



10 DOWNING STREET

THE PRIME MINISTER

15 January 1981

Dear Sir Ray,

Thank you for your letter of 15 December, setting out the CBI's further views on the proposals in the Green Paper "Income During Initial Sickness: A New Strategy", in light of the changes which Patrick Jenkin announced to the House of Commons on 21 November.

The Government have tried very hard to minimise the impact of the scheme on industry, and believe that the improved compensation and reimbursement package announced by Patrick Jenkin goes a long way to meeting the criticisms that were levelled at the original proposals. I am sorry, therefore, that you feel that we are still not doing enough to cover the extra costs that employers will face. Your estimate of a gross cost of some £900 million to employers does, of course, include not only the direct costs of the proposed scheme but also indirect costs, in particular the effect of possible pressure on employers, by their workforces, to improve on the minimum provisions that will be laid down. As I pointed out in my letter of 3 December, occupational sick-pay has long been a matter for negotiation, and employers will, I am sure, be able to deal with any unreasonable demands as they always have done.

You also draw attention to the fact that the proposed method of compensation does not reflect variations in sickness experience between individual firms. This is so, but, as I pointed out in my previous letter, any alternative which tried to match the compensation to each company's individual circumstances would require a significant State bureaucracy. This would certainly be true of an extension to all employers of the proposed small employer reimbursement scheme. This scheme, as at present proposed, will

/ need

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need about 1,000 civil servants to operate it - but will still allow the Government to achieve the saving of around 5,000 - our original target figure. It is estimated that, if this scheme were extended, the DHSS would need to employ at least 1,000 more civil servants than they currently have working on sickness benefit. And, of course, there would be an increase in public expenditure. So, whilst our aim of taxing income received during initial sickness would be achieved, this would be at the expense of two crucial Government objectives - cutting public expenditure and the size of the bureaucracy. I am sure that the CBI would find such a development as unwelcome as we would.

In conclusion, I should like to say that the Government have carefully considered the alternative proposals put forward by the CBI and others, and have found that only a scheme broadly on the lines of that described in the Green Paper will achieve all our objectives - objectives which I know you support.

Yours sincerely  
Margaret Thatcher

---

Sir Raymond Pennock



*Type for PM, M*

*M.P.*

**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*

PQ 2715/673

Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

13 January 1981

*Dear Mike*

Thank you for your letter of 22 December enclosing a copy of one that the Prime Minister had received from Sir Raymond Pennock of the CBI about ESSP.

I enclose as requested a draft reply that the Prime Minister might send.

*Yours ever*  
*Mike*

MIKE TULLY  
Private Secretary

Sir Raymond Pennock  
Chairman  
Confederation of British Industry  
Centre Point  
103 New Oxford Street  
LONDON  
WC1A 1DU

January 1981

INCOME DURING INITIAL SICKNESS: A NEW STRATEGY

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Sup  
Sir Dennis

10 DOWNING STREET

From the Private Secretary

22 December 1980

BF (to TC not MHP)  
5/1/81

The CBI have now written a further letter to the Prime Minister about the employers' statutory sick pay arrangements.

I should be grateful if you could let me have a draft reply for the Prime Minister to send. It would be helpful if this could reach me by 5 January.

M. A. PATTISON

Mike Tully, Esq.,  
Department of Health and Social Security.

R

ful

22 December 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 15 December. I will place this before the Prime Minister and a reply will be sent to you as soon as possible.

J. P. LANKESTER

Sir Raymond Pennock

G





10 DOWNING STREET

PRIME MINISTER

Here is a further letter from Ray Pennock about the employers' statutory sick pay proposals. We will let you have a draft reply.

MAP

*mb*  
*BF ?*

19 December 1980

Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobustry London WC1

From  
Sir Raymond Pennock  
President



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15th December 1980

Dear *Prime Minister,*

Thank you for your very full letter of 3rd December explaining in detail the Government's proposals to implement the Green Paper "Income During Initial Sickness: A New Strategy".

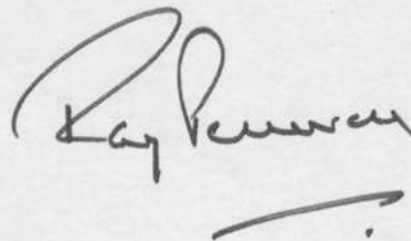
We welcome the additional help given in these proposals by Patrick Jenkin but unfortunately they do not do nearly enough to remove the substantial extra costs to industry which we believe these proposals would involve at a time when the market simply does not allow companies to recover additional costs through higher prices. We believe that the gross costs to industry of the proposals would be about £900 million of which not more than £600 million would be recovered by the reduction in employers' national insurance contributions which are now proposed.

It is also most unfortunate that manufacturing industry, which has already borne the brunt of current economic adversities, would because of its relatively high sickness absence, bear a disproportionate part of this extra cost. We still believe that the fairest way of dealing with this problem would be to set up a system of reimbursement instead of a reduction in national insurance contributions. Patrick Jenkin's proposal to apply the principle of reimbursement to small companies is helpful and we suggest that this principle be extended to all companies as a method of dealing with this problem. We do not believe that there need be any significant increase in the amount of bureaucratic control involved in such an arrangement, and it would meet the Government's policy objectives, which you know we support.

I am sorry that so far we have not been able to agree with Government in this matter; this is because we believe that the potential damage to industry still remains significant and we are therefore asking that this matter can be looked into once more.

Yours sincerely,

The Rt. Hon. Margaret Thatcher, MP  
Prime Minister,  
10, Downing Street,  
London, SW 1.





10 DOWNING STREET

THE PRIME MINISTER

3 December 1980

*Dear Sir Ray,*

Thank you for your letter of 6 November about the proposals in the Green Paper "Income During Initial Sickness: A New Strategy". I understand that representatives of the CBI met Reg Prentice recently to discuss in detail the criticisms you have of the proposals.

I am glad that you support the objectives behind the scheme. They are important enough to bear repeating - a reduction of some £400 million a year in public expenditure; a saving of 5,000 civil service posts; and the bringing into tax of the vast majority of payments made during sickness. These are valuable gains. Though we have examined carefully other means of achieving them, including the proposals put forward by the CBI, none of the alternatives offers all three benefits. It is because there is no other way that we can make these savings that we shall be going ahead with a statutory sick-pay scheme based on the Green Paper proposals. Subject to the passage of legislation, we anticipate the scheme starting in April 1982.

You are rightly concerned about the costs the scheme could place on industry and this concern is shared by the Government. Last Friday Patrick Jenkin announced that we had been impressed by the arguments of the CBI and others about the indirect costs of our proposals and are proposing additional compensation. Originally we intended to reduce employers' national insurance contribution liability by the increase in employers' wage costs, estimated to be around £500 million in 1979/80 terms. We now have promised a further 0.1% decrease in the contribution liability

/ which

which will be worth £100m to industry as a whole.

This substantial additional help is intended to assist with indirect costs. While most firms will want and be able to resist unreasonable pressure from the unions to improve existing sick-pay arrangements, some will wish to bring their own provisions more into line with the measures we propose. We recognise that inevitably this will raise employers' wage costs and the extra £100m will go a long way to meeting these.

It is true that the method of compensation envisaged is rough and ready and cannot take account of an individual company's existing sick-pay arrangements or its sickness record. But any alternative which tried to match the compensation to each company's individual circumstances would require a bureaucracy much greater than already exists. Moreover, the rate of sickness absence in a company or an industry is already reflected in the prices of its goods and services. The additional costs of paying the statutory sick-pay envisaged will have only a marginal extra impact, and the extra £100 million will help soften this.

Patrick Jenkin also announced that about £40 million had been allocated to reimbursement, the bulk of which will go to small firms. As suggested in the Green Paper, help will be available in respect of new employees (those who have been in their current job for 8 weeks or less); this will amount to 50% of all statutory sick-pay paid out for this group. Similar assistance will be available to small firms and it is hoped that the definition of size - by reference to national insurance contributions paid in the last tax year but one prior to the incapacity - will enable around 75% of all employers to be included. The final details of the scheme have yet to be worked out but I am sure that small employers will welcome what we are proposing.

You also raise the question of certification for sickness absence, and the need for employers to have some statement by a doctor that an employee is incapable of work. As you know, discussions

/ with the medical

with the medical profession are continuing and we hope that there will be a solution acceptable both to them and to employers. I can assure you, however, that we regard it as essential that employers should have adequate evidence of which to base statutory payments.

In total, I hope that the additional compensation measures I have mentioned will reconcile the CBI to the statutory sick pay scheme and help us to achieve our objectives, which I know the CBI supports, without the damage to industry that you feared.

Yours sincerely  
Margaret Thatcher

Sir Raymond Pennock



*Soc Servs*  
*Type for PM, M*  
*MAJ*

**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*

Tim Lankester Esq  
 Private Secretary  
 10 Downing Street  
 LONDON SW1

28 November 1980

*Dear Mr. Lankester*

Bernie Merkel wrote to you on 17 November enclosing a draft reply for the Prime Minister to send to Sir Raymond Pennock about the Green paper on sick pay. We later phoned your office and asked if the draft could be held as it had been overtaken by events.

I am now able to enclose a revised draft for the Prime Minister, which has been cleared with my Secretary of State.

*Yours*

*M Tully*

M TULLY  
 Private Secretary

Enc

PO 2715/612

Sir Raymond Pennock  
Chairman  
Confederation of British Industry  
Centre Point  
103 New Oxford Street  
LONDON  
WC1A 1DU

INCOME DURING INITIAL SICKNESS: A NEW STRATEGY

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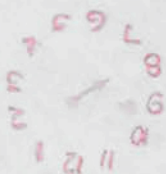
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In total, I hope that the additional compensation measures I have mentioned will reconcile the CBI to the statutory sick pay scheme and help us to achieve our objectives, which I know the CBI supports, without the damage to industry that you feared.



28 NOV 1980



**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*

PO 2715/612

T Lankester Esq  
Private Secretary  
10 Downing Street

17 November 1980

*Dear Tim*

Thank you for your letter of 6 November to Don Brereton, which enclosed one from the CBI about sickness pay.

I attach, as requested, a draft reply which the Prime Minister might send to Sir Raymond Pennock.

*Yours ever  
Bernie M*

B C MERKEL  
Private Secretary

Enc

*DHSS sending  
revised draft  
after debate*

*on Friday  
KVV Friday/Monday*

PO 2715/612

Sir Raymond Pennock  
Chairman  
Confederation of British Industry  
Centre Point  
103 New Oxford Street  
LONDON WC1A 1DU

INCOME DURING INITIAL SICKNESS: A NEW STRATEGY

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I am glad that you support the objectives behind the scheme. They are important enough to bear repeating - a reduction of some £400 million a year in public expenditure; a saving of 5,000 civil service posts; and the bringing into tax of the vast majority of payments made during sickness. These are valuable gains. Though we have examined carefully other means of achieving them, including the proposals put forward by the CBI, none of the alternatives offers all three benefits. It is because there is no other way that we can make these savings that we shall be going ahead with a statutory sick-pay scheme based on the Green Paper proposals.

You are rightly concerned about the costs the scheme could place on industry. But, as was made clear in the Green Paper, employers as a whole will be fully compensated for the increase in wage costs which will arise from its introduction. The CBI estimate of extra costs of £900 million (of which £500 million will be returned by means of a reduction in national insurance contributions) includes nearly £400 million, which are not directly attributable to the proposed scheme. For example, the abolition of the earnings-related supplement is a separate matter: it will result in savings to the National Insurance Fund which will be taken into account when the contribution rates for 1982/83 are set. The question of other costs arising from the re-negotiation of occupational sick-pay schemes is one for employers. They alone can decide whether they can afford to make any

improvements on existing arrangements, and it will be for them to tell unions that if there are to be improvements they can only be financed from the total amount the company can offer for wage increases.

It is true that the method of compensation envisaged is rough and ready and cannot take account of an individual company's existing sick-pay arrangements or its sickness record. But any alternative which tried to match the compensation to each company's individual circumstances would require a bureaucracy much greater than already exists. Moreover, the rate of sickness absence in a company or an industry is already reflected in the prices of its goods and services. The additional costs of paying the statutory sick-pay envisaged will have only a marginal extra impact.

You also raise the question of certification for sickness absence, and the need for employers to have some statement by a doctor that an employee is incapable of work. As you know, discussions with the medical professions are continuing and we hope that there will be a solution acceptable both to them and to employers. I can assure you, however, that we regard it as essential that employers should have adequate evidence on which to base statutory payments.

I cannot accept that the Government's proposals are damaging to industry, which will, after all, gain £500 million a year through reduced national insurance contributions. A statutory sick-pay scheme will go a long way to meeting our objectives of cutting public expenditure and enabling us, by ending the present widespread duplication of payments during sickness, to reduce further the size of the civil service. I know that the CBI welcomes these objectives and hope that you will appreciate that none of the alternatives which have been suggested will produce the benefits to the economy which are offered by the proposals in the Green Paper.

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18 NOV 1980

Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.

Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 01-379 7400  
Telex 21332  
Telegrams Cobuistry London WC1

From the President  
Sir Raymond Pennock

*c. B. Ingham*



6th November 1980

*Dear Prime Minister,*

Income during initial sickness: a new strategy

I am writing to you personally because the CBI is most seriously concerned that, in spite of the representations we and others have made, the Government seems likely to introduce legislation in the next Parliamentary session giving effect to the proposals in the above Green Paper. As in many other areas, we support the Government's objectives, but we really do strongly urge that more time be given to finding other ways of achieving them.

The concern of our members - very forcibly expressed after wide consultation - is threefold: the inadequacy of the proposed compensation, the inequity between companies and sectors, and the problems of sickness certification.

By our calculations, the proposals as they stand could increase industry's net costs by some £400 million. We feel that it is quite imperative that no unnecessary additional costs should be imposed on industry at this time. We believe the Government has seriously under-estimated the cost of its proposals on industry and that the level of compensation proposed is quite inadequate.

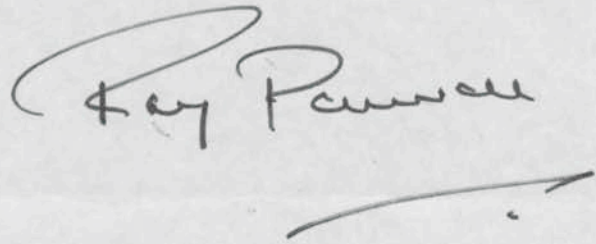
However it is not just a question of compensation. Mainly because of the uneven incidence of sickness, the burden of cost would fall quite disproportionately on those sectors - especially in manufacturing - which are already being tightly pressed. We have a number of detailed company examples of this pressure, which are available, if you should require them.

Finally, it is essential that employers have an adequate means of ensuring that sickness for which they are making payments is genuine. There is a real problem here, given the evident unwillingness of doctors to accept any obligation to provide employers with certification.

/ ...

I am aware that we have continually urged reduction in Government spending, but I hope you will agree with me that it would be very damaging to do it merely by transferring costs of this magnitude to manufacturing industry, especially at a time when the real rate of our return on capital is under 3 per cent.

Yours sincerely,

A handwritten signature in cursive script that reads "Roy Pannell". Below the signature is a long, horizontal, slightly curved line.

The Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10, Downing Street,  
London, SW1.





Soc Services

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**10 DOWNING STREET**

PRIME MINISTER

A letter from  
Ray Pennock arguing against  
the proposals in the Green  
Paper on sickness pay.  
You will want to reply to  
this letter, and I will  
get a draft from DHSS.

*ms*

*R*

6 November 1980