



DEPARTMENT OF HEALTH & SOCIAL SECURITY

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

Telephone 01-407 5522

From the Joint Parliamentary Under Secretary of State

Your Ref: AS/11/2
Our Ref: PO 2715/620

R Sutcliffe Esq
Arrow Securities Ltd
Ashmount House
48 Doncaster Road
Mexborough
South Yorkshire

10th
December 1980

Dear Mr Sutcliffe

Thank you for your further letter of 4 November about the Green Paper proposals for a statutory sick pay scheme.

The purpose of the Green Paper was, of course, to ensure a thorough airing for the complex issues involved, and we had over 1,000 responses from organisations, businesses and individuals. The vast majority supported our objectives: to bring into tax over 90 per cent of payments during periods of sickness (thus helping to ensure that employees are not better off when sick than when at work), to reduce the size of the civil service by about 5,000, and to make a saving in public expenditure. If the proposals are implemented, they will do away with an absurd duplication of effort in provision for sickness between this Department and industry.

In the light of the comments we have received in the course of the consultation process we have made changes to the Green Paper proposals which will go a long way to meet those anxieties which have been expressed. For example, the contribution reduction originally proposed would have fully compensated industry as a whole for the extra wage costs involved, but because there will be some indirect costs, and because we cannot take account of variations in sickness experience, we are prepared to offer extra help amounting to £100 million in round figures. It will take the form of an extra 0.1 per cent reduction in the employer's contribution liability.

Small businesses pose a different problem. There is a vast difference between a firm of 500 people where one goes sick and a firm of five where one goes sick. We are therefore proposing a package of extra help for small businesses in the form of a reimbursement scheme. They will be able to claim back 50 per cent of statutory sick pay paid out above a certain level in respect of each employee who goes sick. This is in addition to the reimbursement in respect of new employees proposed in the Green Paper (which will apply to all employers), so that small employers will be able to claim back 100 per cent of sick pay above a certain level for new employees. Small firms will be defined by reference to the total amount of annual earnings on which the employer is liable to pay national insurance contributions. Final details are not fixed, but it is hoped to set a qualifying level of

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334 FRM.
MR PATTERSON (NO 10)
Soc. Security
MR PATTERSON - you asked for
a copy. [Signature] D.H.S.

up to between 7 and 10 times the national (male) average wage. The total package of reimbursement will cost around £40 million, and the great bulk of that will go to small employers.

I hope that the two major changes I have described, together with some minor improvements to the details of the scheme, will show that we have kept the difficulties faced by employers, and particularly small employers, in the present economic climate very much in mind when deciding how best to achieve the important advantages to the country as a whole offered by the statutory sick pay scheme.

The full details of the scheme remain to be settled and we need to consult further before we finally make up our minds on the package we intend to put before Parliament. However, I hope you will accept that the changes we have proposed add up to a fresh scheme which will be attractive and, most importantly, will achieve our objectives.

Yours ever

Lynda

MRS LYNDIA CHALKER

Arrow Securities Limited



INDUSTRIAL AND COMMERCIAL SECURITY

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SECRETARY (SS)

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AS/11/2

4th November, 1980

Department of Health & Social Security,
Alexander Fleming House,
Elephant & Castle,
London, SE1 6BY

For the attention of Mrs. L. Chalker

Dear Mrs. Chalker,

Many thanks for your most comprehensive letter replying to my correspondence with the Prime Minister [your reference F02715/561 dated 30th October, 1980 refers].

I understand your policy and the force of your argument, but I would ask you to carefully re-consider several important points.

Firstly, you are already imposing a substantial N.H.I. surcharge and you merely suggest a reduction of 0.5% which in fact does not come off the N.H.I. contribution at all, but off the surcharge!

Secondly, you seem to be determined to go ahead with the unfair and weighted "across the board" reduction which will hit the smaller businesses hardest.

Thirdly, you say you have rejected the suggestion that the sick pay should be recovered by employers from N.H.I. contributions on the grounds that it would be complicated, but this does not bear examination: we already operate a similar scheme called V.A.T. Surely the same system could be adapted for N.H.I.

I am very much afraid that if you do go ahead as outlined in the Green Paper, the outcome will be that smaller employers will be more reluctant than ever to take on additional labour, that sick people will be laid off immediately and that extra costs and administration will be the final nail in the coffin of many more small businesses.

May I say that I am not merely expressing my own views, but

/Chtnd.....

those of many small businessmen in this area who are very apprehensive indeed regarding the proposed legislation.

I do implore you to think out the longer term implications of this proposed legislation most carefully before you open another Pandora's Box.

Yours sincerely,
for ARROW SECURITIES LIMITED

R. Sutcliffe.

R. SUTCLIFFE
Managing Director



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Joint Parliamentary Under Secretary of State

PO 2715/561

R Sutcliffe Esq
Arrow Securities Ltd
Ashmount House
48 Doncaster Road
Mexborough
South Yorkshire

30 October 1980

Dear Mr Sutcliffe,

Thank you for your letter of 8 September to the Prime Minister about the Green Paper on income during initial sickness. I have been asked to reply.

It may be helpful first of all to explain why the Government is 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 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 do 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 have asked for 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 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.

However, I do accept that the proposed across-the-board reduction in the national insurance contribution will be bound to be uneven in effect. We are listening very carefully to the views expressed on this, particularly those coming from small businesses, and we shall certainly be willing to look again at this if there is any way to smooth out the unevenness without eroding the advantages we expect to gain from the proposals.

Your suggestion that sick pay costs should be recovered by employers from their monthly payments to the Inland Revenue has been considered, but was, I am afraid, rejected. The main problem with the proposal is that where employers had to make deductions from the income they had collected (because the National Insurance contributions alone were insufficient to cover the sick pay costs) there would be the need for a complicated process of reconciliation at the end of the year of the amounts of income tax and National Insurance contributions due to be collected and actually collected. Not only would such a system involve an additional burden on employers, but it would also need a substantial number of civil servants to operate.

However, I would like to thank you for your constructive interest in the proposals. 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 we have received will all contribute towards the overall picture now emerging from this vital consultation process.

Yours sincerely

Lynda Chalker

MRS LYNDA CHALKER

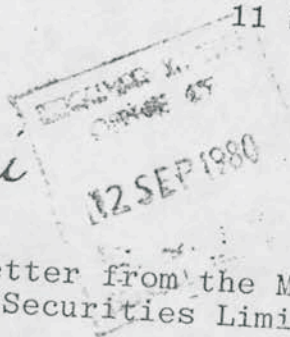


10 DOWNING STREET

From the Private Secretary

11 September 1980

Dear Bernie



I attach a letter from the Managing Director of Arrow Securities Limited about NHI contributions.

I would be grateful if you could arrange for one of your Ministers to reply to Mr. Sutcliffe on the Prime Minister's behalf, letting us have a copy of the reply for our records here in due course.

Yours ever

Mike Pallister

Bernie Merkel, Esq.,
Department of Health and Social Security.

ESP 7/5

fm

Arrow Securities Limited



INDUSTRIAL AND COMMERCIAL SECURITY

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8th September, 1980

The Right Honourable Mrs. M. Thatcher,
Prime Minister,
10 Downing Street,
Westminster,
London, W.1.

Dear Prime Minister,

Conservative Small Businesses Voters
A New Strategy - Income During Initial Sickness

Has anyone realised the danger to the Conservative Party if the DHSS's Green Paper proposals are adopted?

I understand some 20% of employees are outside company sickpay schemes, mainly smaller companies whose success is vital for the future of the country.

DHSS proposes a rebate of $\frac{1}{2}\%$ of Employers NHI contributions to reflect collective liability for extra wage costs. This is surely a nonsense because you cannot lump together a firm with five employees which has no sickpay scheme with the British Steel Corporation for example.

Consider the small company:

Five men @ £100 wage each per week = £500
NHI contributions @ 13.5% = £67.50

1 man off sick now receives nothing from the company but is paid by DHSS out of the state scheme. The employer simply hires another man for the same wage.

Under the proposed scheme, in addition to having to take on another man or lose production, the employer will have to pay £30 sick pay per week and will receive back only 34p being $\frac{1}{2}\%$ of the NHI contributions leaving him with a net deficit of £29.66 per sick man per week to make up out of profit. There will also be extra administrative and postage charges to be met.

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Clearly the many businessmen who will be made bankrupt if this scheme goes through will never vote Conservative again.

The answer surely is that firms should deduct at source from their NHI contributions the exact sum paid out in sick pay on a monthly basis plus a stipulated amount to cover administrative charges. To do otherwise will create a deeper cash flow problem.] (7)

There is another point - a firm with only one or two employees will not normally have enough in NHI contributions to pay £30 sick pay. Is it intended to rebate previous payments or will they have to stand the extra costs themselves?

I trust you will accept this letter in the spirit in which it is written; as a grassroots reaction after much discussion with fellow businessmen who strongly support the greater part of your policies and wish you well.

Yours sincerely,
for ARROW SECURITIES LIMITED

R. Sutcliffe
R. SUTCLIFFE
MANAGING DIRECTOR