

PREM 19/922

SECRET.

PART 1

Confidential Filing

The introduction of an Employers' Statutory sick pay scheme.
 Incapacity benefits for short periods.
 Payment of wages during initial sickness.

SOCIAL SERVICES

PART 1 :

December 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.12.79		15.12.79					
17.12.79		11.2.81					
21.2.80		24.3.81					
25.2.80		28.5.81					
15.3.80		1.6.81					
30.7.80		30.7.81					
4.11.80		7.10.81					
6.11.80		6.11.81					
20.11.80		11.11.81					
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29.11.80							
3.12.80		ends					
10.12.80							
23.12.80							
4.2.81							
9.2.81							

PREM 19/9/82
 922

PART 1 ends:-

H (81) 71 - 11.11.81

PART 2 begins:-

H (81) 29th Minutes Item 2

17.11.81.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
H (79) 79	6.12.79
H (79) 80	6.12.79
H (79) 19th Meeting, Minutes 2 and 1	11.12.79
H (80) 22	21.2.80
H (80) 6th Meeting, Minute 2	25.2.80
H (80) 72	31.10.80
H (81) 3	8.1.81
H (81) 15th Meeting, Minute 1	13.1.81
L (81) 37	6.2.81
H (81) 13	10.2.81
H (81) 5th Meeting, Minutes	11.2.81
L (81) 5th Meeting, Minute 1	11.10.81
H (81) 39	27.5.81
H (81) 18th Meeting, Minute 1	1.6.81
H (81) 61	30.9.81
H (81) 27th Meeting, Minutes	7.10.81
L (81) 150	28.10.81
L (81) 20th Meeting, Minute 1	3.11.81
H (81) 69	5.11.81
H (81) 70	6.11.81
H (81) 71	11.11.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland

Date 30 October 2012

PREM Records Team



Caxton House Tothill Street London SW1H 9NA

6400

Telephone Direct Line 01-213

Switchboard 01-213 3000

GTN 213

Social
Services
While
we have
got any of
these reb-
have you
seen?

John Halliday Esq
Private Secretary to
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON SW1H 9AT

2 November 1981

Dear John

The Secretary of State for Social Security wrote to the Secretary of State for Employment on 28 October about the unemployed sick. My Secretary of State, who is in Brussels for an EC meeting today, would certainly wish there to be further Ministerial discussions on the case for including a clause on the unemployed sick in the Social Security Bill as proposed by the Chancellor in his letters of 12 October and 2 November.

There is of course the problem of the losers. Mr Fowler and my Secretary of State agreed officials should re-examine this, but the proposed clause in the Social Security Bill does not directly alter the benefit entitlement of the unemployed sick; it is a regulation-making provision enabling the change to be made, and all or none of the "losers" to be protected depending on what is decided.

I am sending copies of this letter to the private secretaries to the Chancellor and the other recipients of his letter of today's date.

Yours sincerely

John Anderson.

J ANDERSON
Private Secretary



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 November 1981

The Rt. Hon. William Whitelaw CH MC MP
Secretary of State for the Home Department

Dear Willie

UNEMPLOYED CLAIMANTS WHO FALL SICK

As I think you know, there has been a difference of view between Norman Fowler on one hand, and Norman Tebbit, Janet Young and myself on the other, over the inclusion of a clause in the forthcoming Social Security Bill. The clause in question would enable Regulations to be made to give effect to the recommendations of a recent Rayner scrutiny, which recommended changes in the benefit treatment of unemployed people who fall sick.

Time is now very short - the Bill is due to go to Legislation Committee tomorrow - and I do not think that there is any prospect at this late stage of our reaching agreement other than by collective discussion. I am therefore circulating by way of background copies of the correspondence we have had, and I should be grateful if an opportunity could be taken for H Committee to consider it as soon as possible.

I am copying this to the Prime Minister and members of H Committee, and to Sir Robert Armstrong.

GEOFFREY HOWE

Geoffrey Howe



Chancellor

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE
LONDON S.E.1

TELEPHONE: 01-407 5522

The Rt Hon Norman Tebbit MP
Secretary of State for Employment
Caxton House
Tothill Street
London SW1

RECEIVED
28 OCT 1981

PS/IR 28.10.
CST, FST, MST(C) 28 October 1981
MST (L), Sir D Warr,
Sir A Rawlinson,
Mr Barratt, Mr Kemp,
Mr Monger, Mr Cropper

Norman Tebbit

BENEFITS FOR UNEMPLOYED PEOPLE

Following our meeting last Wednesday, the further work which we commissioned has been set in hand. Our officials will be reporting to us on the possibility of a simplified short-term supplementary benefit scheme, material is being prepared for colleagues on the question of milk tokens, and I shall be writing to you as soon as possible, as promised, letting you have my conclusions on the future responsibility for the NUBS computers. On the "holidays" proposal, I understand that the Treasury are unable to help us over the extra cost problem, so I see no alternative but to let our colleagues know in due course that whilst there is a case for the proposal in principle, there is no question of implementation until such time as resources can be made available.

There is one issue, however, on which I am writing to you immediately because of its urgency, and that is the question of including in our forthcoming Social Security Bill a provision about unemployed people who fall sick. As I made clear at our meeting, I am very ready to consider further with you and the others concerned the merits of the Rayner Report recommendation on this issue when our officials have re-examined, as we asked them to, the problem of the losers. But as I also made clear, I do not feel able to include a provision dealing with this in the forthcoming Bill. This is now in the final stages of drafting and my undertaking to Cabinet, as a condition of their authority to proceed with this Bill, was to exclude from it everything, other than the items they expressly approved, which would be controversial unless it was essential. This I have done, and you will have noted from my letter dated 22 October to Willie Whitelaw and H Committee colleagues.

As I explained in my letter of 1 October to Geoffrey Howe, the proposal to treat unemployed people who fall sick as continuing to be available for and fit for work would certainly be controversial. I think we must give ourselves more time to consider all the implications very carefully before we decide whether or not to proceed with it. Nor do I think that it is essential to deal with it in the Bill we shall shortly be introducing. If we do decide to go ahead, we can deal with it in the 1982/83 session in time for implementation in 1983.

F. R.

You made your views very clear to me at our meeting and I have of course noted the views of Geoffrey Howe and Janet Young in their letters to me. I do not want at this stage to prejudge the outcome of the further consideration we are going to have to give to this question, but I should like to make clear the nature of my misgivings.

The nub of the problem is that some unemployed and fit people are, for very good reasons, deprived of all benefit or have their benefit much reduced - for example, because they caused their own unemployment by misconduct at work, or because they are receiving a substandard occupational pension and their availability for work (but not their fitness for it) is in doubt. But these penalties are specific and peculiar to unemployed people who are fit for work and it would be very hard to justify continuing them, for administrative convenience, in the quite different circumstances of a person unable to work because of sickness.

I do understand - and indeed support - the view which you and others have expressed that if we are to make reforms we must be prepared to accept that there will be some losers. My own view is when the case is strong and the rewards make it worthwhile then we should proceed notwithstanding the flak we shall attract. We are dealing here, however, with sick people, one third of whom could be losers. We identified at our meeting one particular group - the chronically ill who are frequently off work and would be deprived for a time of their entitlement to the long-term invalidity pension - and we asked our officials to see what could be done to protect them.

There will be other groups where we could be in trouble. I am thinking in particular of unemployed people who are stricken with a serious illness. If they have a stroke, suffer a heart attack, or develop cancer, and they are perhaps bedridden, we would in effect be proposing to Parliament that they should continue to be treated as though they are fit for work and thereby deprive them of the sickness benefit to which they are entitled (by virtue of the contributions they have paid) to which other sick people in similar circumstances are entitled, just because they happened to be unemployed when illness occurred. The difficulties of persuading the House of our case here would be great.

The relevance of our sick pay proposals to unemployed claimants who fall sick is also something of an illusion. These proposals are about employed people who fall sick and they will be guaranteed sick pay instead of sickness benefit (often at a higher rate). It is important to us that we get the sick pay proposals through with as little trouble as possible and, contrary to the view that has been expressed that the Social Security Bill would be the appropriate vehicle to deal also with unemployed claimants who fall sick, I would see it as a positive disadvantage to attempt in the same Bill to force through a provision which would have the effect of depriving some claimants, especially those referred to above, of any benefit.

I do not rule out the possibility of finding some way round all these difficulties, though as I said in my earlier letter measures to safeguard the losers are likely to whittle away the savings from the main proposal. However, that is something that we have asked our officials to look at again. But I am quite sure that we should not attempt to deal with it in the forthcoming Bill if our aim is to reduce to a necessary minimum the controversial elements in it.

I am copying this letter to Geoffrey Howe, Willie Whitelaw, Francis Pym, Michael Jopling, Janet Young and Sir Derek Rayner.

NORMAN FOWLER



mp

cc CST
 FST
 MST(C)
 MST(L)
 Sir D Wass
 Sir A Rawlinson
 Mr Barratt
 Mr Kemp
 Mr Monger
 Mr Cropper
 Mr Green
 Mr Blythe
 Mr Martin
 Mr Davenport
 Mr Fraser

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 12 October 1981

The Rt Hon Norman Fowler MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Alexander Fleming House
 Elephant and Castle
 LONDON SE1

BS/ Andy of Finance
Norman Tebbit

Norman

UNEMPLOYED CLAIMANTS WHO FALL SICK

Thank you for your letter of 1 October. I note you want to drop the proposal to treat people who fall sick whilst unemployed as still unemployed for the first eight weeks of sickness from the Social Security Bill. I have also seen Janet Young's letter to you of 6 October and Norman Tebbit's letter of 7 October. Both of them have strong reservations about your proposal.

Whilst I appreciate your desire to drop inessential measures from this important Bill, I must emphasise that I do not regard this proposal as inessential. It is an important element in the implementation of our Manifesto commitment to bring short term benefits into tax. As you know we had hoped to be able to introduce this proposal and the SSP scheme at the same time as the taxation of benefits to the unemployed. This would have avoided the creation of an incentive for unemployed people to claim sickness benefit not only to avoid liability on their benefit but also to obtain tax refunds which are being withheld during a period of claim to unemployment benefit. When the SSP scheme was deferred it was agreed, on equity grounds, that this proposal should similarly be deferred but re-introduced with SSP.

As you say, the Bill is essentially a staff saving package and it would therefore seem on this basis appropriate that this proposal, which requires only one clause but which potentially has significant staffing effects (with possible staff savings not far short of those you hope to achieve by the abolition in this Bill of injury benefit), should be part of that package. I see that both Janet and Norman have emphasised this point. I agree with them.

/I cannot deny that



I cannot deny that this measure may provoke Opposition reaction in the House but it is also undeniable that it would be more controversial if introduced independently of the SSP scheme. That is why I still think that the present Bill remains the most appropriate vehicle for the introduction of this proposal.

On the substantive proposals, I cannot accept that we should not proceed because some people would lose out. We have always recognised that this is an inevitable by-product of reform. Even so, I understand that the large majority of claimants receive no more in sickness benefit than they do as unemployed claimants. These people will gain by the simplification of the system which this proposal provides. Others will lose - but it is important to remember that only those who are recurrently sick will actually notice at first hand that they are worse off.

If you still feel strongly about this, I suggest you should discuss at a meeting including Janet Young and Norman Tebbit.

GEOFFREY HOWE

Handwritten signature and initials. The signature appears to be "John" and is written in a cursive style. There are also some horizontal lines above and below the signature.



Chancellor of the Duchy of Lancaster

sent 7.10

Mr. MONGER 7/10

Civil Service Department
Whitehall London SW1A 2AE
Telephone 01-273 4400

CST

FST

6 October 1981

MST C

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

MST L

Sir D Wass
Sir A Rawlinson
Mr Barrett
Mr Kemp
Mr Cropper

Dear Norman,

UNEMPLOYED CLAIMANTS WHO FALL SICK

I am disturbed to see from your letter to Geoffrey Howe of 1 October that you want to go back on the intention to take powers in the Social Security Bill to treat the unemployed sick as unemployed for the first eight weeks of sickness. I appreciate your concern about people losing benefit but I am clear that we must be prepared to accept some reduction, for a minority of people, in the benefits they now receive if we are to simplify an over-complex system.

As you recognise, there are strong arguments for simplification in this case. The Rayner report shows that the existing arrangements for the unemployed sick are so complicated and inconvenient for claimants that in various ways the amount of benefit paid is often not the amount intended. Furthermore, it appears to me that the present provisions are themselves by no means free of unintended anomalies. It would not be sensible to forego important gains in simplicity purely on the principle of preserving a position already far from ideally logical and equitable.

In particular, the Rayner proposal would remove a considerable anomaly in the treatment of unemployed compared with employed sick under the statutory sick pay scheme.

My view is very strongly that the provisions for SSP must take the Rayner proposal into account. If you feel that there has to be some derogation from the full proposal I would like our officials to discuss this.

I am copying this letter to Geoffrey Howe and Norman Tebbit and also to Sir Derek Rayner, in view of his interest in the implementation of scrutiny recommendations.

Baroness Young

BARONESS YOUNG



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

GTN 213

sent 7.0.

CH/EXCHEQUER	
REC.	-7 OCT 1981
ACTION	MR MONGER
	CST, PST, MST(C),
	MST(L), Sir A Wynn,
	Sir A Rawlinson,
	Mr Barratt, Mr Kemp,
	Mr Cropper, PS/IR

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

7 October 1981

D Geoffrey,

UNEMPLOYED CLAIMANTS WHO FALL SICK

Norman Fowler sent me a copy of his letter to you of 1 October.

Norman and I are meeting shortly to discuss outstanding issues, including the treatment of the unemployed sick, arising from recommendations in the Rayner report on payment of benefit to unemployed people. I shall be pressing for the implementation of the Rayner recommendation that unemployment benefit claimants falling sick should be treated as unemployed for the first eight weeks of sickness. This would save staff, simplify procedures, be more comprehensible and convenient for claimants and staff alike and would increase the revenue from and simplify the administration of taxation of unemployment benefit. Nor would it affect the level of benefits for the majority of the unemployed sick. Although some claimants would receive less benefit than under the present arrangements for most of those affected the amounts would be small and in a number of cases anomalies by which sickness brings an increase in income would be brought to an end. Entitlement to supplementary benefit would be affected only in the case of those who became unemployed voluntarily.

I also consider that, if we decide to go ahead with the Rayner proposal, there is a very strong case for including the necessary clause in the Social Security Bill now in draft. I take this view not only because I think we should make the change at the first opportunity but because it links naturally with the provisions in the same Bill for the employed sick. These also cover eight weeks of sickness, bring the payments into tax, and involve 'broad brush' treatment with loss of benefit for some. Such provision for the unemployed sick may be contentious but no more so than the proposals for the employed sick. I suggest it would be best to take both the changes through together in a single Bill in this Session rather than to have two separate battles on benefits for the sick in different Bills in different Sessions. As I understand



it a single clause is all that is needed to make the change so we should not be adding significantly to the length of the Bill.

I am sending copies of this letter to Norman Fowler and Janet Young and also, with a copy of Norman Fowler's letter, to Derek Rayner.

Janet Young



Mr. Monger
is willing to
all a meeting
 DEPARTMENT OF HEALTH AND SOCIAL SECURITY
 ALEXANDER FLEMING HOUSE
 ELEPHANT AND CASTLE (See notes)
 LONDON S.E.1
 TELEPHONE: 01-407 5522
5 10

The Rt Hon Sir Geoffrey Howe QC MP
 Chancellor of the Exchequer
 Treasury Chambers
 Great George Street
 London SW1

sent 2.10.

EXCHEQUER	
REC.	- 2 OCT 1981
1 October 1981	
ACTION	<i>Mr Monger</i>
COPIES TO	<i>LST, FST, MST (C),</i> <i>MST (L), Sir A Wass,</i> <i>Sir A Rawlinson, +</i> <i>Mr Barratt, Mr Kemp,</i> <i>Mr Cropper</i>

Geo *Geo Frey*

BS, IR 5/10

UNEMPLOYED CLAIMANTS WHO FALL SICK

Your officials may have shown you the report that has been prepared following inter-departmental consultations on this subject. It suggests (para 38) that if the Rayner proposal to treat people who fall sick whilst unemployed as still unemployed for the first eight weeks of their sickness were to be implemented, the Social Security Bill now in draft should be the vehicle. A clause would be needed to provide the necessary regulation-making powers.

Quite apart from the merits of the proposal, I am sure we must rule out this way of proceeding. The present Bill, as you know, is to be the vehicle for two major proposals, the Statutory Sick Pay Scheme and the Housing Benefit Scheme, which are both big staff savers. I have undertaken to drop any miscellaneous provisions that are not absolutely necessary especially if they are controversial, and this one seems to qualify under both heads. It is not a change which we have to make, and to introduce such a proposal, taking benefit rights away from the unemployed, will certainly provoke strong reactions in the House.

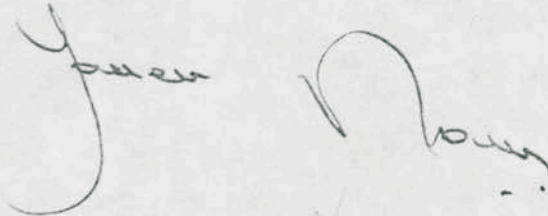
Turning to the substantive proposals in the report, I realise that there are strong arguments in favour of the changes, in terms of simplification, some staff savings, and additional revenue - since unemployment benefit will be taxed whereas sickness benefit will not. But I must say that I am very much concerned at the number of people who would be disadvantaged if we proceed with the proposal in its simplest form. Something like one-third of all the unemployed who fall sick each year would actually lose out in terms of benefit received. Moreover, the complexity and staff costs of the arrangements that would have to be made if we decided to go ahead but to safeguard or compensate those who would otherwise be "losers" are shown to be very substantial and largely offset the advantages of the proposal. I do not believe that we really need to grasp this nettle just now.

Nevertheless, I am, of course, ready to discuss the matter if you think we ought to go ahead despite the difficulties described in the official report as

L.R.

soon as it is practicable to do so, ie in the next available and suitable piece of Social Security legislation.

I am sending copies of this letter to Janet Young and Norman Tebbit, whose officials have also had copies of the report.

Handwritten signatures of Janet Young and Norman Tebbit. The signature on the left is 'Janet Young' and the signature on the right is 'Norman Tebbit'.

NORMAN FOWLER

WR 1/6

PRIME MINISTER

Weekend Box

Cabinet decided on 12 February that the legislation to introduce a statutory scheme for employers' sick pay should be delayed.

Mr. Jenkin was asked to produce revised proposals for the 1981/82 session which should be designed to secure wider Parliamentary support.

In the attached paper for H Committee, Mr. Jenkin proposes to issue a consultative paper on two different options for a revised ESSP scheme. He would hope to complete his consultation by September.

He also proposes to introduce self-certification for incapacities lasting a week or less. This would operate from April 1982.

ewton

ms

28 May 1981



Social Security

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
London SE1 8BY

24 March 1981

Patrick
ESSP

will request if required

I am sorry not to have replied before to your letter of 24 February.

I do not think that I can go along with all your arguments. It is certainly common ground between us that the postponement and partial loss of manpower savings is a serious setback and the small resultant increase in the PSBR is unfortunate. But I think that the setback goes beyond this. Our commitment to the reduction of the public expenditure is not just a means to the end of reducing the PSBR. It is also a means to reducing the scale of the public sector. And it is a major objective in its own right, as the recently published Public Expenditure White Paper and the Chancellor's Budget Speech made clear.

Given this, although exceptions can arise, the fact that a change is virtually PSBR neutral is not a sufficient justification for accepting an increase in, or the avoidance of any reduction in, the total of public expenditure. Admittedly the change to ESSP would not have had much effect on the PSBR, but it will represent the withdrawal of the public sector from involvement in particular flows of funds from employers to employees. It will be a genuine move towards privatisation. Its delay makes it that much harder for us to demonstrate that we are honouring our commitment to reduce the public expenditure total. In its absence, we have got to consider how else we can make that commitment credible.

More generally many proposals which are PSBR neutral involve increasing public expenditure and increasing revenue through a tax or quasi tax. Such proposals would work against at least two of our objectives at the same time.

I am copying this letter to the Prime Minister and other Members of Cabinet, and to Sir Robert Armstrong.

Leon
LEON BRITTAN

CONFIDENTIAL
CONFIDENTIAL

Prime Minister
1.
Mr Jenkin is getting cold feet. You may hear more of this from the Small Business Officers tomorrow.

THE PRIME MINISTER

EMPLOYERS' STATUTORY SICK PAY

I have had a letter written with a view to a decision on this matter. I have discussed this tonight, but resolved nothing. The Home Secretary will convene them again on Wednesday. Do you wish to comment?

1. Our proposals for a scheme for Employers' Statutory Sick Pay are due to be published in a Bill later this week, with Second Reading a fortnight away. The Bill proposes that, apart from reimbursement arrangements for small businesses and in respect of new recruits to an employment, the State should divest itself of any responsibility for payments in respect of up to 8 weeks sickness among employees. Employers would be liable instead for a minimum payment by way of sick pay. They would be compensated for this by a reduction in their national insurance contribution.

2. The CBI have strenuously resisted these proposals, both on the grounds of the extra indirect costs which would be put upon industry (and which would not be met by the contribution reduction) and, more particularly, of the disproportionate cost which would be borne by the manufacturing section of industry where sickness experience is above average. As an alternative, the CBI have pressed for a system whereby employers would be liable for a minimum level of sick pay, which would be fully reimbursed by Government. We have pointed out, however, that full reimbursement to employers, on the basis of individual scrutiny of sickness claims, would be as staff-intensive as current DHSS operations, and the CBI have responded by arguing that employers should be allowed to withhold their sickness payments from the monthly remittances of contributions or tax which they make to Government. This also we have felt bound to reject, on the grounds that employers could not be expected to exercise adequate control over sickness payments for which they were being fully reimbursed by the State.

3. There have been two major recent developments. First, when I met the Party's Small Business Committee last Thursday they urged strongly that any reimbursement to small firms should be on the basis of allowing them to deduct the money due to them from payments to the Inland Revenue (on the lines of the CBI proposal). Any other reimbursement arrangement, which required them to lodge claims before receiving a payment, would be strongly opposed on the grounds of its effect upon cash flow and the

necessary extra paper-work. On the following day, the CBI - having, I believe, heard of this reaction - approached my office with the suggestion that reimbursement to all employers might take the form of making good a proportion, perhaps 50 per cent, of their sick pay liabilities rather than meeting them in full. The remainder of the reimbursement would still be through an adjustment of the national insurance contribution - perhaps 0.3 per cent. Their suggestion (confirmed at a meeting I held with them this morning) was that our acceptance of this alternative approach would considerably lessen hostility to the scheme among their members, and so ease the passage of the Bill.

4. It is very late in the day for us to consider changing course, but nevertheless the attraction of a scheme which would command much greater assent among our supporters in the House and in the country than our original proposals seems to me to be worth consideration. Accordingly, I should be grateful if I could have the guidance of senior colleagues over whether to offer to accept a suitable amendment at the Committee stage of the Bill.


5. The advantages of the modified CBI approach seem to me to be:-

i. since employers would be meeting half the cost of minimum sick pay themselves, they would have a direct financial incentive to challenge doubtful claims, and this would offer some protection to the State;

ii. those industries with a disproportionate amount of sickness would be able to recover half their statutory sick pay costs, which would cushion them against high sickness absence; and

iii. the political prospects of achieving the Bill, without further damaging amendments, would be greatly enhanced.

6. Nevertheless, it must be recognised that there are some major advantages of our present proposals which would be lost if we compromised with the CBI. These are:-




i. we could not expect to achieve the full saving of 5,000 DHSS staff. The effect of having to take account, in the State's financial transactions with every employer, of that employer's individual sickness experience will be bound to mean, however simplified we make our new arrangements, that staff savings would be unlikely to exceed one-half that target;

ii. even the residual staff savings - of perhaps 2,500 - would be further eroded if there were to be any difference of treatment for new employers or for small firms. This would have to be resisted - which could give rise to further criticism from the Small Firms lobby;

iii. the starting date of April 1982 becomes uncertain. We are examining urgently how quickly a revised set of procedures, involving the Inland Revenue, could be introduced but at present it cannot be said with certainty that the original deadline could be met. Possibilities are a postponement until the Autumn of 1982 or until April 1983.

7. It seems to me that the issues are evenly balanced, but an early decision is needed if we are to have any chance - under the original proposals or the alternative - of achieving staff and public expenditure savings in 1982. The postponement of the Bill, pending further consideration, could well mean a year's delay. As I see it, if we can be sure of getting our present proposals through the House without undue loss of Party support in the country, then we should go ahead as planned. If however there is a serious risk that we shall be pushed, either in the Commons or the Lords, to move to the new, Mark II, CBI scheme, I would much rather take the decision now to switch to that and then stick to it, rather than have to give way under pressure. To change during the Committee or Report Stage would be bound to push implementation to 1983. I should be most grateful for colleagues'



guidance, on how we should proceed. Copies of this minute go to Sir Geoffrey Howe, Francis Pym, Christopher Soames, and Michael Jopling.

9 February 1981

P.J.

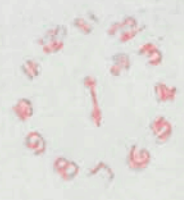
CONQUEROR

CONFIDENTIAL



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-9 FEB 1987



COMPTON



Prime Minister^{2.}

So. Sen

10 DOWNING STREET

4 February 1981

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON
SE1 6BY

INITIAL PAYMENT OF SICKNESS SCHEME

I was talking last night to Stan Mendham at the Centre for Policy Studies. He is Chief Executive of the "Forum of Private Business" representing a very large number of small businesses. He tells me that he has written to you - indeed, he has written to the Prime Minister, backbenchers, spent many hours with your officials etc - because he believes the scheme will prove a complete fiasco in its present form.

I cannot judge whether his criticisms (and the fairly simple remedies he proposes) have any merit. But predictably, he has made no progress with his approaches to your Department. It sounds to me like the familiar situation: whether or not his criticisms are justified, the whole scheme now has such momentum that it is psychologically impossible for anyone in your Department to stop and ask himself, "I wonder if this strange fellow who comes down from Cheshire could possibly be right, while we are wrong?"

Changing one's mind is difficult at the best of times, but in my experience quite impossible on the basis of reading papers. Having actually met Mr Mendham who is a very effective salesman in the best sense and who has no axe to grind, simply a desire to prevent the Government making a fool of itself, I believe you should consider talking to him, rather than hearing about what he says from your officials. My instincts - and that is all it is - tell me that he may be right; that the scheme is ludicrous as at present proposed; that it would be very simple to correct it, provided we delay it now. Otherwise there will be the usual problems of the Government losing face by admitting later that it needs correction.

As your officials will know, Mendham has amassed a tremendous amount of detailed work on how the scheme would operate, in consultation with his membership; speaks with passionate conviction about what is wrong; and seems to have all the conceivable facts at his fingertips. When Mendham started lobbying me, my feeling was that it was too late for second thoughts. By the time he had finished, I decided

hat it was never too late for second thoughts. He may be a crank or his analysis may be wrong. You won't resolve that on paper, only by talking to him with your own experts present.

- * I am copying this letter to the Prime Minister, as Mendham wrote to her on 20 January.

JOHN HOSKYNS

- * Copy of the letter to the Prime Minister attached.



The Forum of Private Business

The Co-ordinated Strength of Independent Enterprise

Ruskin Rooms, Drury Lane, Knutsford, Cheshire WA16 0ED (Reg. Office) Tel: 0565 4468

SAM/bs

20 January 1981

The Prime Minister,
The Rt. Hon. Margaret Thatcher, MP.
10 Downing Street
London SW1A 2AA

Dear Prime Minister,

We are writing to you direct on the important issue of your Government's Initial Payment of Sickness scheme as we have exhausted every other avenue.

The problems this scheme will present to the small businessman are:-

1. Non provision of a medical sickness note until after seven days of sickness.
2. That it will make the employer responsible, without the benefit of medical advice, for deciding whether or not to pay statutory sickness pay and should the employer in the eyes of the employee have made a wrong decision, he could risk being taken to a TRIBUNAL - perhaps months later.
3. That it will cost the employer more in sickness pay than the reimbursement scheme will cover.

These factors will result in:-

1. An increase in absenteeism due to sickness in the smaller firms.
2. The smaller businessman not wanting to take on more fulltime staff.
3. Antagonising the smaller businessman through more paper work and its associated cost and time.

This scheme in the FORUM'S view will cost the community an extra £22.5^m per annum.

The FORUM has put forward sensible alternative proposals which could meet your Governments objectives, copies of which are enclosed, but we are nevertheless informed that the BILL will be published in its present form in mid-February 1981.

In the interests of all smaller businessmen may we ask you to intercede to stop the damaging parts of this legislation, before the BILL is introduced, so that we can support you in this matter.

Yours sincerely,

S.A. Mendham
Chief Executive
The Forum of Private Business

Enclosures.

Directors: S.A. Mendham, C.Eng., M.I.Mech.E., M.B.I.M., H.W.N. Ambler, B.Sc., M.I.P.M., L.S. Hailes, M.I.H.V.E.
G.H. McIntosh, M.I.M.C., A.C.M.A., M.B.I.M., P.I.J.K. Sparrow B.A.(Hons) Cantab, A.G. Wareham.

THE FORUM OF PRIVATE BUSINESS
COMPANY LIMITED BY GUARANTEE REGISTERED IN UK No. 1329000



The Forum of Private Business

The Co-ordinated Strength of Independent Enterprise

FORUM ALTERNATIVE

1. The FORUM'S Alternative Scheme

1. Do not make sick pay a RIGHT unless the employee can prove his case.
2. Provide a DOCTOR'S Sick Note.
3. Reimburse the smaller employers directly by the PAYE Card.
4. The employer would pay ALL sick pay up to six months.
5. The employer would deduct Tax and National Insurance.
6. The employer would be able to deduct .5% of payroll/year for doing the work.

2. The FORUM'S Alternative to DOCTORS NOTES

1. Doctors Note after 3 days as NOW but employee pays
2. Doctors Note in 3 forms:
 - Attendance Note after 2 days
 - Non-Clinical Note - after examination
 - Clinical Note - after examination

EMPLOYER PAYS.

3. WAITING DAY increased to 5
Doctors Note as now but NO SSP until after 5th day.

3. The Effect of the FORUM's Alternative Method of Reimbursement

Revised Comparative Costs between Present and FORUM Scheme at 1980 prices:

Present Scheme		FORUM Scheme	
Cost @ 1980	B = £416,250,000	C =	£403,763,000
Cost of CS	E = 40,000,000	D =	40,000,000
	<u>£456,250,000</u>		<u>£443,763,000</u>

GAIN of £12,487,000
Plus tax
revenue £120,000,000
£132,487,000



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

MJD

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

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.

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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 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

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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.

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13 JAN 1981
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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.

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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

mf
BF ?

19 December 1980

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

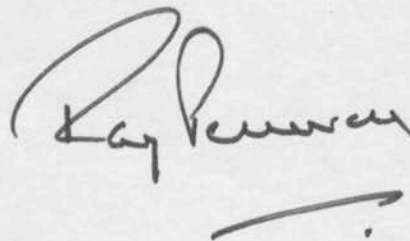
We welcome the additional help given in these proposals by Patrick Jenkin but unfortunately they do not do nearly enough to remove the substantial extra costs to industry which we believe these proposals would involve at a time when the market simply does not allow companies to recover additional costs 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.





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

Copy to Mr WGCCH
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



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

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

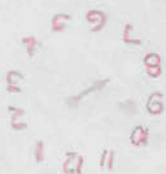
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You also raise the question of certification for sickness absence, and the need for employers to have some statement by a doctor that an employee is incapable of work. As you know, discussions with the medical profession are continuing and we hope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



28 NOV 1980

CONFIDENTIAL

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.

CONFIDENTIAL

Social
Services

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

CC HO
CO

HS

~~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.



PRIME MINISTER

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

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 /Mr. Jenkin
Sick pay

On tobacco advertising - I have been (George) ...

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.

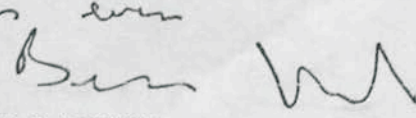
In one important area the details of the package have still to be worked out. The question which remains open is whether a small firm should be liable to pay to an employee, without reimbursement, £15 sick pay in any tax year or £15 in each of his separate spells of sickness. On the answer to this question 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

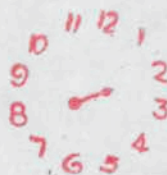
- i. that the contribution reduction for employers in general should be 0.1% higher than was envisaged in the Green Paper; and
- ii. that concessions for small businesses should be worked out, within an overall reimbursement cost of about £40 million, on the lines indicated in paragraph 3,

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





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

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 last week representatives of the CBI met Reg Prentice 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.

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.

11 12 1 2 3 4 5 6 7 8 9 10

18 NOV 1980

Faint, mostly illegible text covering the majority of the page, appearing to be a document or report.

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.

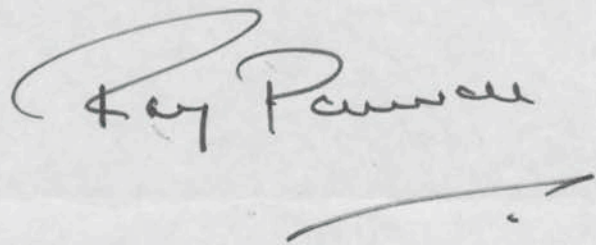
However it is not just a question of compensation. Mainly because of the uneven incidence of sickness, the burden of cost would fall quite disproportionately on those sectors - especially in manufacturing - which are already being tightly pressed. We have a number of detailed company examples of this 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 dark ink, appearing to read "Roy Pinner". The signature is written in a cursive style with a large, sweeping initial "R". Below the signature is a horizontal line that ends in a small arrowhead pointing to the right.

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



Soc Services

2

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

E.R.

2

Social Services

PRIME MINISTER

cc. Mr. Wolfson

This is an important paper, from Patrick Jenkin on employers' statutory sick pay. H will discuss it on Wednesday.

Mr. Jenkin has already told you that there is a lot of negative reaction to the proposals - especially from small business and also on the Government back benches. He summarises the main criticisms in paragraph 6, and sets out proposed concessions in paragraphs 7-9. These concessions will significantly reduce the savings to be offered by this scheme, but they are likely to be the very minimum necessary to get the scheme through. There is a fair chance that the Government will be pushed further in Parliament.

4 November 1980

Arrow Securities Limited



INDUSTRIAL AND COMMERCIAL SECURITY

RECEIVED
11 NOV 1980
PARLIAMENTARY
SECRETARY (SS)

Registered Office:
"ASHMOUNT HOUSE"
43 Doncaster Road
Mexborough
South Yorkshire
Telephones:
Mexborough (0709) 587534 & 587535
and
Sheffield (0742) 445532 & 443029
(24hr. service)

4th November, 1980

AS/11/2

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

/Contd.....

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

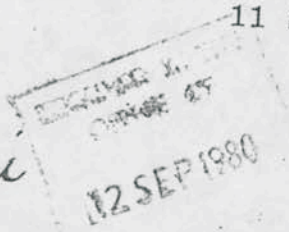


10 DOWNING STREET

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

SHEFFIELD - BARNSELEY - DONCASTER - LEEDS - CHESTERFIELD

Registered Office:
"ASHMOUNT HOUSE"
48 Doncaster Road
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Telephones:
Mexborough (0709) 587534 & 587535
and
Sheffield (0742) 445532 & 443029
(24hr. service)

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.

/cont'd...



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



~~MAP~~
MAP (O/R)

to see

MJS
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

ENCS

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.



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

/strong

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.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT 6523

To note that the
sickness pay Green Paper

is coming out on Wednesday next
week. Mikh

Your reference
Our reference

Ms Petra Laidlaw
Private Secretary to
the Chancellor of the Duchy
of Lancaster

25 March 1980

MS
told DHSS PM contact. ms 25/3

PA
25/3

Dear Petra

We spoke yesterday about our intention to publish a Green Paper containing proposals to place on employers a statutory duty to provide sick-pay for their employees in place of national insurance sickness benefit. I promised to let you have a note for the Chancellor of the Duchy.

Because parts of the Green Paper contain assumptions based on proposals to be announced in the Budget, it has had to be printed as a "Secret" document. This, I understand, has limited our ability to alter the publishing date and I am told it could only be brought forward with great difficulty.

One other reason for preferring a Wednesday publication is that this would remove it from the Budget debate. What we are proposing in the Green Paper should not be seen as part of the social security cuts to be announced tomorrow and Thursday; it is a separate exercise designed to rationalise benefit provision in one limited area of social security. Both the Secretary of State and Mr Prentice feel very strongly that it would be to the Government's advantage to emphasise that this is a separate policy development and not an extension of previously announced cuts in social security provision.

For these reasons we consider it imperative that publication should be on 2 April.

As to whether or not there should be a statement to the House, the Minister has expressed a strong preference for announcement by means of a written answer. This would avoid a potentially difficult period of questioning which would inevitably concentrate not on the proposals in the Green Paper but the Budget proposals for social security. As the House will have already had two opportunities to question our Ministers (with all the attendant adverse publicity this will give rise to) it is felt that it would be best to avoid another confrontation. Further, the Green Paper is proposing a 6 month consultation period and Members will be able to question Ministers during that time and when the proposals are finalised for presentation as a Bill.

I therefore would be grateful for approval to publish the Green Paper on 2 April and to announce it by means of a written answer. A possible text for the reply is attached; this has not yet been finalised by Mr Prentice. I am copying this letter and enclosure to Murdo MacLean at the Chief Whip's Office and Nick Sanders at No. 10. I would appreciate having any comments over the telephone.

Yours sincerely

Michael Kerin.

M KERIN

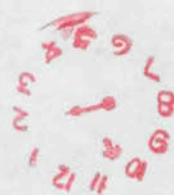
Private Secretary to the
Minister for Social Security.

Bernard
Ingham
I agree
ms

CONFIDENTIAL

DRAFT STATEMENT ON ESSP

1. The Government have today published a Green Paper "Income During Initial Sickness: A New Strategy" (Cmnd 7864). Copies have been placed in the Library. The paper sets out for discussion our proposal that employers should provide sick-pay for their employees in place of national insurance sickness benefit.
2. We have thought it right to review the role of the State in providing sickness benefit against the background of the increasing number of employees who are covered by occupational sick-pay arrangements and in the belief that the State should, wherever possible, withdraw from activities which firms and individuals can perform perfectly well for themselves.
3. Furthermore, there are two unsatisfactory features of the present system. First, a large number of employees are at present financially better-off when sick than when at work because they receive the equivalent of full-pay but do not pay tax on that part of it represented by national insurance benefit. This unsatisfactory situation will continue until we are able to bring benefits within tax. Second, many thousand civil servants are engaged in the administration of sickness benefit which is often payable for short periods to people who are already receiving sick pay from an employer who has to provide for the administration of his scheme. This duplication of effort can only be regarded as wasteful.
4. The proposals in the Green Paper would help to remedy both these drawbacks to the present arrangements. Tax would be levied on a much greater proportion of payments made during sickness and there would be large savings in civil service numbers.
5. The proposals are neither firm nor final. They are set out as the basis for genuine discussion with all interested parties and the Government will not take final decisions on the scheme until we have carefully considered all representations received. I appreciate that what is suggested will require close study and we are therefore allowing six months for consultation.



25 MAR 1980

percentage this was of the total of such dismissals.

Dr. Vaughan : This information is not available centrally. Health authorities are not obliged to report to the Department the outcome of any disciplinary investigations.

Sickness Benefit Changes

Mr. Chapman asked the Secretary of State for Social Services if he has any plans to change the sickness benefit scheme.

Mr. Patrick Jenkin : I intend to publish a Green Paper in the spring of next year setting out the Government's proposals for the payment of sick pay by employers.

Over 80 per cent. of all employees have some cover for sickness from their employers. In a large number of schemes, sick pay is made up either of full wages or of full wages less national insurance benefit. In either case, since national insurance sickness benefit is not taxable, employees can be better off sick than in work and this does not seem very sensible.

I am therefore considering proposals for legislation to place a duty on employers to pay an amount of sick pay roughly equating to the average at present paid by way of national insurance sickness benefit. Such sick pay would be taxable. Employers' liability would be limited to the first eight weeks of sickness in any tax year. The proposed scheme would apply to all employers and would cover all employees except those with earnings below the lower earnings limit for national insurance cover and those who have opted out of national insurance cover. As part of the reform, I shall propose that employers should not be required to pay sick pay for the first three days of a spell of incapacity. In addition, separate spells of three days or less would not be linked for sick pay purposes. Thus, only if sickness lasts for four consecutive days or more would sick pay be a statutory requirement. A similar change in the rules would apply to those entitled to national insurance cover. Employers will of course remain free to retain or introduce arrangements which go beyond the proposed statutory minimum.

For employees whose sickness in any tax year exceeds eight weeks and for

those not covered by the scheme, national insurance sickness benefit will be available subject to the contribution conditions. The national insurance scheme will continue to provide sickness benefit for the self-employed and for others who have no employer. People receiving invalidity benefit will continue to do so as long as they qualify.

Employers would be compensated for the increased cost involved mainly by a reduction in their national insurance contribution liability. Consideration will be given to the problems which may face very small firms.

The Government will take full account of any representations made during the period of consultation following the publication of the Green Paper before final decisions are taken.

EMPLOYMENT

Accidents and Dangerous Occurrences

Mr. Cryer asked the Secretary of State for Employment if he will make regulations which will impose a duty on all employers to notify certain accidents and dangerous occurrences.

Mr. Mayhew : Following the publication of a consultative document earlier this year and in the light of comments received, the Health and Safety Commission is shortly to consider proposals for regulations which would require that accidents which involve fatal and major injury, and those which involve absence from work for more than three days, will be required to be notified to the relevant enforcing authority. The proposals include a schedule of dangerous occurrences which would be notifiable.

Prohibition and Improvement Notices

Mr. Greville Janner asked the Secretary of State for Employment how many prohibition and how many improvement notices have been served in each of the six month periods since such notices became available; how many prosecutions have resulted from failure to comply therewith; and how many and what percentage of such prosecution has resulted in convictions.

Mr. Mayhew : The chairman of the Health and Safety Commission informs me that the information is not available

in all the detail requested. He has given me the figures in the tables below.

HEALTH AND SAFETY ENFORCEMENT NOTICES ISSUED

	<i>Prohibition</i>	<i>Improvement</i>	<i>Total</i>
1975—			
January-June	934	1,767	2,701
July-December	1,275	2,422	3,697
Not separately distinguished	241	960	1,201
TOTAL	2,450	5,149	7,599
1976—			
January-June	1,279	2,662	3,941
July-December	915	2,340	3,255
Not separately distinguished	340	2,497	2,837
TOTAL	2,534	7,499	10,033
1977—			
January-June	1,354	2,947	4,301
July-December	1,312	3,286	4,598
Not separately distinguished	464	3,020	3,484
TOTAL	3,130	9,253	12,383
1978—			
January-June	1,777	6,110	7,887
July-December	1,643	6,048	7,691
TOTAL	3,420	12,158	15,578
1979—			
January-June	1,931	6,538	8,469

Note: No information by half year is available for enforcement notices issued by the agricultural inspectorate in 1975 or by local authorities before 1978.

PROSECUTIONS* BY HSC ENFORCEMENT AUTHORITIES FOR NON-COMPLIANCE WITH NOTICES, BY DATE OF COMPLETION OF HEARING

	<i>Prohibition</i>	<i>Improvement</i>	<i>Total</i>
1975			
Number of Informations	8	35	43
Convictions—			
Number†	8	34	42
Percentage	100	97	98
1976			
Number of Informations	7	84	91
Convictions—			
Number†	7	78	85
Percentage	100	93	93
1977			
Number of Informations	12	110	122
Convictions—			
Number†	11	105	116
Percentage	92	95	95
1978			
Number of Informations	4	113	117
Convictions—			
Number†	4	113	117
Percentage	100	100	100
1979 (January-October)			
Number of Informations	6	99	105
Convictions—			
Number†	6	99	105
Percentage	100	100	100

* Prosecutions taken in any one year include cases where the original enforcement notice was issued in the previous year. Notices were not issued before 1975. The table excludes information on local authority prosecutions, details of which are not available. Apart from figures for 1979 up to the end of October no information is available for periods less than calendar years.

† In addition, prosecutions relating to 1 notice in 1975, 5 in 1976 and 4 in 1977 were withdrawn.



CC PGO
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Social Services

10 DOWNING STREET

From the Private Secretary

17 December 1979

The Prime Minister has seen your letter to me of 14 December, about employers' statutory sick pay.

She is content that your Secretary of State should reply to an arranged Question as in the draft enclosed with your letter.

I am sending copies of this letter to Richard Prescott (Paymaster General's Office), John Stevens (Chancellor of the Duchy of Lancaster's Office) and Murdo Maclean (Chief Whip's Office).

M. A. PATTISON

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

AB



DEPARTMENT OF HEALTH & SOCIAL SECURITY *Jenkins*

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

Telephone 01-407 5522

From the Secretary of State for Social Services *Dec 17?*

Mike Pattison Esq
Private Secretary
10 Downing Street
London SW1

Yes no

MAD 14/12/79

14 December 1979

Dear Mike

EMPLOYERS STATUTORY SICK PAY

At H Committee on 11 December we were given clearance to continue work on the preparation of a Green Paper and also to announce the Government's broad plans in reply to an arranged Question on 17 December.

My Secretary of State is proposing to reply to the Question as in the attached draft. I would be grateful for your confirmation that the Prime Minister is content with the proposed reply.

I am copying this to Richard Prescott in the Paymaster General's Office, John Stevens in the Chancellor of the Duchy's Office and Murdo MacLean in the Chief Whip's office.

*Yours ever
Bernie Merkel*

Encls:

B C MERKEL
Private Secretary

DRAFT PQ REPLY

- Q. To ask the Secretary of State for Social Services if he has any plans to change the sickness benefit scheme?
- A. I intend to publish a Green Paper in the spring of next year setting out the Government's proposals for the payment of sick pay by employers.

Over 80 per cent of all employees have some cover for sickness from their employers. In a large number of schemes sick pay is made up either of full wages or of full wages less National Insurance Benefit. In either case, since National Insurance Sickness Benefit is not taxable, employees can be better off sick than in work and this does not seem very sensible.

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For employees whose sickness in any tax year exceeds eight weeks and for those not covered by the scheme, National Insurance Sickness Benefit will be available subject to the contribution conditions. The National Insurance Scheme will continue to provide sickness benefit for the self-employed and for others who have no employer. People receiving invalidity benefit will continue to do so as long as they qualify.

Employers would be compensated for the increased cost involved mainly by a reduction in their National Insurance contribution liability. Consideration will be given to the problems which may face very small firms.

The Government will take full account of any representations made during the period of consultation following the publication of the Green Paper before final decisions are taken.

14 DEC 1979

14-DEC 1979



