

# Employment law

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**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

**1.1** Every **employee** has a contract of employment, either in writing, oral or implied. You should assume that everyone who works for you is an employee, unless you have good reason to think otherwise.

- Partners in a partnership are not employees, but salaried partners may be.
- Consultants and sub-contractors may not be employees, even if taxed under PAYE.

**1.2** 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.

**1.3** You need to seek **agreement** with employees if you want to make significant changes to their contracts.

- 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.

## 2 Terms and technicalities

**2.1** 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.

**2.2** The written statement **must include** a number of specific details.

- Names of employer and employee.

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## 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 agree 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 are entitled to four weeks' **annual leave** pro rata.
- 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 or carer to 13 weeks' unpaid leave during the early years of a child's life.
  - Mothers have a right to ordinary maternity leave. They also have a right to additional maternity leave depending on length of service, or automatically for babies due on or after 1 April 2007).
  - Fathers (or those with responsibility for bringing up children) who have worked for you continuously for at least 26 weeks by the end of the 15th week before the baby is due can take up to two weeks' paid paternity leave.
  - One member of a couple who adopts a child can 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. For placements due on or after 1 April 2007, this changes to 39 weeks' paid (and 13 weeks' unpaid).
- D** An employee who is a parent or carer 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.
  - From April 2007, this right is also likely dependant adult.
- E** All employees are entitled to **dependant care leave**.
- Workers can take 'reasonable', unpaid time off to deal with an emergency involving a dependant.

- Date the employment started.
- Job title and description of main duties.
- Place of work.
- 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.
- Sick pay arrangements.
- Pension arrangements.
- Grievance and disciplinary procedures.
- Details of any collective agreement which affect the employees.

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

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

### 2.4 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.

### 2.5 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

### 3.1 It is illegal to treat someone less **favourably** on the basis of their race, sex, age, disability, sexual orientation, religion, philosophical belief, membership or non-membership of a trade union, marital status (including same sex civil partnerships), pregnancy, childbirth or responsibility for adult-dependant children (under 18-years old) or part-time status.

- You can have a normal retirement age (which must be at least 65), but must consider requests from employees who

Ask Acas, your solicitor or your local Business Link or Enterprise Agency 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 the DTI website at [www.dti.gov.uk/employment/index.html](http://www.dti.gov.uk/employment/index.html) for more information on employment law.

want to continue working beyond this.

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

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

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

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

### Handle with care

A pregnant woman has a number of rights:

**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 HMRC employers' helpline for details (08457 143 143). For babies due on or after 1 April 2007, the entitlement to SMP is extended to 39 weeks.
- Paid for by JobCentre Plus, a woman who is ineligible for SMP can claim maternity allowance based on her recent employment and earnings record.

**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).

- For babies due on or after 1 April 2007, the mother is automatically entitled to additional maternity leave regardless of length of service.

**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.

**3.4 Positive discrimination** (eg in favour of women) is also likely to be illegal, because it is discriminating against someone else. Training may be an exception.

**3.5** You can be responsible for discrimination practised **by employees**, including sexual harassment or racial abuse.

**3.6** Employment tribunals can award unlimited **compensation** to victims of discrimination.

## 4 Sickness

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

**4.1** 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 £70.05 a 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 HMRC 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.

**4.2** 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 (£84 a week).
- Part-timers and full-timers qualify, as length of service is irrelevant.

**4.3** 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.

**4.4** If you want to stop paying SSP to someone who has been away more than four times in a year, seek an **adjudication** from HMRC Medical Services.

- You need the employee's written consent. A refusal may justify stopping SSP.

This briefing is based on the situation at the last update. Your solicitor, **Business Link** 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.

## 5 Dismissals

**5.1** If the contract of employment does not specify a **notice period**, an employee is entitled to a 'reasonable period of notice'. In either case, the employee is entitled to at least the statutory minimum 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 weeks after 12 years' employment.

**5.2** 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) or if you have reserved the contractual right to pay pay in lieu of notice without benefits.

**5.3** If an employer breaches the contract, the employee may be able to resign immediately and claim **constructive dismissal** if the breach was material, going to the root of the contract.

- For example, if you reduce pay without agreement, or tell the employee to resign.

**5.4** 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 an appropriate disciplinary procedure which incorporates the statutory dismissal procedure and includes appropriate verbal and written warnings.
- Employees will be automatically unfairly dismissed if no appeals procedure is provided.
- An employee failing to pursue an internal appeal may not be able to proceed with a case.
- An employee can ask the tribunal to order re-employment or award compensation. The basic award is £8,700 (depending on age and length of service) and compensation for financial loss up to a maximum of £58,400.

Where possible, seek professional advice before dismissing an employee.

**5.5** 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.

**5.6** Employees who are made **redundant** are not entitled to claim redundancy pay until they have over two years' service.

- 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.
- 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

**6.1** Employees have the right to the **national minimum wage** which is £5.35 for employees aged 22 and over.

- There is a lower minimum wage of £4.45 for those aged 18 to 21 and £3.30 for those aged 16 and 17.
- Casual staff, agency staff and home workers also have a right to this wage.

**6.2** 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.

**6.3** When a business is transferred to a **new owner**, all employee rights usually remain.

**6.4** **Trade unions** and their members have extra rights (eg time off for union duties).

### Expert contributors

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