

Regulatory Impact Assessment: Statutory Sick Pay

Title: Statutory Sick Pay – Removing the Lower Earnings Limit, making available to all and removing the waiting period.	Regulatory Impact Assessment (RIA)
	Date: 22 November 2024
	Type of measure: Primary Legislation
Lead department or agency: Department for Communities	Stage: Initial
	Source of intervention: Consultation
Other departments or agencies: Department for Work and Pensions	Contact details: deborah.kirk@communities-ni.gov.uk

Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Although Statutory Sick Pay is a devolved matter, in general Northern Ireland's (NI) benefits policy and legislation operate in line with corresponding provision in Great Britain (GB) in accordance with section 87 of the Northern Ireland Act 1998. In effect there is a single system of benefits across the United Kingdom (UK). Therefore, the analysis of the potential impact has been undertaken based on the available UK data.

The UK Government has committed to strengthening SSP by removing the Lower Earnings Limit (currently £123 per week) to make it available to all employees and removing the waiting period so that SSP is paid from the first day of sickness absence (rather than from day 4 as at present). These changes require amendments to SSP Primary Legislation, which will be made by the Employment Rights Bill currently before Parliament¹. Provision will be made for subsequent secondary legislation to amend the percentage of SSP payable for people who earn less than the Lower Earnings Limit (LEL). These changes will mean that individuals

¹ A Legislative Consent Motion will be sought in the NI Assembly in order to permit the UK Parliament to legislate for NI on this issue. This will ensure SSP parity across the UK.

will be eligible for SSP regardless of earnings and SSP will be payable from the first day of work missed due to sickness.

What are the policy objectives and the intended effects?

The UK Government's Plan to Make Work Pay sets out the high-level objective for SSP reform as being to make work pay and life less "precarious" for those on "acute low pay". This contributes to the broader objective to strengthen employment rights, grow the economy and raise living standards. The specific proposal to entitle those earning below the Lower Earnings Limit to SSP, and remove waiting days, aims to give individuals financial support to take time off work when sick. The removal of the Lower Earnings Limit will ensure that those on lower incomes have financial protection during sickness absence and paying individuals from day one of a sickness absence will provide financial protection from the first day of sickness and help prevent presenteeism.

What policy options have been considered, including any alternatives to regulation?

- (i) Moving from a weekly rate of SSP pay to an hourly rate
- (ii) Increasing the flat rate of pay of SSP
- (iii) The reintroduction of a rebate scheme for small or medium enterprises
- (iv) Increasing the maximum entitlement (duration)
- (v) Reducing the maximum entitlement (duration)
- (vi) Amending the period of time between periods of incapacity for work for them to be "linked"

(vii) Trial of SSP reforms, or staggering of reforms, for example by industry.

Preferred structure option

Employees to receive a percentage of earnings or the flat rate of SSP, whichever is lower. The proportionate rate will not initially be included in the Employment Rights Bill, which will be amended at a later stage to reflect the results of a six-week consultation commenced following introduction of the Bill.

Summary of proposal

The current rate of Statutory Sick Pay (SSP) is £116.75 per week for 2024/2025. The rate is updated annually in line with the Consumer Prices Index (CPI). To be eligible for SSP an individual must:

- Be classed as an employee and have done some work for their employer;
- Earn at least the Lower Earnings Limit (currently £123 per week); and
- Have been sick for at least four consecutive days.

SSP is not payable for the first three qualifying days of sickness. These days are known as 'Waiting Days'

In practice, SSP is paid at a daily rate. An employee's daily rate of SSP is based on the number of qualifying days (usually contracted or scheduled working days) that they normally work in a week, divided by the weekly rate. The daily rate is paid for each qualifying day that the employee is off sick.

The Government is committed to strengthening SSP by removing the Lower Earnings Limit to make it available to all employees and removing the waiting period so that SSP is paid from the first day of sickness absence. These changes require amending SSP Primary Legislation. The proposed changes to the SSP structure and entitlement rules are:

- To remove the Lower Earnings Limit, and pay all employees a percentage of their earnings (percentage rate will be determined following public consultation) up to the flat weekly rate of SSP (£116.75), whichever is lower;

- To remove Waiting Days; and
- To reduce the number of days absence required to qualify as a Period of Incapacity for Work (PIW) from 4 days to 1 day.

These changes will mean that individuals will be eligible for SSP regardless of earnings and SSP will be payable from the first day of work missed due to sickness. To qualify for SSP, you must be classed as an employee and have done some work for your employer.

Table 1 Cost of Preferred (or more likely) Option				
Total outlay cost for business £m	Total net cost to business per year £m		Annual cost for implementation by Regulator £m	
£428 million across UK	£428 million across UK		N/A	
Does Implementation go beyond minimum EU requirements?			YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
Is this measure likely to impact on trade and investment?			YES <input type="checkbox"/>	NO <input type="checkbox"/>
Uncertain				
Are any of these organisations in scope?	Micro Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Small Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Medium Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Large Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Approved by David Tarr
Director of Social Security Policy and Legislation

Date: 29 November 2024

Summary: Analysis and Evidence

ECONOMIC ASSESSMENT

Table 2 Economic assessment				
Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low		26/27		
High				
Best	£23 million		£489 million	£512 million

Description and scale of key monetised costs by ‘main affected groups’

- One-off transitional costs are estimated at £23 million. Costs for the removal of waiting days and the Lower Earnings limit are estimated at around £425 million (in 2024/25 prices) across the UK (including Northern Ireland). This equates to an annual increase of around £15 per employee. There is also likely to be an indirect cost to business of around £36 million annually which is comprised of lost output while foregone wages and non-wage compensation to employees, is estimated to cost £28 million per year.

Other key non-monetised costs by ‘main affected groups’

- There are likely to be some administrative costs that cannot be quantified due to a lack of available evidence, such as IT/Administrative changes that will be required for employers to deliver the sick pay reforms. These are more likely to accrue to businesses employing people who currently earn below the Lower Earnings Limit, who would now be paid a percentage of their earnings which may be more complicated than paying a flat rate.

Table 3 Benefits low, high and best values				
Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low		26/27		
High				
Best	N/A		£510 million	£510 million

Description and scale of key monetised benefits by ‘main affected groups’

3. The key monetised benefit is a result of average length of sickness absences covered by the current SSP system being marginally reduced (estimated benefit of £53 million). Access to sick pay from day 1 for those above and below the Lower Earnings Limit means individuals may be more likely to take their absence from the onset of the illness, allowing them to recover more quickly. A reduction in sickness absence days can result in increased business revenue due to increased output and increased employee wages (estimate £32 million). Finally, the benefit to employees of increased sick pay is estimated at £425 million.

Other key non-monetised benefits by ‘main affected groups’

4. There is also the potential for wider benefits which have not been monetised, mainly due to insufficient evidence, including; reduced transmission of infectious diseases; individual health and wellbeing benefits, productivity gains through improved health and lower staff turnover and reduced recruitment costs.

Key Assumptions, Sensitivities, Risks

5. Potential non-monetised impacts to business include improved employee satisfaction (which could reduce rates of staff turnover) and potential productivity impacts through reduced presenteeism. There are also likely to be some indirect business benefits such as reduction in transmission of infectious diseases.

BUSINESS ASSESMENT

Table 4 Direct Impact on business			
Direct Impact on business (Equivalent Annual) £m			
Costs: £428 million	Benefits: 0	Net: £428 million	0

Overall and stakeholder impacts

Overall impacts on total welfare

6. Changing the rules around eligibility by removing the LEL, increases the number of people eligible for SSP, while removing waiting days will mean employees are eligible for SSP regardless of absence length (up to the 28 week limit).
7. Removing the LEL and retaining a flat rate for those earning below the LEL would create a system where employees earning less than £116.75 per week would be entitled to more in SSP than they would earn in work. As such, it is proposed that the structure of SSP be amended so that individuals are paid a percentage of their earnings or the flat rate of SSP, whichever is lower.
8. These changes are expected to help address the current labour market challenges of high-presenteeism and low-productivity by providing financial support to all individuals while they are sick. The UK Government believes these changes, along with the others in the Plan to Make Work Pay, will help empower working people and contribute to economic growth.
9. On the one hand, more people will be eligible for SSP, potentially improving financial security for low-income and part-time workers. This is likely to reduce the duration of sickness absences overall, and therefore reduce the total number of sickness absence days leading to higher output and growth. There are also likely some wider societal benefits such as a reduction in transmission of infectious diseases, which further enable productivity and wider health benefits.
10. On the other hand, businesses are likely to face increased costs as a direct impact of amending SSP eligibility rules, and there may be some indirect costs if individuals increase the number of sickness absence days taken.

11. Overall, it is assumed the direct increase in costs to businesses is a direct transfer to employees in the form of sick pay, and therefore from a societal point of view is a neutral impact.
12. On the indirect impacts, the central estimate assumes despite the decrease in the average duration of current sickness absences, the increase in sickness absence incidence leads to no net change in sickness absence days. There is still a small benefit to businesses and employees through employees' productivity increasing and more days compensated with wages than sick pay. The overall expected impact is uncertain given the uncertainty around the behavioural impacts.

Monetised impacts

13. The key monetised cost is the direct costs to business of increasing SSP eligibility and therefore increased sick pay costs to business. It is assumed that the direct cost borne by businesses is a direct transfer to individuals and therefore the impact of this from a societal perspective would be neutral. The following costs have also been monetised:
 - a one-off transitional cost to business of familiarisation with legislative changes.
 - an indirect cost to business from a behavioural assumption that some employees that previously did not take a sickness absence would be more likely to as a result of increased SSP eligibility
 - an indirect benefit to business and employees as employees who currently take sickness absences will have a behavioural response and in turn take fewer sickness absences in total, resulting in higher output and profits for firms, and increased wages.
14. The central estimate assumes that despite an estimated decrease in the average duration of current sickness absences, an increase in sickness absence incidences would lead to no net change in sickness absence days. Despite no net change in sickness absence days, there is still a small benefit to businesses and employees through employees' productivity increasing and more days compensated with wages than sick pay hence the overall positive Net Present

Social Value (NPSV) above. However, there is limited evidence to the extent that the behavioural impacts will occur and therefore the judgement on the monetised impacts remains uncertain.

Non-monetised impacts

15. Significant non-monetised benefits include improved health outcomes, including indirect effects for the wider workforce and reduced financial stress for employees eligible for SSP. Removing the three waiting days before SSP is payable may reduce the transmission of infectious disease / contagious presenteeism. It may also encourage people to return to work as part of a phased return, or to better understand if they are able to return, without fear of being penalised if they had to take further sick leave.

Significant or adverse distributional impacts

16. The policy positively disproportionately benefits low-income and part-time workers who previously were ineligible for SSP, while businesses, particularly small enterprises, might bear the increased costs as they are more likely to pay SSP only (as opposed to offering more generous occupational or contractual sick pay arrangements which are unaffected by these proposals).

Expected impacts on businesses

Description of overall business impact

17. Businesses are expected to face increased costs due to the higher number of employees that will become eligible for SSP. Given small and micro businesses (SMBs) are more likely to pay sick pay at the SSP rates than at above SSP rates, SMBs will be more likely to face a greater proportion of the cost increases.
18. The majority of cost increase to businesses, is a result of removing waiting days, with the removal of the lower earnings limit making up a smaller proportion of the cost increase.
19. There are also some indirect impacts to business, as a result of:
 - reduction in sickness absence duration, increasing employers' output and profit as the number of days worked at full productivity increases

- increase in number of sickness absences, which leads to reduced output.

Monetised impacts

20. Cost to business considers the costs of additional SSP payments annually and a one-off transitional cost. They also include an additional indirect cost to businesses as a result of increased sickness absence days taken.
21. Benefits to business considers the primary potential indirect benefit to businesses through increased profits from higher economic output as a result of a reduction in average length of sickness absences (compared to the current system).

Non-monetised impacts

22. Potential non-monetised impacts to business as detailed below include improved employee satisfaction (which could reduce rates of staff turnover), potential productivity impacts through reduced presenteeism. There are also likely to be some indirect business benefits such as a reduction in transmission of infectious diseases.

Significant or adverse distributional impacts

23. There are likely to be impacts on those sectors funded directly by the Government (e.g contracted workers on Government estates, such as security personnel, cleaners) as these sectors are more likely to receive SSP rather than higher Occupational Sick Pay (OSP) and therefore would create increased costs to Government funding these sectors. There is no available data for sector specific breakdowns and therefore this has not been monetised.
24. There will also be impacts on SMBs. Currently, small and micro businesses pay around 60% of the annual SSP cost to employers and make up around 47% of businesses². Given 60% of the additional costs to businesses will be borne by 47% of the business population, there is likely to be a disproportionate impact on small and micro businesses.

² In Northern Ireland small and micro businesses make up around 89% of all businesses.

Expected impacts on households

Description of overall household impact

25. Households are likely to experience positive impacts due to increased SSP eligibility. This is in the form of increased sick pay.
26. Impacts will be concentrated mostly amongst low earners and part-time workers, who are most likely to receive SSP rather than occupational sick pay (OSP). Low earners will also benefit through the removal of the LEL.
27. Those currently earning above but close to the LEL, who, under the new system, would receive a percentage of their earnings, which would be lower than what they currently receive (the flat rate of SSP) therefore have the potential to be notional losers. The extent to which these employees are negatively impacted will depend on the rate set, their earnings, their number of contracted days worked and the length of their sickness absence.

Monetised impacts

28. It is assumed the direct cost that is borne to businesses is a direct transfer to individuals and therefore the impact of this from a societal perspective would be neutral.
29. There are also some assumed indirect costs and benefits to households, with behavioural changes leading to a reduction in the duration of current sickness absences and increases in incidences.
30. These figures reflect the increased SSP payments to eligible households, improving their financial security.

Non-monetised impacts

31. Estimates include improved health outcomes and reduced stress for households with access to better financial support whilst off work, but these are not fully assessed. Enhanced financial security can lead to broader social benefits, such as better educational outcomes for children.

Significant or adverse distributional impacts

32. Low-income households and part-time workers will benefit significantly. Other impacted groups might include single-parent households and those with dependents, who may rely more on SSP.

Evidence Base

Introduction

1. Statutory Sick Pay (SSP) provides a minimum level of earnings replacement to employees when they are sick and incapable of work.
2. SSP is paid at a flat rate (currently £116.75 per week). It is payable for each Qualifying Day (working day) of sickness – these are days on which an employee is contracted or scheduled to usually work. Gig workers and those on zero-hour contracts may be entitled to SSP if they meet all eligibility criteria, including being classed as an employee. SSP is not payable for the first three Qualifying Days of sickness absence (Waiting Days) and is only payable when an employee is sick for at least four days or more (including non-working days / non-Qualifying Days). Currently, SSP entitlement is limited to people earning at least the Lower Earnings Limit (LEL) - currently £123 per week - and provides a comparatively low replacement rate for those on sick leave (less than 30 per cent of average earnings for someone working full-time) by international standards. The current rate of SSP is amongst the lowest in Europe ³.
3. The Department for Work and Pension's latest estimate is that in Quarter 1 of the financial year 2022/23 there were around 1-1.3 million employees in the UK who earned below the LEL. This figure does not include workers who are self-employed, who are not eligible for SSP⁴.
4. Some businesses do provide sick pay at a rate above Statutory Sick Pay and pay sick pay from day one. From the DWP Employer Survey, around 40% of employers pay above the statutory sick pay rates⁵. Therefore, there are still a

³ European Commission, Sick pay and sickness benefit schemes in the European Union, 2016.

<https://op.europa.eu/en/publication-detail/-/publication/fc7a58b4-2599-11e7-ab65-01aa75ed71a1>

⁴ DWP Internal Estimate using combination of Family Resource Survey 2022/23 and Labour Force Survey 2022.

⁵ <https://www.gov.uk/government/publications/department-for-work-and-pensions-employer-survey-2022/department-for-work-and-pensions-employer-survey-2022-research-report> Table 3.5

large cohort of employees who are only eligible for SSP and therefore are impacted by these measures.

5. However, there are gaps in coverage, including 18 to 21 year olds and part-time workers earning less than the current earnings threshold.
6. The primary challenges with the current SSP system are:
 - Employees face a significant loss of income when sick and this can lead to a significant drop in living standards during sickness absence, particularly during the first week of illness due to the waiting period. An employee working full-time at National Living Wage (NLW) has a replacement rate of income from SSP of around 30%.
 - Some employees are left without any sick pay: SSP does not cover those earning below the £123 per week (LEL) which particularly impacts part time employees, who are not entitled to SSP and therefore have no statutory income replacement when off sick.
 - A lack of access to sick pay (for both the first three days of sickness, and for those who are not eligible) **encourages presenteeism**. Financial pressures mean employees without access to sick pay may continue to work when unwell and, as a result, may not be able to recover fully from, or may exacerbate, their conditions, as well as increase the risk of contagion of infectious diseases between employees. Analysis of YouGov polling found that up to 30% of employees that worked whilst experiencing physical or mental sickness could not financially afford to take sick leave⁶;
 - Current rules **do not facilitate flexible returns to work**, as sickness absences which last less than four consecutive days do not qualify for SSP. This limits the scope for employees to phase their returns to work (for example by taking alternate days of work off sick while recovering from a longer-term condition).

⁶ https://ippr-org.files.svdcdn.com/production/Downloads/Health_and_business_July24_2024-07-30-150125_xyeb.pdf Figure 2.6

7. This results in four problems:

- A risk for many employees of either experiencing **financial hardship**, or **not being able to take the absence needed to recover**;
- **Reduced productivity** (both at the individual business level, and wider economic level) due to employees working when not well and the public health issue of contagion. It is estimated that 43.6 productive days are lost per employee per year due to presenteeism⁷;
- **Increased cost to the exchequer** in the form of both a higher amount paid in Universal Credit and other welfare benefits, and less money paid in income tax and National Insurance contributions; and
- Employees who are unable to recover potentially **falling out of the labour** market altogether. Approximately 45% of new claims to incapacity-related benefits come from employees that had taken a period of sick leave before claiming⁸.

8. The commitments to strengthen SSP set out in the UK Government's Plan to Make Work Pay help to address these problems (reducing financial hardship on employees, enabling employees to take the sickness absences they need to recover and improve their health, and improve productivity) by amending the legislation pertaining to some of the statutory requirements on employers in relation to payment of SSP.

Policy objectives

9. The Plan to Make Work Pay sets out the high-level objective for SSP reform as being to make work and life less "precarious" for those on "acute low pay". This contributes to the Government's broader objective to strengthen employment rights, grow the economy and raise living standards across the country.

⁷ <https://www.ft.com/content/64a6e627-b0bb-43e1-8159-1289eac9c228>

⁸ <https://assets.publishing.service.gov.uk/media/5a803ce8e5274a2e87db8a8c/rr902-understanding-journeys-from-work-to-esa-summary.pdf>

10. The specific proposal to entitle those earning below the LEL to SSP, and remove waiting days, aims to give individuals financial support to take time off work when sick, and therefore reduce precarity:
 - The removal of the LEL will ensure that those on lower incomes are also provided with financial protection during sickness absence.
 - By paying individuals from day one of a sickness absence, individuals are given financial protection from that first day of sickness, which helps to reduce presenteeism that can be prevalent in the current system.

Intended outcomes

11. The intended outcomes of the intervention are to:
12. Entitle all employees to SSP from the first day of sickness;
 - By removing Waiting Days and the LEL as an entitlement condition, the number of people entitled to SSP will increase and the amount they are entitled to will change. Ensuring employees receive their entitlement will be facilitated by 1) making sure employers are aware of the changes and 2) enforcing compliance with the new statutory requirements.
13. Ensure all employees are better protected from financial hardship when they are sick;
 - By removing Waiting Days and providing sick pay to people earning below the LEL (who are more likely to face financial hardship as a result of a loss of earnings), the number of people who will be able to take sick leave when they need it, without entering financial hardship, should increase.
14. Help to improve the ability of employees and employers to manage health in the workplace to reduce long-term sickness absences and reduce the number of people who fall out of work;
 - By removing Waiting Days and the LEL, more people will be able to take sick leave and be better protected from financial hardship, as well as return to work on a reduced working pattern, both of which will help

facilitate recovery, and therefore reduce long-term sickness absences and the chance of employees falling out of work. Data from the Department for Work and Pensions Employer Survey 2022 research report showed that 55% of employers reported offering a phased return to work following long-term sickness absence.

- While employers can already offer such benefits as part of occupational or contractual sick pay arrangements, many businesses do not, and these measures will provide a level playing field so that all employees and employers can benefit.

15. Increase productivity for businesses by supporting people to be only in work when they are fit to work, reducing presenteeism and reducing the spread of infectious diseases.

- By achieving the outcomes above, employees will be able to take sick leave when they need it while maintaining the relationship between employer and employee, and reducing the chance of the employee falling out of work.

16. The preferred option is to remove the exclusion on employees earning below the LEL from being entitled to SSP, bringing around 1-1.3 million more employees into eligibility to SSP and to also remove waiting days from the system to ensure that individuals are paid SSP from their first day of sickness absence. To ensure that those newly entitled to SSP do not receive more in sick pay than they would from their earnings, the rate structure will be changed so that employees receive either a percentage of their earnings (with the percentage level subject to consultation) or the flat rate of SSP (currently £116.75) whichever is lower.

17. Changes to the system will be achieved by amending SSP primary legislation through the vehicle of the Employment Rights Bill.

18. Enforcement of the new rules will be required to ensure objectives are achieved. Enforcement of SSP rules will be transferred to the new Fair Work Agency (FWA).

Longlist and shortlist of options

19. The longlisted options are outlined below, along with the rationale for these options being disregarded:
20. **Moving from a weekly rate of pay to an hourly rate of pay to facilitate more flexible phased returns to work.** Moving to an hourly rate represents a significant change in the way SSP is calculated and paid. The Plan to Make Work Pay includes wide-reaching and complex changes that businesses will need to implement on a relatively fast timeline. Given this wider context, the creation of a whole new system was not considered to be the most effective way of delivering the stated policy intent.
21. It is anticipated that this type of change will increase, at least in the short-term, the indirect costs of business. This would include making significant changes to payroll IT systems and HR policies. There may be higher indirect costs to business when administering an hourly system.
22. **Increasing the flat rate of pay of SSP (potentially equalising with the rate of pay for statutory maternity pay).** Increasing the flat rate comes with significant additional costs for employers. As above, this is not considered appropriate in the context of the potential additional costs of other measures in the Plan to Make Work Pay.
23. There would also be a further indirect risk of disincentivising employers from hiring disabled people / people with long-term health conditions if they are perceived as more likely to take sickness absences.
24. **The reintroduction of a rebate scheme for SMEs.** SSP is currently paid and administered by employers. There used to be a scheme (the Percentage Threshold Scheme) that provided a degree of support for employers, which ended in 2014. Following the ending of the scheme, the collection of data relating to SSP payments ceased.
25. Reintroducing a form of rebate could therefore result in an additional administrative burden on businesses, who would need to report the amount paid

in SSP to the Government in a way that can be audited effectively to prevent fraud.

26. It is anticipated that the preferred options would only result in a comparatively small increase in costs to businesses compared to current expenditure on SSP, and a fractional increase in terms of total expenditure on employee salaries. It was therefore concluded that a rebate scheme is not necessary, particularly as it would also increase the cost to the exchequer, at a time when there is significant pressure on public finances.
27. **Increasing the maximum entitlement (duration).** Increasing the maximum duration is unlikely to have any impact on long-term sickness absence and will result in higher costs for employers.
28. There is also a risk of disincentivising employers from hiring disabled people / people with long-term health conditions if they are perceived as more likely to take sickness absences.
29. **Reducing the maximum entitlement (duration).** Reducing the maximum duration is unlikely to have a positive impact on reducing long-term sickness absence. Breaking the link between employer and employee for those with long-term sicknesses that exceed a shortened duration may also indirectly lead to some employers providing less support for employees on, or at risk of falling into, long-term sickness absence.
30. **Amending the period of time between PIWs for them to be 'linked'.** There is no strong policy rationale or relevant evidence for amending linked periods.
31. **Trial of SSP reforms, or staggering of reforms, for example by industry.** The rules regarding SSP are set out in primary legislation and apply a minimum requirement on employers in regard to sick pay provision. It is not structured to allow for targeted or staggered changes. Facilitating this would require a much broader rewrite of the legislation well beyond the policy objectives and could lead to further unpredictable complications and additional complexity for business.

32. There is no strong rationale / need for trialling because of high confidence in the proposed reforms (removing the LEL and waiting days) in delivering the policy objectives. Doing so would also not meet the policy objective of ensuring all employees have an entitlement to SSP from their first full day of a sickness absence. It would also potentially delay the new entitlement to employees in other sectors who are on acute low pay.
33. Furthermore, for those not entitled during the trial / initial phases of a staggered roll out, employees earning below the LEL may have to claim welfare benefits (as they do under the current system) potentially unfairly incentivising or disincentivising working in one industry/sector or another. This also comes with a potential cost to the exchequer in lower tax receipts.

Shortlist of options

34. The discarded shortlisted options are outlined below, along with the rationale for these options being disregarded:
35. **Structuring the rate to pay a percentage of earnings, up until weekly earnings (rather than the amount in SSP paid) reach the same as the flat rate. Those earning (in wages) the same amount or more as the flat rate, would receive the flat rate in SSP.**
36. Despite creating a more similar replacement rate for all SSP recipients and avoiding any “losers” (i.e. employees who would be entitled to less under the new system than the current system), this structure was discarded after discussions at length as it:
 - Is too complicated, making it harder for businesses and employees to understand, implement, and enforce;
 - Is inconsistent with existing statutory payments (such as Statutory Maternity Pay - SMP);
 - Creates an unusual spike in the replacement rate from those earning just below the flat rate, to those just earning it.
 - Despite creating no ‘losers’ initially, structuring in this manner would potentially create losers in the future as any increases in the flat rate would

cause a sudden and potential large reduction in the entitlement earnings of people who fall below the new flat rate, down from the flat rate to a percent of earnings.

37. The preferred structure option is for employees to receive a percentage of earnings or the flat rate of SSP, whichever is lower. The proportionate rate will not initially be included in the Bill, which will be amended at a later stage to reflect the results of a six-week consultation to commence following the introduction of the Bill. For indicative purposes, full analysis has been completed below for a rate of 80%, and some sensitivity analysis has been set out for a range of rate options (60-80%).

Summary and preferred option with description of implementation plan

38. Removal of both the LEL and Waiting Days from the SSP system requires primary legislation to be changed and this will be done through the Employment Rights Bill, given the time between the Bill first progressing through Parliament and enactment no transitional arrangements are expected to be required.
39. These interventions will;
- Increase the number of people receiving SSP;
 - Increase the number of people taking sick leave when they are sick by better protecting them from financial hardship when they are sick;
 - Help reduce the number of people not taking sick leave when unwell;
 - Help reduce the number of people leaving employment due to ill health (and potentially entering or returning to the benefits system).
40. Timings for when these arrangements will come into effect are dependent on timings for the passage of the Employment Rights Bill through Parliament and when sufficient parliamentary time is available.
41. Currently, enforcement of the operation of SSP is carried out by HM Revenue and Customs. When an individual makes a complaint about non-payment of SSP, HMRC run a dispute/arbitration process. Subject to parliamentary agreement, this process and enforcement regime is intended to be moved

across to the new Fair Work Agency. As well as enforcing SSP the Agency will also oversee and have the power to enforce other workers' rights which are already covered by existing labour market enforcement bodies, such as National Living Wage/National Minimum Wage, the Employment Agency Standards (EAS) Inspectorate and the Gangmasters and Labour Abuse Authority.

NPSV: monetised and non-monetised costs and benefits of each shortlist option (including administrative burden)

42. The key monetised and non-monetised costs and benefits are set out below in detail for the shortlisted option.

Costs

43. With the removal of Waiting Days and the Lower Earnings Limit, the direct costs to businesses of SSP annually amount to around £1.05bn in 2024/25 prices for a rate for those under the Lower Earnings Limit of 80%. This is an annual increase of around £425m in 2024/25 prices. This is a cost of around £38 per employee, an increase per employee of around £15. These costs assume overall sickness absence rates remain the same.
44. There are also likely to be some indirect costs to businesses because of assumed behavioural responses, in which employees who do not currently take a sickness absence, post SSP reform could be more likely to take a sickness absence. This is likely to be an indirect cost to businesses in the region of £36 million annually and is comprised of lost output. There are also foregone wages and non-wage compensation to employees, totalling an estimated £28 million per year.
45. It is assumed there is likely to be a one-off transitional cost to businesses in terms of the time taken to read guidance on the legislative changes to SSP (the familiarisation cost).
46. There are also likely to be some administrative costs that could not be quantified due to a lack of available evidence, such as IT/administrative changes that will be required for employers to deliver the sick pay reforms. These are more likely to accrue to businesses which employ those who currently earn below the LEL,

who would now be paid a percentage of their earnings which may be more complicated than paying a flat rate.

Benefits

47. The key monetised benefit is a result of average length of sickness absences covered by the current SSP system being marginally reduced. Access to sick pay from day 1 for those above and below the LEL means individuals may be more likely to take their absence from the onset of the illness, allowing them to recover more quickly. A reduction in sickness absence days can result in the following monetary benefits:

- Increased business revenue due to increased output
- Increased employee wages

48. It is estimated these are in the region of around £85m in 2024/25 prices which over a 10-year appraisal period is a NPSV of around £730m. Given the employee benefits are focused on those with lower incomes, these individuals are likely to have a greater marginal utility of income and therefore the social benefit is likely to be higher.

49. There is also the potential for wider benefits which have not been monetised, mainly due to insufficient evidence, including:

- Reduced transmission of infectious diseases
- Individual health and wellbeing benefits
- Productivity gains through improved health
- Lower staff turnover and reduced recruitment costs

NPSV

50. It is assumed that the direct cost borne by businesses is a direct transfer to individuals and therefore the impact of this from a societal perspective would be neutral. The NPSV is therefore assumed to be the indirect benefits minus the indirect costs which is £165m over the 10 year appraisal period. This is the central estimate which assumes despite the decrease in the average duration of current sickness absences, the increase in sickness absence incidence leads to

no net change in sickness absence days. There is still a small benefit to businesses and employees through employees' productivity increasing and more days compensated with wages than sick pay.

51. The above assumption is dependent on businesses not passing on the impact of the increased costs to employees in the form of hiring practices, or a reduction in wages.
52. SSP costs to business currently are around 0.06% of total spending on wages annually by businesses. This increases to around 0.09% of total spending on wages as a result of the proposed reform options to SSP.

Costs and benefits to business calculations

Outline of monetised costs to business

53. Given SSP is paid wholly by employers to employees, and there is no Government contribution, any reforms to SSP have a direct cost impact to businesses.
54. Since there is no administrative data collected or recorded when an employee receives SSP, it is unknown exactly who receives SSP and for how long, therefore the cost of SSP to businesses can only be estimated. This is estimated using a DWP model based on information from the Family Resources Survey (FRS) 2022/23 and DWP Employee Survey 2023.
55. The SSP reform model for these measures is based on the FRS 2022/23 for employees only and uses the DWP Employee Survey 2023 to estimate the probability of each employee taking a sickness absence, based on sex and presence of long-term health conditions. It also calculates the probability that the employee will be eligible/likely to receive SSP rather than Occupational Sick Pay (OSP) based on earnings and firm size. This assumption ensures that those businesses who currently pay OSP (and therefore are not impacted by SSP reforms) are not included in total cost to business calculations.
56. The model then calculates the cost of the current SSP system for each employee in each job based on these assumptions and the cost of the reformed system, per employee per job. The reformed system and costings assume sick

pay is paid from day one (Waiting Days Removal) and that in removing the Lower Earnings Limit, employees either earn a percentage of their earnings, or the current flat rate of SSP (£116.75), whichever is lower. The percentage of earnings employees will receive in sick pay up to the flat rate has not been decided⁹ and will be introduced via an amendment during the Bill's passage. For indicative purposes, costs and benefits have been modelled for a rate option of 80% **however it will be the outcome of the consultation that determines the rate set.**

57. It is estimated that currently SSP costs businesses around £650m per year in 2024/25 prices. This is a cost of around £23 per employee.
58. With the removal of Waiting Days and the Lower Earnings Limit, the costs to businesses of SSP annually amount to around £1.07bn for a rate for those under the Lower Earnings Limit of 80%. This is an annual increase of around £420m. This is a cost of around £38 per employee, an increase per employee of around £15.
59. The biggest increase in costs is due to the removal of Waiting Days. It is estimated that in any week, 70% of absences are between 1 and 3 days and therefore a larger proportion of the increase in costs is from this.
60. The above costings are based on patterns of sickness absence under the current system and do not account for behavioural responses.
61. It is assumed there is likely to be a one-off transitional cost to businesses in terms of the time taken to read guidance on the legislative changes to SSP (the familiarisation cost). This cost would apply to all businesses who choose to pay sick pay at the statutory level. The central scenario assumes reading this guidance would take one hour per employer. This is a simplifying assumption that is highly uncertain due to insufficient evidence. This time is monetised using data on the mean manager wage per hour (£28). The business population estimates for the UK estimate that there are 1.1 million companies that are

⁹ A public consultation to be run alongside the introduction of the Bill will consider the appropriate rate.

employers. From the DWP Employer survey, around 40% of employers pay a rate of sick pay above statutory sick pay. Combining the three and uprating for non-wage labour costs at 22%, results in a total cost to business of £22.5 million.

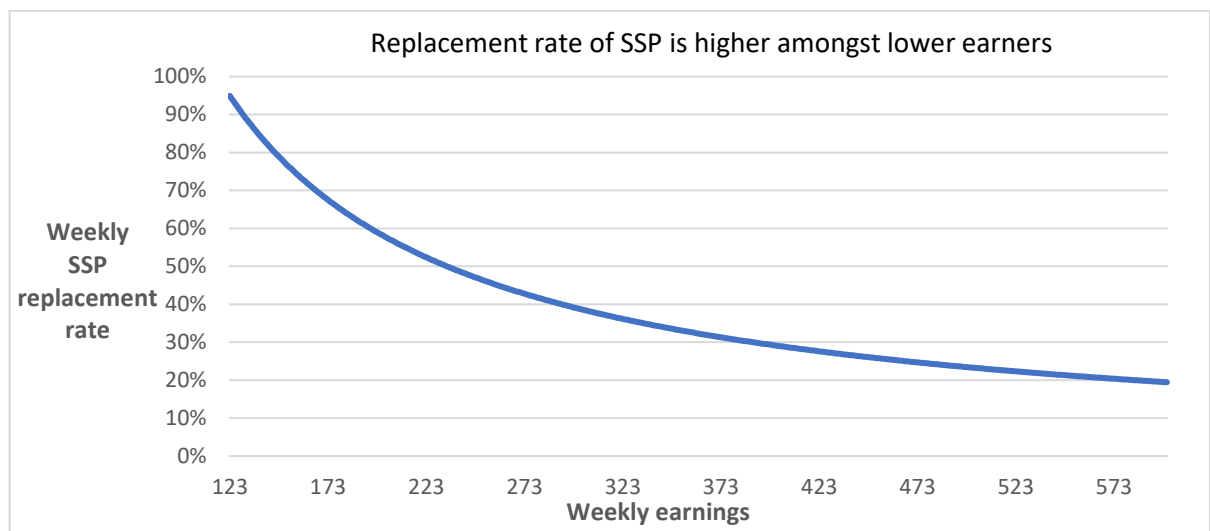
Outline of significant non-monetised costs to business

62. There are also likely to be some administrative costs that could not be quantified due to a lack of available evidence, such as IT/administrative changes that will be required for employers to deliver the sick pay reforms. These are more likely to accrue to businesses which employ those who currently earn below the Lower Earnings Limit (LEL), who would now be paid a percentage of their earnings which may be more complicated than paying a flat rate.

Outline of monetised impacts to business due to behavioural changes

63. Alongside the reform's direct financial impact on those absent from work, it is also possible that regulation changes induce a behavioural response by individuals. In allowing employees to recover at the onset of their illness, some evidence suggests that this could reduce the length of the overall sickness absence. Alternatively, studies from other countries have found that the incidences of sickness absences are higher when sick pay is more generous. There could be an increased number of sickness absence days taken due to improved financial protection.
64. A change in the number of days taken off sick has impacts on economic output. This additional output is divided between businesses (higher profits) and employees (higher wages and other compensation). In monetising the potential indirect impacts to businesses, three assumptions have been combined.
65. Size of the population who may alter their sickness absences behaviour due to improved access to SSP and their current levels of absences.
66. While there is a large group of employees who may be impacted in some way from these SSP measures, behaviour changes are likely to be strongest amongst a subset of employees where income replacement rates are most affected by the legislative changes.

67. For those who could currently receive SSP, it might be expected that the greatest impacts of removing waiting days would be amongst those closest to the LEL. As shown by figure 1, it is for this group that the flat weekly rate of £116.75 will give the greatest income replacement, providing a sufficient financial safety net that individuals may alter their behaviour.
68. It is assumed that the behavioural impact of SSP changes would only be amongst individuals with earnings up to and equal to full time (37) hours at the National Living Wage (£423). While there may be behavioural changes by individuals across the income distribution, it has not been monetised above this level to avoid the risk of over-estimation.
69. Figure 1: Weekly SSP level as a share of weekly earnings, those earning above the current LEL



70. The assumption that individuals closest to the LEL are most likely to change their behaviour relies on individuals having sufficient information of their sick pay scheme as well as changes to regulations to make rational decisions about when/if they take an absence. While this may not always be the case, it allows the focus to be on a reasonable number of employees who may change their sickness absence behaviour following SSP reform.

71. Benefits are monetised for sickness absences paid by SSP where an individual has weekly earnings up and equal to full time at the National Living Wage (£423). For all employees earning below the LEL, it is assumed they would all be paid SSP if they took an absence.
72. For those impacted above the LEL, it is estimated that the baseline average days of absence is equal to 5.2 days per year, which is the midpoint between the latest ONS estimate of annual absences for full time and part time employees¹⁰. Amongst those earning below the current LEL, a downward adjustment is made given that they typically work fewer days. It is assumed that sickness absence days amongst those below the LEL is 43% lower than the national average. 43% represents how much lower weekly working days are on average amongst those below the LEL according to the employee survey.
73. Assumption around reduction in average length of current sickness absences due to SSP reform.

Table 5 Populations impacted by LEL threshold

	Estimated population impacted: earnings below the LEL	Estimated population impacted: earnings above the LEL
Size of impacted population	980,000	3,945,000
Current average days of sickness absence per year	2.98	5.2

Additional economic output per day of work compared to an employee being off sick.

74. Office for National Statistics (ONS) data on mean Gross Value Added (GVA)¹¹ is used to estimate the increase in economic output of a change in sickness absence days. It is assumed that a firm's share of this output is equal to mean GVA after wages and other employee compensation such as pension

¹⁰

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/articles/sicknessabsenceintheLabourmarket/latest>

¹¹ [Region by industry labour productivity - Office for National Statistics \(ons.gov.uk\).](https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/industrybyregionlabourproductivity)

<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/industrybyregionlabourproductivity>

contributions have been accounted for. Under this assumption, businesses receive **40%** of the benefits.

75. The level of average wages used is based on internal analysis of the Family Resources Survey and reflects the population who are most likely to experience a change in sick pay eligibility and receipt.
76. Non-wage compensation is derived using the ONS figures on total labour costs¹² and average wages¹³. Dividing average wages by total labour costs, it is estimated that non-wage labour costs equal approximately 23% of wages.
77. Assumptions on days worked from the 2023 DWP employee survey are included to assess daily earnings for an average impacted worker.
78. Furthermore, it is assumed that any new sickness days taken were previously not worked at full productivity due to presenteeism. It is assumed that these days were worked at 75% productivity, which is informed by a Dutch study where approximately 25% of productive hours were lost on days where presenteeism was reported¹⁴. While some of the increase in sickness days due to UK SSP reform may have previously been worked at full productivity, and are now absenteeism days, there is no firm evidence to quantify the level.
79. Consequently, even when the average duration of current absence and increase in incidences lead to no net change in sickness absence days, there is still a small benefit to firms because days in work are now more productive on average. The central estimate of benefits to business from individual behavioural changes is equal to **£17m** in 2024/25 prices. This estimate is based on 80% income replacement for those below the LEL, this rate is subject to consultation.

¹² [Labour costs and labour income, UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/labourcostsandlabourshare)
<https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/datasets/labourcostsandlabourshare>

¹³ [Earnings and working hours - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours)
<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours>

¹⁴ [Production Losses due to Absenteeism and Presenteeism: The Influence of Compensation Mechanisms and Multiplier Effects | PharmacoEconomics \(springer.com\)](https://link.springer.com/article/10.1007/s40273-023-01253-y) <https://link.springer.com/article/10.1007/s40273-023-01253-y>

Table 6 - Estimated behavioural impact on businesses, 24/25 prices, £ millions

	Below LEL	Above LEL	Total
Total impact of increased incidences	-5	-30	-36
Total impact of reduced length of current absences	3	50	53
Total	-2	19	17

Outline of significant non-monetised impacts to business

80. There are other potential sources of benefits to business which have not been fully monetised, primarily because of limited evidence / data to support any calculations.

Business impact of a public health externality

81. The monetised benefit outlined only considers the population who are likely to be directly affected by changes to SSP. It is possible individuals already covered by alternative sick pay schemes will see a benefit, notably through the reduced spread of infectious diseases.
82. While there are differences with the UK in terms of institutional settings and labour markets, one US study estimates that 16% (range of 9% to 33%) of influenza transmission occurs within the workplace¹⁵. Another study from the US has linked sick pay policies with the spread of influenza-like-illness (ILI)¹⁶. It is found that all state paid sick leave policies reduce ILI rates, and those with more generous accrual rates reduced ILI rates more than in states with less comprehensive policies.
83. Despite likely differences in how / if SSP reform impacts transmission rates in a UK context, alongside rising remote working practices since the Covid-19 pandemic, the evidence suggests a reduction in transmission is possible. Due to this uncertainty, the potential benefits have not been monetised.

¹⁵ Edwards, C. H., Tomba, G. S., & de Blasio, B. F. (2016). Influenza in workplaces: transmission, workers' adherence to sick leave advice and European sick leave recommendations. *The European Journal of Public Health*, 26(3), 478-485.

¹⁶ Wething, H. (2022). Paid sick leave policy impacts on health and care utilization in the United States: why policy design matters. *Journal of Public Health Policy*, 43(4), 530.

84. The benefits of reducing the transmission of infectious diseases could be widespread. Potential impacts include reduction in wider sick pay costs to businesses, and higher output / profits. Benefits could be experienced by firms who are not directly impacted by changes to SSP regulations.

Impact on small and micro businesses

85. Surveys suggest that small and micro businesses (SMBs) are more likely to pay sick pay at the SSP level than above (Occupational Sick Pay). The DWP Employee survey suggests that Small Employers pay OSP 60% of the time compared with 72% in large employers¹⁷.

86. Currently, small and micro businesses pay around 60% of the annual SSP cost to employers and make up around 47% of all UK businesses¹⁸. Given 60% of the additional costs to businesses will be borne by 47% of the UK population, there will be a disproportionate burden on SMBs.

87. A SSP Rebate / Percentage Threshold Scheme was previously in place from April 1995 to enable employers to recover any SSP that had been paid in a tax month that was in excess of 13% of the gross Class 1 National Insurance Contributions for that month. This scheme was withdrawn in April 2014. There was also a temporary Coronavirus SSP Rebate Scheme that employers could claim for employees who were absent with coronavirus related absences between December 2021 and March 2022. This rebate was focussed on supporting SMEs with the costs of increased absence caused by periods of self-isolation. Evidence showed lower take up of the scheme than initially forecast. There are currently no plans to introduce a rebate scheme for small and micro businesses paying SSP.

88. The current UK costs to SMBs of SSP are around £400m per year. With the proposed reforms, these costs to SMBs increase to around £660m (with £390m for small and £270m for micro).

¹⁷ [DWP Employee Research : Phase 2, p29.](https://assets.publishing.service.gov.uk/media/64108286d3bf7f02f6e38078/employee-research-phase-2-sickness-absence-and-return-to-work-quantitative-qualitative.pdf)

<https://assets.publishing.service.gov.uk/media/64108286d3bf7f02f6e38078/employee-research-phase-2-sickness-absence-and-return-to-work-quantitative-qualitative.pdf>

¹⁸ In Northern Ireland small and micro businesses make up around 89% of all businesses.

Costs and benefits to households' calculations

Direct impact - increased sick pay

89. Without considering the behavioural responses of individuals and firms, which are covered elsewhere in this assessment, the costs to businesses of SSP reform are a direct financial benefit to individuals and households in the form of higher sick pay.
90. Assuming no change in sickness absence levels, the estimated total increase in SSP to employees is £425m in 2024/25 prices. This figure refers to gross earnings increases. Some of the benefit will likely transfer to Government in the form of tax revenues.
91. There may be further fiscal benefits in the form of lower spending on means tested benefits such as Universal Credit (UC). Potential UC reductions have not been monetised as impacts are likely to be small and there is no clear evidence on whether those who see improved levels of SSP will be entitled to a UC work allowance, and whether reform would take them above this level.

Indirect impact – behavioural response

92. Two behavioural effects have been modelled: a reduction in the average length of current absences and an increase in incidences. Both impacts have implications for households. Reducing the average length reduces the time spent on SSP, improving finances. Conversely, increasing incidences has detrimental effects on overall income levels.
93. Table 7 below summarises the two impacts and provides a net effect on individuals.
94. By taking the difference between median pay and what that individual would receive under SSP, the financial gain to individuals of spending more time in work than off sick, can be estimated.
95. As shown, most of the increases in wages are amongst the group who are above the LEL. This is because on average, those above the LEL have lower replacement rates, so the financial benefit of being in work compared to being

off sick is greater. The combined increase in employee compensation totals £4m.

96. This figure includes non-wage compensation as previously outlined in the business impact section.
97. The figure includes gross earnings increases. Some of the benefit may transfer to Government in the form of tax revenues.

Table 7 - Total behavioural impact on employee compensation, 24/25 prices, £ millions

	Below LEL	Above LEL
Total impact of increased incidences	-1	-27
Total impact of reduced length of current absences	5	27
Total change in employee compensation	4	0

Health benefits

98. The public health externalities of SSP reform are difficult to monetise but potentially large. As previously discussed, increased access to sick pay allows more individuals to take time off at the onset of illness, reduces the prevalence of presenteeism, and allows them to recover more quickly.

Employee Impacts

99. All employees eligible for SSP are impacted by this change, with the removal of waiting days allowing everyone to claim SSP earlier.

100. Given the policy changes, there are two sub-groups of employees that are likely to be most impacted by this change:

- Those currently earning below the LEL, who all positively benefit from this change as they are brought into entitlement.
- Those currently earning above but close to the LEL, who, under the new system, would receive a percentage of their earnings, which would be lower than what they currently receive (the flat rate of SSP) and therefore have the potential to be worse off compared to the current system. The

extent to which these employees are negatively impacted will depend on the rate set, their earnings, their number of contracted days worked and the length of their sickness absence.

101. If the rate is set at 80%, the notional losers are therefore those who currently have weekly earnings between the LEL (£123) and £146 (80% of which exceeds £116.75, the flat weekly rate of SSP).

102. However, it is likely that many in this cohort with short term absences will receive higher sick pay overall, compared to under the current system, due to the removal of waiting days offsetting the fall in sick pay amount and therefore would still be better off than in the current system. As the duration of sickness absence increases, the offset due to waiting days reduces and those in this cohort are more likely to be worse off overall in the reformed system, compared to what they would have received for a sickness absence period in the current system.

Sensitivity analysis

103. Given the significant uncertainty surrounding the behavioural impacts outlined in this RIA, a sensitivity analysis has been carried out and is summarised in the table below.

104. Provided are scenarios in which the behavioural impact assumptions are adjusted. As shown, the uncertainty creates a reasonably large range in annual impact estimates. For instance, should there be no reduction in the average length of current absences, combined with an increase in incidences twice as large as the central estimate, the annual net behavioural impact would be £171m in 2024/25 prices.

Table 8: Net annual behavioural impact, £ millions, 24/25 prices

	Impact on current sickness absence length below LEL	Impact on current sickness absence length above LEL	Impact on incidences below LEL	Impact on incidences above LEL	Net behavioural impact, £m, 24/25 prices
Scenario 1 (central estimate)	-5%	-3%	5%	3%	21
Scenario 2	0%	0%	5%	3%	-85

Scenario 3	0%	0%	10%	6%	-171
Scenario 4	-5%	-3%	0%	0%	85
Scenario 5	-10%	-6%	0%	0%	171
Scenario 6	-10%	-6%	10%	6%	43

105. Given that the percentage rate of SSP for those below the LEL is subject to a public consultation, detailed costs and impacts for an indicative rate of 80% has been modelled, see table below.

Table 9 Modelled costs at 80%

	Total cost to business	Per employee
Current system	£0.65bn	
60% earnings	£1.04bn	£37
70% earnings	£1.06bn	£37
80% earnings	£1.07bn	£38

106. The methodology underpinning the direct cost to business estimates do not rely on a set of general assumptions that can be amended to reflect sensitivity, instead the DWP employee survey is used to add in assumptions around the probability of taking an absence, and likely duration, as well as the likelihood to be SSP eligible for that absence. However, these are not general assumptions that are applied to all individuals, and instead differ depending on specific characteristics such as earnings, health conditions, gender and the size of business in which an employee works.

Business environment

107. Businesses are expected to face increased costs due to the higher number of employees eligible for SSP.

Trade implications

108. From a legal standpoint, the policy does not impact international trade as it is compliant with international obligations and does not have any implications for trade partners or foreign businesses operating in the UK.

109. In addition, the impact is on total labour costs and therefore comparative advantage will be small.

110. Furthermore, the reforms will not introduce requirements on foreign-owned companies that go above and beyond those which are UK-owned.

Environment: Natural capital impact and decarbonisation

111. It is expected that there is no or negligible impact on the environment, natural capital, and decarbonisation as a result of SSP reform. The regulation does not directly relate to environmental or decarbonisation goals.

Other wider impacts

112. There are likely to be impacts on those sectors funded directly by Government (e.g. contracted workers on Government estates, such as security personnel, cleaners) as these sectors are more likely to receive SSP rather than Occupational Sick Pay (OSP) and therefore would create increased costs to Government funding these sectors. There is no available data for sector specific breakdowns and therefore this has not been monetised.

113. There are likely impacts from SSP reform on the Adult Social Care (ASC) sector. Skills for Care data suggests that over 90% of local authorities offered occupational sick pay to their care workers in 2022/23, whereas around half of independent sector employers offered this benefit. There is no data available on the terms offered by direct payment recipients to carers they employ. In the absence of more granular data, it is assumed that the local authority and independent employers who offer OSP are representative in size, and that their employees would be unaffected by changes to SSP as a result of benefiting from a higher rate of OSP (however, the generosity and eligibility of occupational schemes is unknown). This suggests up to 588,000 employees in the ASC sector might be affected by changes to SSP.

114. Two cohorts of individuals impacted by SSP reform changes in the equality analysis have been considered. The first cohort is those currently earning under the LEL who will be brought into eligibility for SSP. The second cohort are those that are currently earning above the LEL, but with sick pay at a proportion of earnings or the current rate of SSP, whichever is lower, would receive a rate of sick pay in the reformed system that is lower than under the current system

Background, Context and Methodology

115. The analysis within this RIA is obtained from the following sources:

- 2022/23 Family Resources Survey (FRS)
 - The FRS is a continuous household survey which collects information on a representative sample of private households in the United Kingdom.
 - Dataset of a sample of around 25,000 households
 - Showing all characteristics – age, gender, health condition, earnings, hours worked etc.
- DWP Employee Survey 2023
 - Sample of 4,435 working adults (16-74)
 - Probability of taking an absence
 - Probability that the absence is paid for by SSP

116. To estimate the costs to businesses and individuals impacted, the FRS data is used as the main source of information.

117. For each person in the FRS, the probability that they will take an absence from the employee survey is estimated. Data is matched based on two main characteristics: Long term health (LTHC) and gender. This is because you are more likely to be on SSP / take an absence if you have a LTHC and if you are female.

118. Probabilities are applied from the employee survey that the absence will be paid for by SSP. This is based on someone's income and what size business they work in.

119. A final data set which contains every employee in the 2022/23 FRS with two types of probabilities attached: that they will take an absence of a particular length and the probability that the absence will be paid for by SSP.

120. Based on the probabilities above, every employee within the model is given an Expected Sick Pay variable which takes into account their likely sickness absence duration and the probability the absence is paid for by SSP vs OSP. This variable is then summed in order to get the total cost to businesses of SSP, both currently and post reform.
121. To estimate the characteristics of those impacted by the reforms within the equality analysis the FRS data is used as the main source of information, and protected characteristics are tabulated against earnings data.

Risks and assumptions

122. The biggest risk is provided by the lack of admin data on SSP. The key source of data for whether someone receives SSP or OSP is the DWP Employee Survey 2023, which covers a sample of 4,435 working adults. The raw datasets are used to look at responses of whether an employee would receive SSP or OSP during a period of sickness absence by earnings and size of business, which are then applied to individuals within the FRS. Absence data is then used in the modelling to estimate, based on an individual's characteristics, what the likelihood is that they take a sickness absence and how long for. The internal DWP model that simulates current SSP and post-reform SSP has been robustly quality assured and is the best available source to understand sick pay within the UK.
123. Other risks with the estimates provided surround the potential impacts of SSP reform. Assumptions made come from a variety of international sources where similar policy changes have been made. However, often it is difficult to compare sick pay schemes internationally due to differences in payment (e.g. through insurance schemes) and much more generous systems.

Monitoring and evaluation of preferred option

124. Given the early stage of policy development, it's not currently possible to detail exactly how these policies will be monitored and evaluated. The DWP Employee and Employer Research surveys will build further the evidence on understanding how SSP is used by employers and how it supports employees. Consideration will be given to using the Family Resource Survey on SSP to give greater

coverage of evidence. Given the absence of admin data on SSP, there may be secondary data matching to explore sickness absence data by earnings data to try to understand / monitor what impacts the SSP reforms have had pre and post implementation.

Minimising administrative and compliance costs for preferred option

125. It is anticipated that these regulatory changes will have a minimal to moderate administrative impact on business. These changes will mean that businesses have to adapt to a new way of calculating SSP payments for those who previously would not have been entitled to receive SSP. Communications to businesses and other relevant stakeholders will be clear and communicated well ahead of these changes taking effect.
126. The HMRC bi-monthly Employer Bulletin, provides insight to employers on planned or upcoming changes that may affect their business. The bulletin currently reaches over 2.4 million subscribers across the UK and provides a helpful tool for Government to interact with employers, agents and professional bodies, including on any changes planned to SSP.
127. The HMRC-led Statutory Payments Consultation Group is HMRC's principal employer consultation group on the full range of statutory payments issues. It provides the opportunity for HMRC to explain and explore practical implications for employers, payroll bureaux and payroll software developers of potential changes in statutory payments and for employers, payroll bureaux and payroll software developers to raise and discuss issues or problems in administering statutory payments.
128. These changes will not add any new reporting requirements on business or require them to fill in any new forms.