

# START-UP BRIEFING



Highlands & Islands  
ENTERPRISE

## Employment law

● Although the laws covering employment are extensive, the main issues for small and start-up businesses are fairly straightforward. By sticking to a few rules, you can avoid most of the pitfalls and prevent problems arising.

This briefing focuses on four key areas:

- ◆ Employment contracts.
- ◆ Discrimination.
- ◆ Sickness.
- ◆ Dismissals.

### 1 Employment contracts

- A** Every **employee** has a contract of employment, either in writing or implied. You should assume that everyone who works for you is an employee, unless you have good reason to think otherwise. But:
- ◆ Partners in a partnership are not employees, but salaried partners may be.
  - ◆ Consultants and sub-contractors may not be employees, even if they are taxed under PAYE.
- B** The terms of the contract are governed by what you have **agreed** with the employee. The terms will usually be covered by:
- ◆ The letter you send making a job offer.
  - ◆ The written statement you give an employee.
  - ◆ The implied terms of the contract.
- Not all the terms of the contract need to be in writing.
- C** The employment contract can generally only be **changed** by agreement between the employer and the employee.

- ◆ Terms and conditions of employment cannot usually be changed to the employee's detriment if all or part of a business is sold or contracted out (see **6B**).

### 2 Terms and technicalities

- A** You must give each person you employ (full-time or part-time) a **written statement** of the main terms of the employment.
- ◆ A new employee must be provided with a written statement of employment particulars within two months, as must any existing employee who asks for one.
- B** The written statement **must include** a number of specific details.
- ◆ Names of employer and employee.

#### FURTHER HELP

There are other Start-up Briefing titles that can help you. These briefings are referred to in the text by name and by the code given to each briefing. For example, SuB 29.

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- ◆ Date the employment started.
- ◆ Job title and description of main duties.
- ◆ Place of work.

## Hours and leave

- A** *With certain exceptions, employees have the right to a maximum working week of no more than **48 hours**, normally averaged over a 17-week period.*
- ◆ *Workers who wish to work more than 48 hours a week must sign a written agreement to do so.*
  - ◆ *Employers must keep records and must not press workers to sign opt-out forms.*
- B** *All workers, including part-timers, are entitled to four weeks' **annual leave** pro rata.*
- ◆ *Workers are entitled to paid leave from their first day of employment.*
- C** *Both male and female employees have a right to take different types of **time off** for the birth and care of their children.*
- ◆ *Birth or adoption entitles each parent to 13 weeks' unpaid leave during the early years of a child's life.*
  - ◆ *Mothers have a right to ordinary maternity leave, and depending on length of service, additional maternity leave (see box, page 3).*
  - ◆ *Fathers who have worked for you continuously for at least 26 weeks by the end of the 15th week before the baby is due are entitled to take up to two weeks' paid paternity leave at or around the time of the birth.*
  - ◆ *One member of a couple who adopts a child is entitled to take up to 26 weeks' paid ordinary adoption leave and 26 weeks' unpaid additional adoption leave, if they have worked for you continuously for at least 26 weeks by the time the child is matched.*
- D** *An employee who is a parent with a child under six or a disabled child under 18 has a statutory right to make a request for **flexible working**.*
- ◆ *You must 'consider seriously' any request and may only refuse an application if there is a clear business reason.*
- E** *All employees are entitled to **dependant care leave**.*
- ◆ *Workers can take 'reasonable', unpaid time off to deal with an emergency involving a dependant.*

- ◆ Pay rate and how often paid.
- ◆ Hours of work.
- ◆ Holiday entitlement (days and pay).
- ◆ Date the employment will end (unless the employment is permanent).
- ◆ Notice periods for the employer and employee.
- ◆ Sick pay arrangements.
- ◆ Pension arrangements.
- ◆ Grievance and disciplinary procedures.
- ◆ Details of any collective agreement which affect the employees.

**C** The written statement can refer to **other documents** (eg a disciplinary manual).

- ◆ These other documents must be made available for the employee to read.

**D** Some **commonsense terms** are implied.

- ◆ The employer must ensure employees' health and safety at work, have a safety policy and carry out risk assessments. You must treat employees with respect. Harassment, bad language or humiliating treatment may lead to claims for constructive dismissal and discrimination.
- ◆ Employees must obey reasonable instructions, use skill and care in their work, and act faithfully and honestly.

**E** Put all the important terms **in writing**. Without a written agreement, you will lose three advantages.

- ◆ Flexibility (eg the ability to move an employee to a different job).
- ◆ Certainty (eg if anything is unclear, this could lead to disputes).
- ◆ Protection when an employee leaves (eg terms preventing former employees from revealing confidential information).

## ③ Discrimination

**A** It is illegal to treat someone less favourably on the basis of their **race, sex, disability, sexual orientation, religion, philosophical belief** or **part-time status**.

- ◆ Discrimination based on age is currently covered by a code of practice.

**B** Requirements or **conditions** of employment should not discriminate against any group.

- ◆ Do not advertise or ask interview questions in a manner that discriminates.

**C** Men and women are entitled to **equal pay** for similar work, or work of the same value.

➤ Ask Acas, your solicitor or your LEC for advice when drawing up a written contract. Acas offers free advice on employment issues (08457 47 47 47 or [www.acas.org.uk](http://www.acas.org.uk)).

➤ Go to [www.dti.gov.uk/er](http://www.dti.gov.uk/er) for more information on employment law.

- ◆ Promotion and training opportunities must also be non-discriminatory.

**D Positive discrimination** (eg *in favour* of a racial minority, or women) is also likely to be illegal, because it is discriminating *against* someone else.

Training may be an exception.

- E** You can be responsible for any discrimination practised **by your employees**, including any sexual harassment or racial abuse.
- F** Employment tribunals can award massive **compensation** to victims of discrimination.
- ◆ There is no limit to financial compensation payments for discrimination.

### Handle with care

*A pregnant woman has a number of special rights and entitlements. These include:*

- A** Paid **time off** for ante-natal care.
- B** 26 weeks' statutory **ordinary maternity leave**, during which all her contractual rights (except remuneration) continue.
- ◆ It is illegal to let a woman return to work within two weeks of childbirth, or within four weeks, if the work is in a factory.
- C** Statutory **maternity pay (SMP)**, if she has completed 26 weeks' service by the end of the 15th week before the expected week of childbirth (EWC).
- ◆ You must pay SMP for 26 weeks, but some of this may be deductible from employer's NI contributions. Phone the Contributions Office's employers' helpline for details (08457 143 143).
  - ◆ A woman who is ineligible for SMP but has paid enough NI can claim maternity allowance from the Department for Work and Pensions.
- D** 26 weeks' unpaid **additional maternity leave** if she has 26 weeks' full or part-time service (by the end of the 15th week before the EWC).
- ◆ If you have five employees or fewer and it is not practical to offer re-employment, you are not obliged to do so. But you may have to prove this to a tribunal.
- E** The right to claim **unfair dismissal**, if she is dismissed for any reason to do with the pregnancy or childbirth.
- ◆ If she is dismissed, you must give written reasons, without having to be asked.

- G** It is discriminatory to treat employees or potential employees differently because of **union** membership, or refusal to join.

## 4 Sickness

Employees are entitled to statutory sick pay (SSP), usually after four or more days' sickness in a row.

- A** SSP is the **minimum level** of payment you must make to any qualifying employee.
- ◆ SSP is payable for up to 28 weeks for any one period of sickness.
  - ◆ The current payment is £66.15 per week subject to income tax and employee's NI.
  - ◆ Many employers pay higher sick pay. If your company's arrangements are more generous than the statutory minimum, you can offset your payments against the SSP you would have had to pay.
  - ◆ You can get money back from the Inland Revenue if the SSP you pay exceeds a set level. If it is more than 13 per cent of your gross NI contributions in any month, you can reclaim the extra in full.
- B** Most employees who are unfit to work will **qualify** for SSP.
- ◆ They must be over 16 and under 65.
  - ◆ They must earn more than the NI lower earnings limit (£79 a week in 2004/05).
  - ◆ Part-timers qualify, as well as full-timers, and length of service does not matter.
- C** You can **withhold SSP** if you reasonably suspect the employee is not ill.
- ◆ You can also withhold it if the employee is on a contract for less than three months.
  - ◆ An employee who has recently drawn a statutory benefit (eg incapacity or maternity benefit) may not qualify.
- D** If you want to stop paying SSP to someone who has been away more than four times in a year, seek an **adjudication** from the Inland Revenue Medical Services.
- ◆ You need the employee's written consent. A refusal may justify stopping SSP.

## 5 Dismissals

- A** All employees are entitled to a minimum statutory **notice period** of one week after one month's employment. After this, entitlement increases at the rate of one extra week per year, to a maximum of 12

◆ This briefing is based on the situation at the last update. Your solicitor, **LEC** or **Acas** can all provide further information and advice.

Free leaflets (published by the **DTI**) are available from Jobcentre Plus or by calling 0870 1502 5000. For advice on statutory pay and National Insurance, call the **employers' helpline** (08457 143 143). Several business organisations, such as the **Federation of Small Businesses** (0870 513 3307), and the **Forum of Private Business** (01565 634467), offer a free telephone advisory service to members.

weeks after 12 years' employment.

- ◆ If the contract of employment does not specify a notice period, an employee is entitled to a 'reasonable period of notice'.
- B** If you dismiss an employee without the right notice, this will be **wrongful dismissal**.
- ◆ The employee is usually entitled to normal remuneration (both salary and benefits) during the notice period. This applies even if you wish to end the employment immediately, unless there was gross misconduct or the employee suffers no financial loss (eg by immediately starting a new job at a better rate of pay).
  - ◆ Tax is not payable in respect of statutory redundancy pay.
  - ◆ Payments to an employee in lieu of notice used to be tax-free (under £30,000). Check with your legal adviser.
- C** If an employer breaches the contract, the employee may be able to resign immediately and claim **constructive dismissal**.
- ◆ For example, if you reduce pay without agreement, or tell the employee to resign.
- D** An employee (even a part-timer) with one year's continuous service who is dismissed without a fair reason and reasonable treatment can claim **unfair dismissal**.
- ◆ You must follow a fair disciplinary procedure, including appropriate verbal and written warnings.
  - ◆ Employees can claim two weeks' pay if no appeals procedure is provided.
  - ◆ An employee failing to pursue an internal appeal will receive reduced compensation.
  - ◆ An employee can ask the tribunal to order re-employment or award compensation. The maximum award is £55,000.

Where possible, seek professional advice before dismissing an employee.

- E** If an employee chooses to leave your business, as opposed to being asked to leave, you can usually require him or her to work out the full **notice period**.
- ◆ If the employee refuses to work out the notice period, he or she will not be entitled to be paid for it.
  - ◆ If you insist the employee must stop work immediately, or before the notice period ends, you must still pay what would have been earned during the notice period.
  - ◆ If you both agree that the employment should end straight away, no further payment needs to be made.

- F** Employees who are made **redundant** are not entitled to claim redundancy pay until they have over two years' service.
- ◆ Avoid claims that a redundancy is unfair dismissal by ensuring that it is genuine. In general, the job must have disappeared.
  - ◆ The employer must also select employees for redundancy on a fair and objective basis, after reasonable consultation, and with adequate notice and a fair appeals procedure.

## 6 Other rights

- A** Employees have the right to the **national minimum wage** which stands at £4.85 for employees aged 22 and over.
- ◆ There is a lower minimum wage of £4.10 for those aged 18 to 21 and £3.00 for those aged 16 and 17.
  - ◆ Casual staff, agency staff and home workers also have a right to this wage.
- Go to [www.tiger.gov.uk](http://www.tiger.gov.uk) for an interactive guide to the minimum wage.
- B** Each employee must get a **pay statement**.
- ◆ This must show total gross pay, deductions and net pay.
  - ◆ Deductions must be itemised. Apart from income tax and National Insurance (NI), deductions can only be made with the employee's agreement or to correct previous overpayments.
- C** When a business is transferred to a **new owner**, all employee rights usually remain.
- ◆ The existing employment contract terms remain in force.
  - ◆ The period of continuous employment, for unfair dismissal purposes, is unbroken.

An employee who is sacked as a direct result of the business transfer is likely to be seen as automatically unfairly dismissed. But you can make employees redundant in such cases if you can show good 'economic, technical or organisational' reasons.

- D** Employees may be entitled to **guarantee payments** for days they would normally be required for work, even if the employer has no work for them.
- E** **Trade unions** and their members have extra rights (eg time off for union duties).

## EXPERT CONTRIBUTORS

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