for their sick-pay entitlement?

(iii) ought it to be open to sick-pay schemes to seek advice on individuals' capacity for work from the DHSS Regional Medical Service?

(iv) would it be more appropriate for Industrial Tribunals or national insurance tribunals to resolve disputes between sick-pay schemes and their members in which statutory entitlement to benefit is at issue?

Comments on these and other matters should be sent to the office of DHSS (Branch A3) at Room A516, Alexander Fleming House, Elephant and Castle, London SE1 6BY. It would be helpful if they could be received by 30 September 1980.