

<b>Title:</b> <b>Shared Parental Leave</b> <b>IA No:</b> <b>Lead department or agency:</b> Department for Business, Innovation and Skills <b>Other departments or agencies:</b> Department for Work and Pensions	<b>Impact Assessment (IA)</b> <b>Date:</b> 29/01/2013 <b>Stage:</b> Final <b>Source of intervention:</b> Domestic <b>Type of measure:</b> Primary legislation <b>Contact for enquiries:</b> Chris Barrell/Sheila Honey
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<b>Summary: Intervention and Options</b>	<b>RPC Opinion: AMBER</b>
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£-279.5m	-£183.5m	£20.1m	Yes IN

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

In order to deliver a system of shared parental leave, it is necessary to have new legislation in place that removes the current gender bias. The current system of leave can not be described as flexible and does little to encourage shared parenting. It also perpetuates a gender imbalance in terms of attachment to, and position in, the labour market. The system cannot be made more flexible without unacceptable risk of challenge under EU law - leave which is parental in nature (as opposed to maternity) must be available on a non-discriminatory basis for both women and men. A non-statutory approach would not deliver the outcomes sought as it would perpetuate the current inflexible system.

**What are the policy objectives and the intended effects?**

The new system of shared parental leave seeks to:

- Give parents more choice and flexibility in how they care for their child in the first year by increasing the share of leave fathers can take, thus enabling both parents to retain a strong link with the labour market;
- Encourage more fathers to play a greater caring role (pre-birth and in the first year) via a right to attend antenatal appointments and longer, more flexible shared leave;
- Increase flexibility for employers and employees to reach agreement on how best to balance work and domestic needs without state interference

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

- Do nothing – this would not deliver the Coalition commitment, as the current legislative framework does not allow sharing of leave.
- Create a system of shared parental leave including; rights for the father to attend 2 hospital appointments during a partner's pregnancy; maternity leave of 52 weeks but mothers can end their maternity leave, the remainder becoming flexible parental leave up to 50 weeks (37 paid); 18 weeks unpaid leave up to age of 18 - the preferred option
- A system of shared leave but with either 26 or 18 weeks maternity, and only 26 or 34 weeks sharable parental and various paternity durations of no additional weeks, 2 additional weeks and 4 additional weeks.
- The second and third options, but, allowing for lump sum payments to be made to individuals (which would also allow them to return to work having received a payment).

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** 03/2017

Does implementation go beyond minimum EU requirements?			Yes / No / N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes/No	<b>&lt; 20</b> Yes/No	<b>Small</b> Yes/No	<b>Medium</b> Yes/No	<b>Large</b> Yes/No
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b>		<b>Non-traded:</b>

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.***

Signed by the

responsible

SELECT SIGNATORY:



Date 20/02/2013

# Summary: Analysis & Evidence

# Policy Option 1

## Description:

### FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2015	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£377.8	High: £185.8	Best Estimate: -£279.5

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£55.7	£24.4	£265.7
High	£56.0	£45.5	£447.2
Best Estimate	£55.8	£34.4	£351.6

#### Description and scale of key monetised costs by 'main affected groups'

##### Recurring costs:

Employers (for Shared Parental Pay rebate £0.0m to £0.1m, absence costs between £7.8m to £33.7m & administration £2.9m to £6.6m), Exchequer (from statutory payments £0.0m to £1.2m & administration £0 to £1.5m) One-off costs: Employers £48.8m to £49.1m (for familiarisation & payroll changes etc), Exchequer £6.9m. Changes to adoption: Employer cost between £1.7m and £2.2m and Exchequer cost £8.1m.

#### Other key non-monetised costs by 'main affected groups'

Additional costs to the exchequer and employers' should working fathers' leave and pay not offset that which would have been taken by their employee partner.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£8.1	£69.4
High	£0	£9.3	£79.9
Best Estimate	£0	£8.4	£72.0

#### Description and scale of key monetised benefits by 'main affected groups'

The benefit to families of changes to availability of pay can be represented (as a lower bound estimate) as the total value of new payments received. Exchequer cost for adoption are £8.1m and for the flexible parental leave is between £0.0m and £1.2m. No evidence is available to quantify the remaining benefits.

#### Other key non-monetised benefits by 'main affected groups'

More flexibility over childcare arrangements; increased opportunity for fathers to spend more time with their children, greater labour market attachment of women; more choice for women wishing to return to work; reduced gender pay gap in employment; benefit to individual employers from employees being absent for shorter periods and increased retention of employees. Greater potential for employers and parents to come to a mutually beneficial arrangement as to how leave is taken.

#### Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

Estimated take-up of the shared leave period ranging from 2 to 8%. Estimated take-up of extending parental leave to parents with older children between 6% and 12%. Amount of time taken is unlikely to be the full 18 weeks, more likely to be one or two weeks.

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £20.1	Benefits: £0	Net: £20.1	Yes	IN

## Evidence Base (for summary sheets)

### Problem under consideration

1. The current system of maternity, paternity and parental leave cannot be described as flexible and does little to encourage shared parenting in the first year of a child's life. It also perpetuates a gender imbalance in terms of attachment to, and position in, the labour market; reinforcing the culture that women do the majority of caring and are more likely to be absent from the labour force as a result of having children. In so doing, the current system contributes to unequal labour market outcomes for men and women in the longer term.
2. The Coalition Agreement committed to encouraging shared parenting from the earliest stages of pregnancy – including the promotion of a system of shared parental leave. The proposed new parental leave system will enable parenting responsibilities to be shared at all stages, allowing both parents to bond with their children from the early stages through to them becoming young adults.
3. In order to promote a system of shared parental leave, it is necessary to have in place a new statutory system that removes the current gender bias and provides an entitlement to both parents. It will have to be both flexible enough to give parents and employers the ability to agree how leave might be taken and also encourage fathers as well as mothers to take some of the leave. The existing system, which acts as a barrier to the sharing of caring responsibilities, cannot be made more flexible without unacceptable risk of challenge under EU law. Under CJEU (Court of Justice of the European Union) case law, leave which is parental in nature (as opposed to maternity) must be available on a non-discriminatory basis for both women and men.
4. A non-statutory approach would not deliver the outcomes sought as it would perpetuate the current system based on the entitlements of mothers. A wholly new system of shared parental leave is required if greater flexibility is to be given in the first year.
5. We will ensure that the proposed system of shared parental leave is available in a manner which is consistent with case law, but which goes no further than necessary to meet the aims of the UK government in this area.

### Current system of parental leave and pay

6. Under the current system the UK has an inflexible approach to the leave and pay available to working parents because leave can only be taken sequentially and in single blocks. At present, mothers are entitled to 52 weeks of maternity leave of which 39 weeks are paid. The first six weeks are paid at 90% of salary and the remaining 33 weeks are paid at the Statutory Maternity Pay (SMP) flat rate (£128.73 in 2011/12<sup>1</sup>). Women who are not eligible for SMP may receive Maternity Allowance for 39 weeks on the SMP flat rate.
7. Fathers are entitled to two weeks paternity leave, which are paid at the Statutory Paternity Pay rate (also £128.73 in 2011/12<sup>2</sup>). Should the mother

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<sup>1</sup> The flat rate was raised to £135.45 for 2012/2013, but as all wage costs in this Impact Assessment are costed using the most recent Annual Survey of Hours and Earnings (ASHE) 2011 data, we have used the 2011/2012 flat rate in this analysis.

<sup>2</sup> To qualify for Ordinary Paternity Leave and Statutory Paternity Pay, a father must have been with their employer for at least 26 weeks by the end of the 15th week before the start of the week when the baby is due.

decide to return to work, the father can take up to 26 weeks leave as Additional Paternity Leave (APL), some of which may be paid as Additional Statutory Paternity Pay (ASPP) if the mother has not used up her SMP. This can not be taken before the 20th week after the birth. If the mother takes no SMP before the birth and returns to work after 20 weeks, a father could be entitled to a maximum of 19 weeks ASPP. This is illustrated in Table 1.

**Table 1: Current statutory parental leave & payment entitlements**

<b>Women</b>	<b>Men</b>
52 weeks maternity leave	2 weeks paternity leave
Of which 39 weeks are paid	Of which 2 weeks are paid
First 6 weeks paid at 90% of salary and 33 weeks paid at the Statutory Maternity Pay (SMP) rate, £128.73 per week (2011/2012) or 39 weeks Maternity Allowance (MA) at the lesser of £128.73 or 90% of earnings	All paid at Statutory Paternity Pay (SPP) rate, also £128.73 per week (2011/2012)

From April 2011, Additional Paternity Leave (APL) is available. If the mother returns to work, the father can take a period of up to 26 weeks leave, starting no earlier than the 20<sup>th</sup> week after the child is born. Additional Statutory Paternity Pay (ASPP) may be paid during the mother's SMP or MA period.

Source: DirectGov

8. Additional Paternity Leave (APL) and Additional Statutory Paternity Pay (ASPP) are available to fathers who are:
  - Eligible for Statutory Paternity Leave<sup>3</sup> and in continuous employment with their employer up to the start of APL. In other words, fathers must have worked for 26 weeks, 15 weeks before the Expected Week of Confinement (EWC).
  - And eligibility for the pay element (ASPP) is further conditional upon the mother being entitled to Statutory Maternity Pay (SMP) or Maternity Allowance (MA) and having some of the entitlement remaining prior to the start of ASPP.
9. For a full glossary of terms and acronyms used to describe the current system of maternity leave, please refer to Annex 5.

## Rationale for intervention

10. There is a role for government in providing minimum statutory provisions for maternity and paternity leave because society benefits from parents being able to care for their child whilst retaining their employment status<sup>4</sup>. If parental leave was left to individual employers, economic arguments suggest that a positive

<sup>3</sup> To be eligible for Statutory Paternity Leave, a father must be employed and have completed six months' service with their employer into the 15th week before the week the baby is due.

<sup>4</sup> These benefits are discussed in detail in the Benefits section paragraphs 189 to 205.

externalities market failure would result. Individual employers would not provide socially optimal levels of parental leave because their calculations of how much leave to provide would not take account of the positive externalities (the social benefits), only the benefits to their business. The government also intervenes for equity reasons; regulation ensures minimum standards that prevent large disparities in provision of leave. All parents thus have equal rights, up to a basic level.

11. The current system has 'grown up' over the years, and changes have been based on the need to maintain the entitlement and protection of women and the perception that women are always the main carer for children. This gives rise to a gender imbalance because mothers are considered to be the primary carers for children and are expected to take up to a year out of work after the birth of a child.
12. The leave arrangements in the first year after birth (both paid and unpaid) reflect this, with negative consequences. It prevents flexibility for those families where the father would like to take a more active carer role in the first year. The Government believes that addressing this concern through a new system of parental leave that encourages parents to spend time with their child when they are very young will deliver economic and social benefits.
13. The focus of legislation on the mother as the primary carer for children does not reflect shifts in cultural preferences in recent decades. We now need primary legislation to fit, and further facilitate, this cultural change towards more choice and flexibility; something which cannot be done within the current regulatory regime. There is, therefore, a need to legislate to improve previous government intervention in this area.
14. The aim is to provide a new system that facilitates shared parenting from the earliest possible opportunity and flexibility for both employers and their employees by removing regulatory restrictions on how parents manage their working patterns in the first year after birth. The responses to the Modern Workplaces consultation<sup>5</sup> provided a strong steer that both employers and individuals now want choice and flexibility, and the chance to discuss and agree how best to balance work and caring responsibilities in the first year.
15. We will not be diluting the position for women, but, by introducing a new parental leave option, we will provide families with more choice as well as the ability to agree flexibility with their employers where it is mutually convenient. We also need to be mindful of existing arrangements such as contractual maternity enhancements beyond the statutory minimum that have developed to enable women to better maintain their attachment to the labour market.
16. To encourage further balancing of caring responsibilities between mother and father and shared parenting, we are also introducing a new right for fathers to attend antenatal appointments. The government has already introduced non-statutory approaches to encourage greater attendance of fathers at antenatal appointments, however these have not been successful enough, and the government considers that a statutory approach is required to achieve the desired outcome.
17. We also need to transpose the new Parental Leave Directive (96/34/EC) which requires us to extend the number of (unpaid) weeks available to each parent for each child to 18 weeks (currently, 13 weeks). The Directive does not specify an age limit within which leave must be taken, but allows Member

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<sup>5</sup> The Consultation on Modern Workplaces is available at: <http://www.bis.gov.uk/assets/biscore/employment-matters/docs/c/11-699-3-consultation-modern-workplaces-parental-leave.pdf>

States to choose the age limit of children to which this applies. Currently, the UK allows parents of disabled children 18 years in which to take the leave, and 5 years for all other parents. The amount of unpaid leave that can be taken in any one year is limited to 4 weeks (unless the employer and employee agree otherwise) in order to limit the impact on employers (particularly small employers). We are aiming for a significant cultural change with our new system of shared parental leave, and this policy element of unpaid parental leave is key to demonstrating that the new system will provide for shared parenting after the first year of a child's life. The consultation responses were equally balanced in the call for no change (remain at 5 years) and the extension to 18 years (to allow maximum flexibility for parents and eliminate the chance of any further changes of age limit), with other age limits receiving minimal support. Therefore, in viewing the overall system changes together as a mechanism to achieve our policy aims, we have decided to extend this so that all parents of children up to the age of 18 will be eligible for the new 18-week parental leave entitlement. We want to allow shared parenting to continue as much as possible after the first year of a child's life, and we need to recognise that for a whole range of reasons, caring responsibilities for parents do not end when their children reach 5 years old. Thus, each parent will be entitled to 18 unpaid weeks leave for each of their children, and we will maintain the condition that no more than 4 weeks can be taken in any one year so that we continue to minimise the impact on businesses.

## Policy objectives

18. The proposed new system of shared parental leave aims to:
  - Give parents or a mothers/primary adopter and their partner more choice and flexibility in how they share the care of their child in the first year, thus enabling both parents to retain a strong link with the labour market;
  - Encourage more fathers to play a greater caring role (pre-birth and in the first year);
  - Increase flexibility for employers and employees to reach agreement on how best to balance work and domestic needs without state interference.

## Consultation

19. On the 16th May 2011, the Government launched the Modern Workplaces consultation, which included a section on proposals for a new system of shared parental leave. The consultation ran for 12 weeks until the 8 August and received 273 completed responses.
20. In the consultation it was proposed to set reserved maternity leave with the period of Statutory Maternity Pay and Maternity Allowance also being 18 weeks. The remaining leave would be reclassified into:
  - a four week reserved period for both the father and mother, and
  - shared parental leave that could be taken by either parent, of which up to 25 weeks may be paid – with no more than 21 weeks being paid to any one parent.
21. Table 2 sets out the detail of the consultation scheme.

**Table 2: Proposed statutory parental leave & pay entitlements under shared arrangements**

Women	Men
18 weeks maternity leave: 6 wks at 90% salary and 12 wks at SMP / 90% of salary if less; or 18 weeks MA at the lesser of £128.73 or 90% of salary	2 weeks paternity leave at SPP
4 wks reserved flexible parental leave, paid at SMP/MA	4 wks reserved flexible parental leave, paid at SPP/PA
17 wks of transferable flexible parental pay, at SMP/SPP/MA	
<b>Total:</b> 30.5 wks of paid leave, rising to 39 wks if partner transfers maximum or partner is absent.	<b>Total:</b> 14.5 wks of paid leave, rising to 23 wks if partner transfers maximum or partner is absent.
13 wks of transferable flexible shared parental leave, unpaid	

Source: Shared Parental Leave consultation document

22. Alongside the open consultation we ran a number of consultation workshops with employer and employee representative groups as well as some employers. One of the workshops focused on testing the assumptions made in the consultation stage impact assessment and gathering additional evidence on the benefits and costs of a new system of parental leave. The event was attended by a number of key stakeholders and their responses are reflected throughout this Impact Assessment. We have adjusted these assumptions where the group disagreed and retained them where the group agreed or had no opinion.
23. The consultation responses were analysed on the basis of the yes/no responses to the questions and common themes running through the free text boxes after each question. These findings were then organised on the basis of whether they came from 'business' or 'non business' respondents. This analysis has caused us to change some of our initial proposals as explained later in this Impact Assessment. The full Government response to the consultation will be published alongside this Impact Assessment.

## Options identification

24. The main options being considered are:
- **Do nothing** – The commitment to create a system of shared parental leave was included in the Coalition Agreement as well as the manifestos of both Coalition parties. Doing nothing would not deliver this commitment, as the current legislative framework does not allow the sharing of leave.
  - **Non-regulatory option** - The strategic outcome of this policy is to achieve a culture change in the way that families care for their children in the year after they are born. The creation of an entitlement to parental leave and pay is key to making this policy a success. After the two weeks' paternity leave, the current regulatory regime only provides for entitlements to be transferred in a rigid manner with very limited flexibility.



Thus, we can only deliver the policy objectives by making a change to the regulatory regime.

- **Create a system of shared parental leave** including; rights for the father to attend 2 hospital appointments during a partners pregnancy, greater sharing of parental leave and pay in the first year of a child's life and 18 weeks unpaid parental leave after the first year.
25. Following consultation, we considered a number of options to create a system of shared parental leave with varying lengths of maternity, paternity and shared leave. All the options considered provided a right to 2 antenatal appointments and 18 weeks of unpaid parental leave until the child's 18th birthday.
26. In terms of the shared leave the following options were explored :
- 52 weeks of maternity leave and 39 weeks of SMP/MA. Mothers can end their maternity leave either through a commitment or by returning to work. This commitment can be given before the birth of the child, but not earlier than 15 weeks before the baby's due date. This commitment or return to work gives rise to an entitlement to shared parental leave & pay for parents that both meet the entitlement conditions. A mother must complete 2 weeks leave after birth (or 4 weeks if they work in a factory). The amount of shared parental leave and pay available is the remainder of the mothers leave and pay. – **Preferred Option**
  - 18 weeks paid maternity leave and 34 weeks of parental leave (21 of which are paid);
  - 26 weeks paid maternity leave and 26 weeks parental leave (13 of which are paid).
27. In terms of paternity leave the following options were explored:
- No extension to paternity leave so it remains at 2 weeks – **Preferred Option**
  - An extension of 2 weeks bringing the total to 4 weeks;
  - An extension of 4 weeks bringing the total to 6 weeks.
28. We have also considered, for all the above options, whether the ability to allow for statutory payments to be made to individuals on a lump-sum basis would affect whether we are able to achieve the policy objectives (this would also allow individuals to return to work having received a statutory payment).

**Preferred Option – 52 weeks of maternity leave and 39 weeks of SMP/MA, 2 weeks of paternity leave and mothers can give rise to an entitlement of shared parental leave and pay after the minimum health and safety period.**

29. This proposal has 3 areas that deliver the stated policy objectives:
- Pre-birth: A new statutory approach to allow fathers unpaid leave to attend two antenatal appointments.
  - First year after birth: Women will still be able to take the same amount of leave and pay they are currently entitled to but have the option of giving rise to shared parental leave to allow the parents to share childcare responsibilities; and 50 weeks of shared parental leave, 37 of which will be paid, which can be shared between the parents.

- After the first year: A separate system of unpaid parental leave for parents of children up to the age of 18, increasing leave from 13 weeks per parent per child to 18 weeks.
30. This system meets all of the policy objectives since it would maintain the current ability of women to choose when and whether to end their maternity leave, whilst maintaining compliance with EU Directives (see paragraph 33 below). It would also encourage a partner's bonding with the baby by allowing fathers to attend key antenatal appointments and have longer time off immediately after the birth by taking parental leave concurrently with their partners. Families can choose the point at which to share the leave entitlement enabling the maximum flexibility for parents in the first year of a child's life. The unpaid parental leave period after the first year meets the requirements of the Parental Leave Directive of providing 18 weeks leave. By extending the age limit to 18 years, this allows parents time off to cope with childcare issues throughout a child's life.

#### Consultation considerations

31. Responses to the consultation called for a system that was simple and easy to understand. Some key stakeholders (representing both business and families) felt the proposed structure was too complex, and called for us to maintain a distinction between parental leave associated with the first year after a birth, and the unpaid parental leave system resulting from the transposition of the Parental Leave Directive. This would have the added benefit of enabling us to make changes to these 'separate' systems without having to unravel any future regulations.
32. This led us to simplify the nomenclature of the proposed new leave system, relative to what was proposed in the consultation. The revised proposal comprises only 3 leave elements in the first year (as opposed to the 5 in the consultation) – maternity, paternity and parental. The 'reserved' element of the shared parental leave has been removed from the proposal. This system will also apply to adoptive parents (see Adoption Leave below). There are further benefits in that the new system will also simplify the related nomenclature for statutory payments relative to the current situation (there will no longer be a distinction between 'ordinary' and 'additional' elements of leave and pay).

#### Other considerations

33. There are two factors that impact on the range of options that could be considered. These are:
- i) The need to maintain the provision available to women at the time of the implementation of the original Pregnant Workers Directive, otherwise the UK could be subject to infraction proceedings. Whilst the Pregnant Workers Directive specified the requirement of a minimum of 14 weeks maternity leave, the arrangement in the UK at the time of transposition was 28 weeks of paid maternity leave. This means that a continuous period of leave of up to 28 paid weeks must continue to be available to pregnant women/women who have given birth. Our proposals achieve this by providing mothers with exactly the same amount of maternity leave and pay as now, but with the option to enable sharing of leave through the Shared Parental Leave system.

- ii) The need to provide a specific period of leave reserved exclusively for the father. International evidence shows that fathers are more likely to share caring responsibilities if there is a specific portion of leave allocated to them<sup>6</sup>. This already exists in the form of paternity leave, and both fathers and employers are aware of it. Thus, we have decided to maintain this and provide access to further periods of parental leave where families decide to increase the involvement of fathers and utilise the sharing of leave.
34. By providing the family with the option to use Shared Parental Leave from the second week after birth parents are able to choose how to manage childcare responsibilities as early as possible and this will provide the family maximum flexibility. The proposed system thus maintains a period of maternity leave to meet the requirements of the Pregnant Workers Directive and provides a simple system of entitlements for users to understand whilst providing maximum flexibility. To help provide certainty for employers when recruiting new staff, we will also be introducing entitlement conditions for parental leave (e.g. the need to have 26 weeks continuous employment at 15 weeks before the baby's due date). Maternity leave will remain a "day 1" right.

#### Non-Regulatory approach

35. The strategic outcome of this policy is to achieve a culture change in the way that families care for their children in the year after they are born. The new policy will enable the father to take a much bigger role throughout their children's lives. The current regulatory regime does not enable flexibility in the way leave is used and does not allow for it to be shared concurrently, thus we can only deliver the policy objectives by making a change to the regulatory regime. It is impractical to take a non-regulatory approach if our policy objectives are to be met.
36. International evidence supports the proposal for providing statutory leave for parents, and particularly fathers. In countries where a specific entitlement is provided for fathers, the proportion of fathers taking leave has increased.<sup>7</sup> In Norway, for example, the proportion of men taking some leave has increased from 4 per cent to 89 per cent since the introduction of the one-month father's quota. In Quebec, in 2006, 56 per cent of fathers took a period of Paternity and/or Parental leave; since the introduction that year of the new Parental leave scheme with longer time off for fathers and higher wage replacement, this has risen to 82 per cent in 2008. This compares with 12 per cent of fathers taking leave in the rest of Canada, where there is no paid Paternity leave and a less generous Parental leave scheme. In Sweden, the proportion of leave days taken by men in Sweden doubled between 1997 and 2004, with the introduction and then the extension of a father's quota. In Germany, the 2007 reform of leave, which had the explicit aim to raise leave take-up by fathers, has had an immediate impact; the proportion of fathers taking leave rose from 3.3 per cent in 2006 to 18.6 per cent in 2009 and to 20 per cent in 2010.
37. In terms of antenatal appointments, BIS already has a non-regulatory approach through its own good practice campaign.<sup>8</sup> However, research evidence shows that a third of fathers still do not take any time off before the birth of their child.

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<sup>6</sup> See International Review of Leave Policies and Related Research 2011, Moss, P, Institute of Education University of London. More detail is given in paragraph 35 below.

<sup>7</sup> International Review of Leave Policies and Related Research 2011, Moss, P, Institute of Education University of London.

<sup>8</sup> Fathers to be and antenatal appointments: a good practice guide, available at <http://www.bis.gov.uk/files/file20795.pdf>.

A right to time off to attend antenatal appointments would allow fathers this opportunity that their employer would not normally allow them, and is a crucial part of our strategic aim to show that shared parenting is important. Therefore, giving fathers a right to take unpaid leave to attend antenatal appointments is key to encourage shared parenting from as early a stage as possible. We have minimised the cost to business by leaving the time off as unpaid and restricting the entitlement to two appointments.

Reduced shared leave option – 18 weeks paid maternity leave and 34 weeks of parental leave (21 of which are paid)

38. As outlined above, as part of the post-consultation process we considered a number of alternative options about how to meet our policy objectives within the boundaries of the overall amount of time available in the first year. This system meets most of the policy objectives since it would maintain a period of leave reserved for mothers after the birth of their child as required by the Pregnant Workers Directive (see paragraph 33 above). It would also encourage a partner's bonding with the baby by allowing fathers to attend key antenatal appointments and have longer time off immediately after the birth. However, it would not provide as much leave to share, nor flexibility over when to start it, as the preferred option. There was also concern amongst some stakeholders that it will promote a perception that maternity leave has been reduced to 18 weeks, even if this is not the case (as the mother would be able to take parental leave directly after maternity leave).

Reduced shared leave option – 26 weeks paid maternity leave and 26 weeks parental leave (13 weeks of which are paid)

39. We also examined the option of a period of 26 weeks maternity leave, as there were calls for this as part of the consultation responses. The cost estimates of how each of these possible different permutations compares with the preferred option are set out in the table below. Twenty-six weeks was considered since this fits with the recommended period for breastfeeding.
40. Whilst we appreciate that there are some calls for the period of maternity leave to be placed at 26 weeks, we feel that reducing the shared parental leave period to 26 weeks (13 of which will be paid) will not provide enough incentive for the sharing of leave, as the paid period of parental leave will only be 13 weeks. Our aim is to provide maximum flexibility and choice for parents, and the consultation responses supported this. We feel that this option would provide little benefit to fathers already covered by the current arrangements under Additional Paternity Leave. 60% of consultation respondents disagreed with our proposal to reserve 18 weeks of maternity leave exclusively for mothers. The most popular reason amongst those who disagreed was that the period of maternity leave reserved exclusively for women should be shorter. 20% of consultation respondents thought that no period should be reserved at all for mothers, and that all of the leave should be available to parents to choose who should take it.

Paternalty leave options – No extension, 2 week extension or 4 week extension

41. We explored a number of options in terms of an extension to paternity leave. We are aware of the effect of making leave available to fathers on a ‘use it or lose it’ basis (paras 33-36, above), but we also want to make the new system as simple as possible and balance the needs of the economy. This is why we have chosen not to create 3 types of parental leave (a specific period for mothers, a specific period for fathers, along with a portion of shareable leave), but have decided to provide maximum flexibility and choice for parents by allowing access to parental leave after the minimum health and safety period. Therefore, if parents so choose, fathers could now access up to 50 weeks of leave and 37 weeks of pay in the first year after a child is born. We also want to reduce the burdens on business to a minimum, whilst creating a system that will enable the cultural change we are looking for.
42. Therefore, the only additional impacts of the new system are those related to the additional choice and flexibility brought about by the ability to share leave and take it concurrently.

**Table 3: Estimated annual recurring cost of considered options (Employer and Exchequer)**

	Total annual recurring cost
Preferred option with no paternity leave extension	£34.3m
As preferred option with 2 week paternity leave extension	£60.5m
As preferred option with 4 week paternity leave extension	£71.5m
Shared leave of 34 weeks and no paternity leave extension	£33.9m
Shared leave of 34 weeks and only 2 week paternity leave extension	£60.0m
Shared leave of 34 weeks and extra 4 weeks paternity leave	£71.1m
Shared leave period reduced to 26 weeks (13 paid) and no paternity leave extension	£31.6 m
Shared leave period reduced to 26 weeks (13 paid) and only 2 week paternity leave extension	£57.8m
Shared leave period reduced to 26 weeks (13 paid) and extra 4 weeks paternity leave extension	£68.9m
Previous 34 week option without qualifying criteria and no paternity leave*	£122.8m
Previous 34 week option without qualifying criteria and extra 2 weeks paternity leave*	£149.9m
Previous 34 week option without qualifying criteria and extra 4 weeks paternity leave*	£164.7m

Source: BIS estimates – One off transitional costs have not been included since these will apply equally to both options. The cost estimates for the alternative options have been produced using the same methodology as that outlined in this Impact Assessment to cost the preferred option. \*Excludes Adoption Leave costs.

## Lump Sum payments

43. During the Employment Law Red Tape Challenge, BIS and DWP were asked to consider the viability of making statutory payments for shared parental leave in a lump sum rather than on a weekly basis. The aim was to see if this would reduce the burdens on business. Currently, statutory payments are made largely via businesses (who are reimbursed through deductions from their NICs contributions), although some mothers receive payments directly from JobCentre Plus (the self-employed, very low paid and those that no longer work, but whose recent employment history means they qualify for payment).
44. Currently, recipients of statutory payments receive payment on a weekly or monthly basis for each week they are away from the workplace. Such payments stop when they return to work, which in some cases is before the end of the period of entitlement. Lump sum payments are possible under the current system, but tend only to be used in certain circumstances (e.g. if a mother leaves her job during maternity leave and her employer wants to complete payments quickly). This level of flexibility works well, and we are not looking to reduce this sort of flexibility with our current proposals.
45. Making a lump sum payment for the whole of the paid leave period, or, for parts of it (such as the paid portion of parental leave) would mean that an individual could receive payment and still return to work as there would be no enforcement of a link between leave and pay. We believe that separating statutory pay from leave would result in greater – 100% – take-up of statutory pay adding significant costs to the Exchequer (estimated to be in the region of £1bn over and above the existing additional costs of the preferred option paid without lump sums). This approach would, however, provide maximum choice for the “family unit” and may encourage even more fathers to take some period of leave (as it could provide a higher level of wage replacement for a shorter period of time).
46. Equally, it may not change behaviour, nor encourage any additional taking of leave, but, just increase the overall cost of statutory payments. There is no available evidence to support either outcome. In addition, it may be that lump sums do not necessarily reduce the burdens on business, and may create cash flow issues throughout the payment chain for small businesses (e.g. small companies may not be able to afford lump sum payments, which will increase calls for advance payments from HMRC and hence place greater demands on the exchequer with particular effect around the end of the financial year). For all of these reasons, this option was not pursued further.

## **Proposed system of parental leave and pay**

### **Pre-birth**

47. Employed mothers-to-be are entitled to time off for antenatal care. This is paid at their normal rate of pay by their employer and can include any antenatal appointments or classes that their midwife or doctor recommends. Currently, fathers are not entitled to any time off to accompany their pregnant partner.

48. Non-legislative alternatives are already in place: BIS produces best practice guidance for employers providing time off for fathers attending antenatal appointments and the NHS choices website provides guidance for mothers encouraging them to invite their partner to accompany them.<sup>9</sup> However, evidence from the 2009 Maternity and Paternity Rights Survey<sup>10</sup> shows that 33% of fathers do not take leave to attend antenatal appointments, and so further action is necessary to ensure that those fathers who want to attend, and are invited to do so by the mother, are able to take the necessary time off work.
49. There is strong evidence that a father's attendance at ultrasound scans helps early bonding and increases his commitment to the pregnancy<sup>11</sup>. It is therefore proposed that fathers should be able to take time out of the workplace in order to attend up to two antenatal appointments at the mother's invitation. This is proposed as a new right to unpaid time off.

### **1st Year After birth**

50. Chart 1 shows the current system of statutory parental leave and pay, including Additional Paternity Leave. The current system allows women 52 weeks maternity leave, 39 of which can be paid. The first 6 weeks are paid at 90% of salary and remaining 33 weeks are paid at the SMP rate (the lesser of 90% of earnings or £128.73 for 2011/12). Women who are not eligible for SMP may receive Maternity Allowance for 39 weeks on the SMP flat rate. Employed fathers are entitled to 2 weeks paternity leave, paid at the lesser of 90% of earnings or £128.73 for 2011/12. If the mother chooses to return to work the father can take a period of up to 26 weeks leave as Additional Paternity Leave (APL). Additional Statutory Paternity Pay (ASPP) may be paid if the mother has not used her full entitlement.

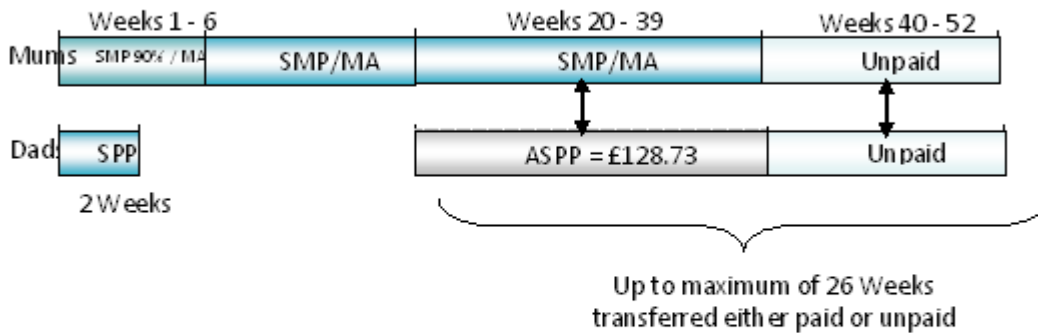
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<sup>9</sup> It is the Government's view that antenatal appointments remain by default a private consultation between an expectant mother and her clinician, with fathers/partners only attending if invited to do so by the expectant mother.

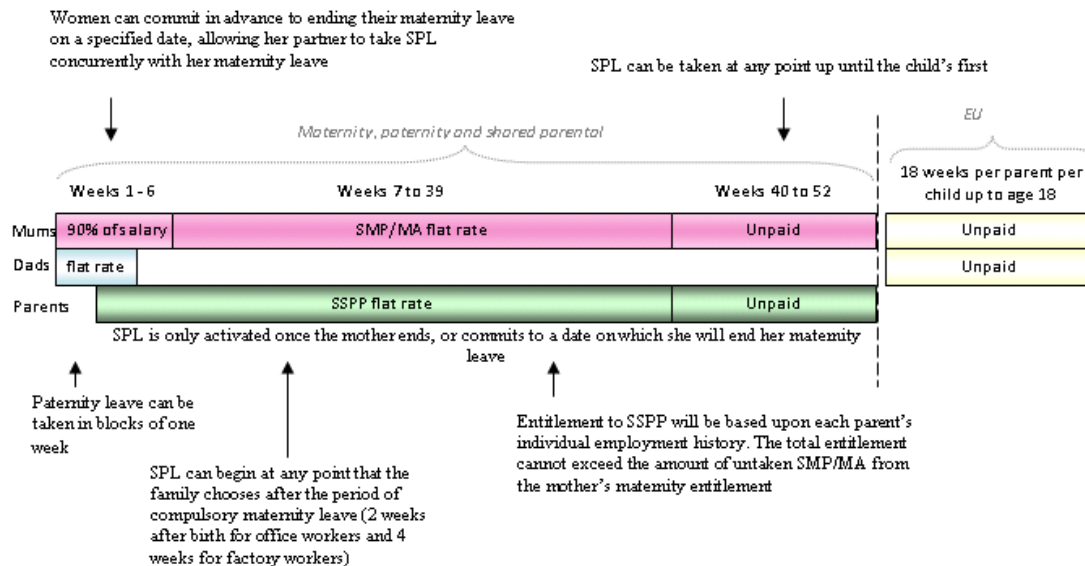
<sup>10</sup> *Maternity and Paternity Rights and Women Returners Survey 2009/10* Chanfreau et al, DWP, October 2011

<sup>11</sup> *It was a real good show: the ultrasound scan, fathers and the power of visual knowledge*, Jan Draper (2002) 'Fatherhood Institute Literature Review

## Chart 1: Current system of statutory parental leave & pay (including APL)



## Chart 2: Proposed system of shared parental leave & statutory pay/allowances





51. Chart 2 shows the new system of parental leave and pay proposed in this impact assessment for the first year after the birth of a child. It is proposed that mothers will retain the option to take 52 weeks of Maternity Leave with 39 weeks of statutory maternity pay. If a mother returns to work earlier or commits to end her maternity leave it will give rise to a joint entitlement for shared parental leave and statutory shared parental pay for the remaining weeks of leave and pay which could be taken by either parent.

#### Maternity Leave

52. The Pregnant Workers Directive currently requires that 14 weeks maternity leave must be provided in recognition of the special condition of women who have recently given birth. This is a period of leave that is reserved for the mother and must be taken in a continuous block starting before or at the birth. This Directive is currently subject to a proposed revision by the European Union and it is expected that the period of leave that must be reserved for the mother will be extended to 18 weeks. Retaining the current maternity leave period for mothers will ensure that we are fully compliant with any future changes to the Pregnant Workers Directive. The qualifying conditions and payment structure will remain unchanged. Therefore, the first six weeks of Statutory Maternity Pay (SMP) will be paid at 90% of earnings, with the following 33 weeks capped at the standard rate (£128.73 per week in 2011/12). Women who fail to qualify for SMP may qualify for Maternity Allowance for 39 weeks capped at the standard rate, also £128.73 per week in 2011/2012. Mothers can choose whether to end maternity leave early and give rise to the entitlement of shared parental leave and pay for the family.

### Paternity Leave

53. As indicated earlier, the proposals for paternity leave are based on the desire to maintain a specific period of leave reserved for the father, but reduce complexity of the overall system.
54. Currently, eligible employed fathers are entitled to 2 weeks paid paternity leave to be taken within 8 weeks of the birth of a child. Statutory Paternity Pay (SPP) is paid at the same standard rate as Statutory Maternity Pay – the lesser of 90% of earnings or £128.73 per week in 2011/12. A father may take one or two weeks' leave. We will be maintaining this entitlement.
55. The qualifying conditions for SPP reflect those for SMP. The father must have worked for his employer for 26 weeks into the 15th week before the baby is due. He must also earn, on average, at least the lower earnings limit (£102 per week in 2011/12) during a specific 8 week period within these 26 weeks.
56. There is no equivalent to Maternity Allowance for fathers who are not eligible for paternity pay. However, low-paid fathers may qualify for Income Support if they take paternity leave.

### Shared Parental Leave

57. Based on responses to the consultation, we have decided that shared parental leave available to parents in the first year of a child's life will have a separate set of conditions to the unpaid parental leave available after the first year, as defined by the Parental Leave Directive. We have done this because we believe that the leave package available to families in the first year of a child's life is about enabling parents and their children to bond, for mothers to take time out of the workplace to recover from birth and for parents to become familiar with the needs of this new situation in their lives. To help provide employers with certainty when they recruit staff, shared parental leave will have qualifying conditions; meaning that parents will need to have 26 weeks continuous service with their current employer at the beginning of the 15th week before a baby's due date (the same conditions apply to paternity leave).
58. Eligibility for the pay element, Statutory Shared Parental Pay (SSPP) is also conditional on an employee having six months continuous service with their current employer at the beginning of the 15th week before the baby's due date (as the current SMP / ASPP eligibility criteria).
59. We also intend to keep under review the arrangements for working parents who do not meet the qualifying requirements to receive statutory payments. Any such a provision will not be introduced until 2018 at the earliest. This will allow evaluation in the context of a fully operational Universal Credit system. If it is introduced, employed parents who do not qualify for Statutory Shared Parental Pay (if they do not meet the Lower Earnings Limit, for instance) and self-employed parents who meet the qualifying conditions may be eligible for this new payment mechanism.
60. A summary of this proposal is given in Table 4, and Charts 1 and 2 provide a comparison between the current system and the proposed one.

**Table 4: Proposed statutory parental leave & pay entitlements under shared arrangements**

Women	Men
52 weeks maternity leave: 6 wks at 90% salary and 33 wks at SMP / 90% of salary if less; or 39 weeks MA at the lesser of £128.73 or 90% of salary	2 weeks paternity leave at SPP
up to 37 wks of transferable shared parental pay, at SMP/SPP/MA	
<b>Paid Total:</b> 39 wks if partner is absent.	<b>Paid Total:</b> 39 wks if partner transfers maximum.
13 wks of transferable flexible shared parental leave, unpaid	

Source: Shared Parental Leave consultation document

61. Some mothers have access to occupational maternity leave schemes whereby their employer offers contractual terms above the statutory minimum. The Maternity and Paternity Rights Survey shows that employers offer similar benefits for fathers taking statutory paternity leave. This found that 72 per cent of fathers taking leave did so on full pay for some or all of the time off. However, there is less evidence to show that employers are offering employees additional paid leave to assist with childcare. Therefore the current proposals aim to remove the barrier of leave availability to fathers to allow families more choice in how childcare is arranged in the family.

#### Notification Arrangements

62. The proposed general notification arrangements for the new system are designed to limit uncertainty for employers but allow parents to make changes should their circumstances change. The current position is that:
- 15 weeks before the due date, mothers will need to notify their employer of their maternity leave. If they so choose, mothers will also be able to notify the end of their maternity leave, thus giving rise to shared parental leave and enabling them and their partner to take leave concurrently.
  - Once the Shared Parental Leave period has begun, parents can make a further request to change their arrangements with the 8 weeks notice.

#### After the First Year

63. After the first year, and as indicated above, our preferred option is to provide a system of unpaid parental leave that is separate to the structures associated with the first year. For parents of children up to the age of 18, unpaid leave will be increased from 13 weeks per parent per child to 18 weeks. At present parents are entitled to 13 weeks of unpaid parental leave which must be taken before the child's fifth birthday (unless the child is disabled in which case this can be taken up to age 18). The extension in the total amount of unpaid parental leave will fulfil the UK's obligations under the Parental Leave Directive and will be implemented by March 2013 (prior to the changes proposed in this IA).

64. As we have explained, the consultation responses made a persuasive argument to maintain a separate system of leave for the first year after the birth and for subsequent years. The policy objectives in the first year after the birth of a child relate to those set out in the Pregnant Workers Directive - recovery from birth, care of and bonding with the child – and those stipulated for this policy. The system related to the first year after birth also provides for statutory payments, which are not available in subsequent years. Therefore, the separation of these two leave systems is preferable, as it may be difficult to unravel such things as entitlement to unpaid leave in the first year (after the first 39 weeks) and unpaid leave in subsequent years.
65. To be entitled to unpaid parental leave under the current system, an employee must have a child of age 5 or under, or 18 or under if the child is disabled. During the consultation a range of age limits were proposed for the new system – 5, 8, 12, 16 and 18. Around 30% of respondents called for there to be no change, whereas around 31% called for the age limit to be increased to 18. There was not much support for the 8, 12, or 16 options. We have chosen the age limit of 18, as this shows commitment to our policy objective of encouraging shared parenting, and forms part of the overall cultural shift we are trying to achieve. This will also harmonise the unpaid system so that it is the same for parents of all children (regardless of disability), and provide parents with the ability to look after their children throughout the various stages of their childhood, where, in some circumstances, balancing care and work responsibilities becomes even more challenging. In order to minimise the costs and disruption to business, we will maintain the position that employees will be limited to a maximum of four weeks unpaid parental leave per year. Whilst the Parental Leave Directive does not require us to do this, we feel it is vital to maintain this to meet wider policy objectives relating to Better Regulation.

### **Adoption Leave and Pay**

66. Under the new proposals for maternity, paternity and parental leave we propose that the eligibility criteria for adopters mirror the eligibility criteria for birth parents so that the parental leave arrangements available for adopters can be more closely aligned to what is available for birth parents. We will also be providing statutory adoption leave and pay in certain cases of surrogacy: to intended parents in a surrogacy arrangement who meet the criteria to apply for a Parental Order and intend to apply for one or have applied for one will be eligible for statutory adoption leave and pay if they meet the qualifying criteria; and for shared parental leave and pay if they meet the qualifying criteria.
67. The proposals mean that a couple adopting a child through an approved agency, or from overseas, will nominate a 'primary' and 'secondary' adopter who would then be able to use the system in the same way as birth parents. Where both adoptive parents, or the adopter and his or her partner, would be eligible to shared parental leave and pay, the primary adopter will then be able to decide when the adoption leave will end giving rise to shared parental leave and pay to allow eligible parents to share the leave and take it in a flexible way.
68. In addition, we propose to bring the right to adoption leave into line with the right for maternity leave. We will be abolishing the continuous service qualifying test for statutory adoption leave and making it a "day 1" right. However, as with birth parents, in order to qualify for the shared parental system, both parents will need to meet the qualifying criteria outlined above. Will we also be

considering the payment provisions for adoptive parents so that these can be more closely aligned to what is available for birth parents. This will include changing the rate of statutory adoption pay for the first 6 weeks from the flat rate to 90% of weekly earnings or the flat rate (whichever is lower).

69. We also will provide adopters the right to time off to attend introduction appointments which take place in the period between the matching and placing of the child. It's common that the placement plan includes multiple appointments for the adopters and children to meet. This can include the child coming to stay overnight in their new home prior to the actual placement date. Giving this time off ensures adopters feel able to commit to the most appropriate schedule of introduction meetings to meet the child's needs, as advised by the social worker.
70. The new leave system will therefore look like this for adopters (and certain surrogate parents):
- The primary adopter will have the right to paid time off for up to 5 introduction appointments. The secondary adopter will be entitled to time off to attend 2 unpaid appointments.
  - Statutory adoption leave up to 52 weeks (39 weeks paid) for an employed primary adopter.
  - Once the primary adopter returns to work or commits to end the period of adoption leave it gives rise to an entitlement to the shared parental system, if both parents meet the qualifying criteria. In order to take shared parental leave and pay, each parent will need to qualify in their own right. The amount of shared parental leave and Statutory Shared Parental Pay available will not exceed the balance of untaken adoption leave and pay.
  - The secondary adopter will be entitled to 2 weeks paternity leave.
  - Both adopters will be entitled (subject to meeting the employment qualifying criterion) to 18 weeks unpaid parental leave until the child is 18.
  - For the first 6 weeks, Statutory Adoption Pay to be 90% of weekly earnings or the flat rate (which ever is lower).
71. There are around 4000 instances of adoption (including certain cases of surrogacy) each year in the UK<sup>12</sup>. Allowing adoptive parents to qualify for leave from day one only creates a small increase in the overall cost to businesses, as we have assumed that the majority of parents that are going through the adoption process are unlikely to be starting new jobs during the process.

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<sup>12</sup> Whilst data is available on the overall number of adoptions each year, there is no data available on the labour market characteristics of those adopting. It is therefore not possible to make accurate estimates of the impacts of the policy changes. However, given the very small number of individuals involved (the 4000 adoptions annually, including overseas adoptions and cases of surrogacy, is just 0.5% of the total number of births), the additional costs will be small.

## Costs of greater parental rights

72. We now go on to look at the costs associated with the four main policy strands of the new leave system. These are:
- Pre-birth – Antenatal Appointments
  - The First Year – Shared Parental Leave
  - The First Year – Adoption Leave
  - Beyond the First Year – Unpaid Parental Leave.

### Pre-birth – Antenatal Appointments

73. As indicated above, whilst employed mothers-to-be are entitled to time off for antenatal care, fathers are not currently entitled to any time off to accompany their pregnant partner. The Government's preferred option is for fathers to have the right to unpaid leave to attend two antenatal appointments, in order to be able to attend the most important scans during their partner's pregnancy.
74. During an uncomplicated first pregnancy a mother-to-be typically has 10 midwife appointments and 2 ultrasound scans, whilst subsequent pregnancies normally require 7 appointments plus two scans. A woman who develops complications may require many more appointments and additional scans. Many of these appointments may be routine and would not necessarily require the father's attendance – for example a routine midwife check-up. We have therefore proposed a right to time off for two appointments.

#### ***Number of beneficiaries and take-up***

75. Estimates of the number of fathers who would be eligible for time off to attend antenatal appointments are approximate as no survey specifically records the number of fathers who have a partner that attends antenatal appointments and scans. In Great Britain<sup>13</sup> in 2010 there were approximately 782,000 maternities<sup>14</sup> where the mother would require such appointments. To calculate the number of eligible fathers, the proportion of these maternities that involve lone mothers, as well as the proportion of mothers who do not have a partner who is an employee (and therefore cannot take leave from work) needs to be taken into account. The table below shows an estimate of the number of fathers who would be eligible to take time off work to attend these appointments with their partner.

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<sup>13</sup> Great Britain refers to England, Scotland and Wales.

<sup>14</sup> England and Wales figures from ONS Birth Statistics 2010 <http://www.ons.gov.uk/ons/rel/vsob1/characteristics-of-birth-2--england-and-wales/2010/characteristics-of-birth-2.xls>; Scotland figures from General Register Office for Scotland - Births, Deaths and Other Vital Events <http://www.gro-scotland.gov.uk/files2/stats/births-marriages-deaths-preliminary/preliminary-10-tab-2.xls>

**Table 5: Estimated eligibility for time off to attend antenatal appointments**

Number of maternities A	% of mothers who are lone parents <sup>a</sup> B	% of fathers who are an employee partner <sup>b</sup> C	Number of eligible fathers D = A x (1-B) x C
782,000	16%	82%	539,000

<sup>a</sup> The joint BIS/DWP Maternity and Paternity Rights Survey 2009

<sup>b</sup> Labour Force Survey Q3 2011

Source: BIS estimates using data from the ONS Birth Statistics 2010, General Register Office for Scotland – Births Deaths and Other Vital Events 2010, Maternity and Paternity Rights Survey 2009 and Labour Force Survey

76. The proportion of mothers who are lone parents is taken from the 2009 Maternity and Paternity Rights Survey, and in our analysis this is assumed to be constant over time. In fact, this figure has increased in recent years (it was 13% in the 2005 iteration of the same survey), and in the event that this trend continues, our estimates below of the costs to business are conservative. Whilst this is a survey of mothers and fathers it does cover the period before birth and therefore a good indication of the proportion of maternities that involve lone parents. The proportion of fathers who are employees is taken from the Labour Force Survey.
77. To calculate the impact of this policy change, we need to estimate the proportion of the 539,000 fathers who will now take time off to attend antenatal appointments when previously they would not have done so. We also need to look at the impact of the policy on those who already attend such appointments.
78. On the latter group, there is substantial evidence to show that many fathers already take time off during their partner's pregnancy. Recent figures from the 2009 Maternity and Paternity Rights Survey show that 67% of employed fathers take time off during their partner's pregnancy. More detailed figures from the 2005 iteration of the survey showed that almost 80% of these fathers took leave to attend ultrasound scans or other hospital appointments<sup>15</sup>. Many employed fathers will have taken this time as annual leave or made some arrangement to make time up later.
79. So some fathers are already taking time off to attend antenatal appointments. Of these, we assume the majority will be unaffected by the current proposals as they continue to make the time up or use existing annual leave entitlements. However, some of this group may decide to take up the new unpaid leave entitlement and save their annual leave for use later in the year. It is difficult to estimate the proportion of fathers who may do this since we have no direct evidence. The most recent Maternity and Paternity Rights Survey found that of those fathers taking time off prior to the birth only 12% took unpaid leave. The take-up of other forms of unpaid leave, such as unpaid parental leave, is at a similar level. We have therefore assumed that with the introduction of the new right, a maximum 12% of fathers who would have taken time off work to attend these appointments anyway will now take it as unpaid leave, when previously they would have used annual leave. Since we have no other accurate evidence we have presented this as a range of 6% to 12% in line with the take-up of other forms of unpaid leave.

<sup>15</sup> Maternity and Paternity Rights and Benefits: Survey of Parents 2005, D. Smeaton and A. Marsh (Page 7 Ref. 6).

80. This results in an estimate of between 22,000 and 43,000 fathers annually who would have taken time off to attend the appointments anyway, but will now take unpaid leave rather than using annual leave to do so. This represents an extra cost to business in terms of absence that they would not previously have faced.
81. The policy will also affect some of the 33% of eligible fathers who either currently choose not to take time off during their partner's pregnancy, or else feel unable to do so. The recent DWP study did not ask fathers why they did not take time off prior to the birth. Earlier survey work found that of fathers not attending appointments, a third reported that their employer would not allow them time off, a third said the timing was inconvenient and a fifth said they were uncertain about whether they were welcome or needed.<sup>16</sup> Only a small proportion said they did not want to attend appointments. Some of these fathers will decide to attend antenatal appointments as a result of the legislation since the right to time off will ensure employers allow employees to attend and will send a strong message that fathers' attendance is important. Again, it is difficult to estimate the level of take-up of the new right amongst this group, but we have used evidence on take-up of other forms of unpaid leave as an indicator of the use of the new right. The most recent evidence is from the Maternity and Paternity Rights Survey 2009/10. This found that 31% of mothers said they had access to unpaid parental leave but only 6% had used it. The Fourth Work Life Balance survey of employees asked all parents whether, since starting their current job or in the last 12 months, they had taken unpaid parental leave. The survey found that only 11% of all parents of dependent children had taken unpaid parental leave.
82. We therefore assume that the introduction of the new right will lead to between 6% and 12% of those eligible fathers who do not currently take any leave during their partner's pregnancy, now taking unpaid leave to attend 2 antenatal appointments.
83. This results in an estimate of between 11,000 and 21,000 fathers annually who will take unpaid leave to attend antenatal appointments as a result of this policy change, when previously they would not have taken time off during their partner's pregnancy.

### ***Employer cost of absence***

84. Table 6 shows the cost of absence to business for fathers who attend 2 antenatal appointments or scans. This table includes costs for the fathers who are switching to unpaid leave from annual leave, as well as the costs for those who would not otherwise have taken any leave. Each appointment is approximately 1 hour long, and factoring in travel time it is assumed that employees would require on average 3 hours leave for each appointment.
85. Due to the short-term nature of the absence, it is assumed that all employers react by reallocating work within their organisations rather than by recruiting temporary replacements<sup>17</sup>. Research commissioned by BIS (then DTI)<sup>18</sup> found that employers are likely to incur short-term absence costs due to overtime payments and opportunity costs from displaced outputs elsewhere.

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<sup>16</sup> *Becoming a Father*, D Singh and M. Newburn, NCT Maternity Services, 2001. This was a three year study of 800 fathers of children under six months.

<sup>17</sup> Work & Families: Choice & Flexibility IA (Page 7, Ref 1) for a full explanation of the methodology employed here (Shown in Annex 4).

<sup>18</sup> *How employers manage absence*, Bevan, S. et al (2004) BIS Employment Relations Research Series No. 25, available at: [www.bis.gov.uk/files/file11503.pdf](http://www.bis.gov.uk/files/file11503.pdf)



86. These costs of absence feature repeatedly in this impact assessment and our approach to calculating them is consistent throughout. We therefore explain the detail of our approach in Annex 4 and simply outline the assumptions here. Estimating the costs of covering absence is difficult since accurate data on the various components are not available. The recent CBI survey<sup>19</sup> found that few firms collect detailed data on costs, but estimated that on average absence, both planned and unplanned, costs around £760 per employee for 6.5 days. It further estimated that the indirect costs for all absences, once sick pay or salaries are removed are around 29%<sup>20</sup> of this total cost. For this IA we have assumed a lower figure to take account of non-wage labour costs and the fact that these absences are planned (so less costly than unplanned absence). We have thus assumed that the **employer cost of dealing with absence is between 7% and 14% of total labour costs** (see Annex 4 for more detailed explanation).<sup>21</sup>

**Table 6: Estimated cost of absence due to the proposal to allow fathers to attend 2 antenatal appointments**

Eligible fathers	Additional take-up (excluding deadweight)	Cost per appointment <sup>a</sup>	Reorganisation cost	Overall cost of absence: 2 appointments
539,000	6%	£50.35	7%	£0.23m
539,000	12%	£50.35	14%	£0.9m

<sup>a</sup> Male median gross hourly pay for all male employee jobs from the ONS Annual Survey of Hours and Earnings 2011, updated to include non-wage costs and multiplied by 3 to reflect a 3 hour appointment. Median earnings are the point at which 50% of the selected population earn at or above this level. This measure is preferred to the mean as a more representative and stable measure, less affected by skew in the earnings distribution usually caused by a few high earners.

Source: BIS estimates

87. Table 6 above shows that our estimate of the annually recurring employer absence costs as a result of this policy change lies between £230k and £900k. Taking the midpoint between these low and high estimates, for the preferred option, our best estimate is that there is a cost imposed on employers in terms of absence costs of approximately £570k annually.

### **Recurring administrative costs to employers**

88. Employers may incur recurring administrative costs associated with each individual request for unpaid leave to attend an antenatal appointment. These are likely to be relatively small, as in most cases this right will be exercised via an informal request procedure. Evidence for this assumption can be taken from the BIS Third Work-Life Balance: Employers Survey<sup>22</sup> where in similar special leave cases 99% of respondents would 'almost always or sometimes' allow

<sup>19</sup> *Healthy Returns, ? Absence and Workplace Health Survey 2011*, CBI Pfizer, London.

<sup>20</sup> Based on CBI estimate of average earnings of £435 per week in January 2011

<sup>21</sup> Throughout this IA all wages data is taken from the ONS Annual Survey of Hours and Earnings 2011

<sup>22</sup> The Third Work-Life Balance Employer Survey: Main findings 2007, B. Hayward, B. Fong & A. Thornton.

employees to take time off to care for a member of family or close friend. This indicates that a large amount of time is unlikely to be devoted to administering this similar request for leave.

89. However, we take the prudent approach of assuming that for every additional appointment attended as a result of this policy change, there is an associated administrative cost for the employer. We assume that this cost is in the form of half an hour of time for a personnel manager. Using ASHE 2011 data, the median wage for a personnel manager is £21.97 per hour. Taking into account non-wage costs (an additional 16.4% on top of wage costs), the administrative cost per appointment is estimated to be £12.79<sup>23</sup>. Applying this estimate to the additional number of appointments attended as a result of the policy change yields recurring admin costs of between £270k and £550k.

### ***One-off familiarisation costs to employers***

90. Employers will experience a small cost in familiarising themselves with this regulatory change. Familiarisation costs for the entire package of policy changes assessed in this IA are presented together in the Familiarisation Costs section below.

### ***Costs to the exchequer***

91. As the policy would extend only a right to unpaid leave to attend antenatal appointments, and there is no statutory payment for this leave, there is no direct impact on the exchequer. Where individuals feel that their right to unpaid leave to attend appointments has not been respected, they may bring an employment tribunal which could impose some costs on the exchequer, however this is extremely unlikely and we have not attempted to monetise this cost.

### ***Costs to the individual***

92. Fathers will lose pay if they exercise their right to unpaid leave. However, this is entirely their choice, and they will only do so if they value attending the antenatal appointments more than the wages they will lose in doing so. Therefore, fathers' loss of pay is not included as a cost in this impact assessment.

## **The First Year – Shared Parental Leave**

93. As indicated above, it is now proposed that mothers will retain the right to the current period of 52 weeks maternity leave and 39 weeks of pay. It will be possible for parents to share the remaining leave and pay (shared parental leave and statutory shared parental pay) if the mother chooses to return to work or commits to end her maternity leave period early.

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<sup>23</sup> Throughout this IA, wage rates are updated by 16.4% to reflect non-wage labour costs. This figure is sourced from:  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/labour\\_market/labour\\_costs/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_costs/main_tables).

94. Thus, in the first year after birth women will have 52 weeks of maternity leave and 39 weeks of pay. Ending this early will give rise to an entitlement for shared parental leave, which can be shared between the parents. This allows parents to choose whether the father or mother takes the leave or how the remaining weeks of leave and pay are split between them. They can choose to take some time off together, with the father able to take parental leave during the maternity leave period if he desires and the mother has committed to end her maternity leave early. It also allows the mother to take the same amount of leave and pay as under the current legislation should that be their preferred option.
95. The calculations in this IA are based on the additional cost of the new entitlement over and above the current entitlement to shared leave provided by Additional Paternity Leave (APL). APL is available to employee fathers with partners eligible for maternity leave and pay, and maternity allowance (providing 26 weeks of shared leave with up to 19 weeks paid).<sup>24</sup> Shared Parental Leave (SPL) will extend the amount of leave available to all eligible fathers by 24 weeks for those fathers currently entitled to APL. Thus costs are based on the currently eligible fathers taking more leave because of the longer period which will be available to them and the extra flexibility in the system.
96. The next sections go on to examine the numbers of fathers who will be eligible for the Shared Parental Leave and pay. We then look at the proportions likely to make use of their new additional entitlement and the amount of extra leave they are likely to take. Finally we examine the associated costs with taking this leave for both the Exchequer and employers.

### ***Number of eligible fathers***

97. The new entitlements will have the following qualifying criteria:
  - a. Shared Parental Leave (SPL) – 26 weeks continuous service with their current employer at the start of the 15th week before the expected week of confinement;
  - b. Statutory Shared Parental Pay (SSPP) – 26 weeks continuous service with their current employer at the start of the 15th week before the expected week of confinement earning over the Lower Earnings Limit of £102 per week for a specific 8 week period within these 26 weeks;
  - c. Working for any 26 weeks in past 66 weeks prior to the expected week of confinement and earning at least £30 a week for any 13 of the 66 weeks.
98. Employee fathers whose partner is currently eligible for maternity leave and pay (employee partner), or maternity allowance are eligible for Additional Paternity Leave (APL) and pay (currently 26 weeks). Under the new system, families can choose to allow the father to take a longer amount of leave and pay (up to an additional 24 weeks, 11 of which will be paid).
99. Figures for the number of fathers eligible for the new shared parental leave rights are approximate as no survey or administrative data exists to provide exact numbers. Table 7 provides estimates of the maximum number of fathers who may be eligible for shared parental leave.

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<sup>24</sup> Throughout the IA, we have used fathers with an employee partner as an approximation for fathers with a partner eligible for SMP since data is available from the LFS on employment status of partners but not eligibility for SMP. Similarly, we use fathers with a self-employed partner as a proxy for fathers with a partner eligible for maternity allowance.

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**Table 7: Estimated eligibility for shared parental leave**

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	All eligible (‘000’s)
<b>Employee father with:</b>	<b>285</b>
employee partner	267
self-employed partner	17

Source: BIS estimates from ONS’ Labour Force Survey Q3 2011.

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### ***Take-up assumptions***

100. Estimates of the projected take-up of Shared Parental Leave (SPL) and Statutory Shared Parental Pay (SSPP) are approximate due to the difficult nature of predicting accurately how families would respond to the proposals. At this stage we have no reliable data about the take-up of Additional Paternity Leave to inform our assumptions since fathers have only been able to use this entitlement for a year. The BIS Maternity and Paternity Rights 2005 Survey<sup>25</sup> provides some data that can be used to predict take-up. This takes into consideration two factors:
- An estimate of mothers who indicated they were interested in making use of shared parental leave arrangements; and
  - An estimate of fathers who indicated they were interested in making use of shared parental leave rights, or had demonstrated a strong commitment to the upbringing of their child in its first year.
101. The proportion of partnerships where both these behaviours occurred has been calculated, and this is used to estimate the number of fathers who are likely to take advantage of the proposed entitlements.
102. The evidence from this survey is supported by an analysis of 30 European and Canadian paternity / parental leave programmes showing there are 4 main determinants of take-up rates by fathers – payment level, organisational and social culture, programme flexibility and the labour market (employer attitudes and perceived career advancement)<sup>26</sup>. As Table 8 indicates the highest take-up rates are apparent in the countries that have a high rate of income replacement, shown to be the Scandinavian countries of Sweden, Norway, Iceland and Denmark. Conversely those countries with low rates of income replacement tend to show much lower take-up rates by fathers where generous amount of leave are available.

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<sup>25</sup> Maternity and Paternity Rights and Benefits: Survey of Parents 2005, D. Smeaton and A. Marsh

<sup>26</sup> Plantenga, J. and Remery, C. (2005) ‘Reconciliation of Work and Private Life: A Comparative Review of Thirty European Countries. DG for Employment, Social Affairs and Equal Opportunities, European Commission. Office for Official Publications of the European Communities, p94.

**Table 8: Selected OECD countries with more than 2 weeks of statutory paid paternity or parental leave available to fathers – 2006 unless stated otherwise**

Country	Paid Paternity	Paid Parental Leave Allocation <sup>a</sup>	Earnings Replacement	Take-up <sup>b</sup>
Sweden	2 weeks	68 weeks: 8, mother; 8, father; 52, family	80%	90%
Norway	None	54 weeks: 9, mother; 6, father; 39, family	80-100%	89%
Iceland	None	9 months: 3, mother; 3, father; 3, family	80%	84%
Denmark	2 weeks	32 weeks, family	Unemployment benefit rate (90% of earnings or €495 whichever the lesser)	62%
Canada – Quebec	5 weeks	32 weeks, family	55-75%	48%
Portugal	5 days	15 days, father	100%	30%
Luxembourg	2 days	12 months: 6, mother; 6, father	Flat rate (minimum wage)	17%
Canada – Excl Quebec	None	35 weeks, family	55%	10%
Finland (2005)	3 weeks	26 weeks, family	43-82%	10%
Germany (2007)	None	12 months, family	67%	9%
Italy	None	10 months, family	30%	7%
Belgium	10 days	24 weeks: 12, mother; 12, father	Flat rate (low benefits)	<7%
Austria	None	18 months, family	Flat rate (low benefits)	2%
France	11 days	36 months, family	Flat rate (half minimum wage)	1%

<sup>a</sup> Family leave can be shared between parents, leave by sex is non-transferable.

<sup>b</sup> Take-up rate refers to fathers' use of shared parental leave; however in some cases it is not clear whether this includes paternity leave.

Source: Taken from Statistics Canada Perspectives - June 2008, Catalogue No. 75-001-X, [www.statcan.gc.ca/pub/75-001-x/2008106/pdf/10639-eng.pdf](http://www.statcan.gc.ca/pub/75-001-x/2008106/pdf/10639-eng.pdf)

103. Given that the current proposal is introducing additional leave paid at a flat rate and at a low level of income replacement, take-up is likely to be of the same magnitude of other European countries with schemes offering low income replacement immediately after introduction. It may increase over time if this policy encourages a culture more favourable to fathers' involvement with children in their first year.
104. Our estimates of the proportion of working fathers expected to take up Shared Parental Leave are given in Table 9. We have assumed that for those fathers currently eligible for APL, the move from APL/ASPP to SPL/SSPP will not result in a greater number of fathers taking the leave as do currently but the entitlement may increase the amount of leave these fathers take (see paragraph 108 below). Thus, the rates of take-up remain at between 2% and 8%.
105. This range of rates is designed to cover the complex reasons that may encourage take-up by fathers. For example, fathers whose partner earns either the same or more than the father may be more likely to take leave than those who don't. Some families are likely to take into account whose salary reduction will be greater before deciding who will take up caring responsibilities. In the current policy environment this decision is restricted as paid leave is only available to the mother of the child.

106. A small number of fathers will be eligible for Shared Parental Leave (SPL) but not Statutory Shared Parental Pay (SSPP), as they earn less than what would amount to the Lower Earnings Limit (£103 per week in 2011/12) and are therefore not eligible for statutory payments. Analysis of data from the Annual Survey of Hours and Earnings suggests that around 4.5% of male employees earned less than this limit. However, it is hard to estimate what proportion of those eligible for SPL would earn less than the limit and how that would affect their take-up. As indicated above, we intend to keep under review arrangements for working parents who do not meet the qualifying requirements to receive statutory payments.

**Average duration of leave assumptions**

107. The average duration of leave working fathers are expected to take is presented in Table 9.
108. For the APL and consultation IA calculations, it was assumed that on average fathers would take 13 of the 26 weeks available to them. This was based upon evidence from the Maternity and Paternity Rights Survey 2005<sup>27</sup>, where mothers who expressed willingness to transfer leave to their partner were asked how much leave they would transfer. The average response was 11 weeks. However, as this response was given in the context of existing maternity leave entitlements at the time of 26 weeks and this was subsequently extended to 39 weeks, the consultation IA assumed an upper limit of 13 weeks. Given the uncertainties with these assumptions, a range of durations were used of 2 weeks, 6 weeks and 13 weeks.
109. Since the duration of the proposed shared parental leave entitlement is longer than the currently available under APL, we have modified assumptions presented in previous impact assessments. We have assumed the new system will lead to a modest increase in the duration of leave taken of 4 weeks at most, 2 weeks as a medium estimate and no increase for the low estimate. This brings the average durations including the time taken under APL to 17 weeks as a high estimate, 8 weeks as the medium and 2 weeks as the low estimate.

	High	Medium	Low
Take up (percentage of eligible fathers)			
Employee fathers	8	4	2
Additional Duration (weeks)			
Employee fathers	4	2	0

Source: BIS estimates

<sup>27</sup> Maternity and Paternity Rights and Benefits: Survey of Parents 2005, D. Smeaton and A. Marsh

## **Replacement**

110. For the majority of eligible fathers, we assume that any leave taken by the father offsets that which would have been taken by the mother. However, there is the possibility that only part of the leave taken by the father will replace time that would otherwise have been taken by the mother.<sup>28</sup>
111. Where the leave taken by the father is not offset by that no longer taken by the mother, there will be Exchequer costs. The recent DWP research<sup>29</sup> found that 66 per cent of mothers take all their entitlement to paid leave. From that we assume that a small proportion of mothers will always return to work before the end of the duration of paid leave. In those cases, if the father takes SPL there will be a small additional cost from the new system since the costs of SSPP will not be offset by the savings in SMP resulting from the mother returning to work (since she would have done this anyway under the current system). It is difficult to assess the number of couples where this applies, however. Some mothers returning to work before the end of the paid leave period will be lone parents. Some may not be lone parents, but will have gone back early because the household needs two incomes. Both of these scenarios suggest no additional exchequer costs from the new system.
112. For this IA we have assumed, based on the DWP research cited above, that of households where the mother currently returns to work before the end of the paid maternity leave period, a proportion are lone parents and/or are on low incomes, live in low income households and have three or more children. In these cases it is unlikely that the father will take SPL and SSPP so there will be no additional cost. We have estimated that in just over 11% of households the father might take the SPL and pay that would not have been claimed by the mother, and so would result in additional exchequer costs under the new system. This has been factored in below.

## **Costs of greater shared parental leave**

113. The aggregate cost of this policy to the economy as a whole is expected to be small. However there are costs both to the exchequer and to employers, which should be considered.

To the exchequer:

- Policy cost
- One-off implementation (administrative)
- Recurring administrative

To employers:

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28 This is also based on information from the Maternity and Paternity Rights Survey of Parents 2005, where mothers who indicated willingness to transfer leave to their partner were asked whether this would affect how much leave they would themselves take. Around half of respondents said that it would.

29 *Maternity and Paternity Rights and Women Returners Survey 2009/10*, Jenny Chanfreau, Sally Gowland, Zoë Lancaster, Eloise Poole, Sarah Tipping and Mari Toomse, DWP Research Report 777.

- Policy cost
- Cost of absence
- One-off implementation (administrative) and familiarisation
- Recurring administrative

114. The figures quoted in this IA are in 2011 prices.

### ***Exchequer cost of additional statutory payments***

115. There will be Exchequer costs in statutory payments resulting from the broader eligibility for, and extension of, the shared leave period relative to the current system of Additional Paternity Leave. These costs are presented in Table 10 and are based on the multiplication of the data and assumptions in Table 8 and 9 by the flat rate for SPP/SMP (£128.73 in 2011/12). For example:

Extra cost of statutory payments = additional eligible population x take-up (%) x duration (weeks) x payment (£128.73)

116. There will be a very small deduction from these exchequer costs to account for the employer contribution (see paragraph 121 below) to SSPP. In addition, we deduct 89 per cent<sup>30</sup> of the cost of working fathers with an employee partner as we assume most of the cost will be off-set by the mother no longer taking this leave and pay entitlement (see paragraph 110 above). This means exchequer costs are likely to be in the region of £0.0m to £1.3m for the shared parental leave aspect of the new system.

117. Note that these exchequer costs are a transfer – this is a benefit to those parents who receive the additional money.

**Table 10: Exchequer costs from additional payments to fathers**

	High	Medium	Low
<b>All employee fathers</b>			
Employee fathers with employee partners <sup>a</sup>	£1.21	£0.30	£0.0
Employee fathers with self-employed partners	£0.08	£0.02	£0.00
<b>Total</b>	<b>£1.29</b>	<b>£0.32</b>	<b>£0.0</b>

a In these cases, we assume 91.6 per cent of the exchequer cost is off-set by mother returning to work early similar to the APL IA (see Page 7, Ref. 5)

Source: BIS estimates. Note that columns may not sum to total due to rounding.

### ***Exchequer administrative burden (one-off and recurring policy costs)***

118. It is proposed to administer shared parental leave through the same mechanisms used for the current system of Additional Paternity Leave (APL).

30 HMRC estimate from Additional Paternity Leave and Pay Impact Assessment, Jan 2010, URN 10/557, available at: [www.bis.gov.uk/files/file54236.pdf](http://www.bis.gov.uk/files/file54236.pdf).



Therefore, we refer to the impact assessment for the introduction of APL<sup>31</sup> (see Table 7, Paragraph 60, in that IA) which estimated the administrative costs to the Exchequer were around £6.9 million in one-off costs (setting up the necessary IT solution, manpower requirements and other first year costs) and £1.1 million recurring costs (annually) from on-going IT and manpower needs. This was based on 10 – 20 thousand claims each year. The proposed system of shared parental leave is likely to result in a similar number of claims. We have therefore used the same estimates for the one off and recurring costs. These costs will be refined in subsequent versions of this impact assessment when the consultation on the administrative detail of the proposed system is completed.

119. We will consider what help will be needed for working parents who are not eligible for SSPP (including the self-employed). Such a provision will not be introduced until 2018 at the earliest.

### ***Employer direct policy costs***

120. Direct payments to employees are largely a cost on the exchequer although there will be a small cost to business in terms of the rebate from Government for the statutory payments they pay out (which for large firms will be less than 100%).
121. As with Statutory Paternity Pay, the direct policy costs to business of SSPP will reflect the weekly payments made to employed fathers who receive SSPP. It is proposed that employers will be entitled to recover most of the cost of paying SSPP from government in the same way as they currently recover Statutory Paternity Pay and Statutory Maternity Pay. All employers will be able to recover 92% of SSPP payments. Small employers may instead qualify for Small Employers' Relief (SER). SER is 100% of SSPP plus 3% compensation. Thus employers will incur a small cost as a result of SSPP payments. This has been estimated to be £0.07m for the high take-up, £0.02m and £0m for medium and low take-up respectively (assuming 25% of employees work for small firms).
122. It is also assumed that employers with occupational maternity provisions will not necessarily provide such rights to fathers on SPL and receiving payments. Employers who currently provide occupational maternity pay beyond the 18 weeks may decide to reduce their maternity schemes in response to the new system; provide an occupational maternity scheme in addition to the statutory parental scheme; or provide an occupational parental scheme. Since none of these approaches is being imposed by the proposed legislation, the costs are not considered here.

### ***Employer cost of absence***

123. Employers also face an additional direct cost due to having to cover the absence of those fathers who take up these new rights. In calculating these costs, as with the other sections of the IA, we assume that most employers reorganise existing employees to cover the absence.<sup>32</sup> Annex 4 outlines how the action taken by business may vary with the length of leave taken and the

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<sup>31</sup> Additional Paternity Leave and Pay Impact Assessment is available at:  
<http://www.bis.gov.uk/files/file54236.pdf>

<sup>32</sup> See Work & Families: Choice & Flexibility IA (Page 7, Ref 1) for a full explanation of the methodology employed here (Shown in Annex 4).

size of the business and how we arrive at additional costs from absence of between 7% and 14% of labour costs.

124. The additional absence cost depends on the number of weeks taken as leave and is based on the assumptions of the population likely to take leave (Table 8), the take-up rate and duration of leave taken (Table 9). Table 11 shows the cost of absence borne by employers due to fathers taking both the reserved and shared leave period.
125. Although the full cost of absence must be accounted for in the case of working fathers with self-employed partners, for employed fathers with employee partners, it should be borne in mind that across employers as a whole the costs of absence of those fathers who take up Shared Parental Leave will be offset by the mother's early return to work thereby reducing absence costs for the mother's employer. We account for this by using the difference between male and female weekly pay for our cost calculations for this group.

**Table 11: Employer costs from additional absences from Shared Parental Leave**

	Total number of weeks absent across all businesses (thousand)		
	High	Medium	Low
All employee fathers	91	23	0
Employee fathers with employee partners <sup>a</sup>	86	21	0
Employee fathers with self-employed partners <sup>b</sup>	6	1	0
Median Male gross weekly pay (incl. non-wage costs)	£541.96	£541.96	£541.96
Difference between Median Male & Female gross weekly pay (incl. non-wage costs)	£179.49	£179.49	£179.49
Re-Organisation Costs (at 14%)	<b>£2.6</b>	<b>£0.6</b>	<b>£0.0</b>
Re-Organisation Costs (at 7%)	<b>£1.3</b>	<b>£0.3</b>	<b>£0.0</b>
<b>Best Estimate</b>	<b>£1.9</b>	<b>£0.5</b>	<b>£0.0</b>

<sup>a</sup> In these cases, we assume the cost of absence is offset by the partners early return to work meaning the cost unit is the difference between male and female median weekly wage (incl. non-wage costs) rather than the whole male wage. This approach was taken in the APL IA (see Page 7, Paragraph 60)

Source: BIS estimates

126. The range for the estimated cost of absence presented in Table 11 is wide as it incorporates both uncertainties about the number of fathers who will take up their entitlement to SPL as well as the degree of costs that employers are likely to face. This means employer costs due to absence are likely to be in the region of £0m to £2.6m for the shared leave period (with a best estimate of between £0m and £1.9m).

## Employer administrative burden (one-off and recurring)

### One-off Costs

127. Table 12 shows details of the estimated one-off costs of administration of shared parental leave. As with paternity leave these cover changes to payroll

and HR systems and not familiarisation costs since these are dealt with below. These costs are borne by employers of fathers who make use of the SPL and SSPP entitlements. Whilst many large firms will have already put in place systems to manage the current system of APL, some small alterations may be necessary since the new system will require more tracking of the amount of leave taken (since unlike APL, shared parental leave does not have to be taken in one continuous block). On the other hand, unlike with APL, fathers will not be able to make as many requests to change their arrangements, which should reduce the burden on businesses.

128. For the larger firms we have assumed the necessary adjustments will involve half a day of an HR manager's time and one day of a wages clerk's time.
129. As the estimate of the numbers of men who take up their entitlement is low (in terms of the proportion of the male working population) it is assumed that many small employers will not adjust their systems immediately once the legislation is passed. Rather, as with the paternity leave changes, they will amend their HR practices gradually as cases appear, on a 'needs basis'.<sup>33</sup>
130. However, since we estimate that a small proportion of small firms will experience a paternity in any given year some costs will be incurred. Thus we have included a small amount of one-off administration time for small firms of half a day of senior manager time for those for the newly eligible employees likely to make a request. Costs for small firms are therefore based on the estimates of take-up as opposed to the number of enterprises as used for larger firms.

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33 Blackburn, R. Hart, M. (2002) Small firms' awareness and knowledge of individual employment rights, Employment Relations Research Report No. 14, London: Department for Trade and Industry.

**Table 12: Employer costs from one-off administrative burden of leave**  
Shared leave period (50 weeks, 37 paid)

<b>Employer one-off costs (large firms)</b>			
Number of enterprises employer over 50 people	43,035		
Half a day of HR Manager and one day wages clerk	£173.81		
One-off costs (£million)	<b>£7.48m</b>		
<b>Low (-20%)</b>	<b>£5.98m</b>		
<b>High (+20%)</b>	<b>£8.98m</b>		
<b>Employer one-off costs (small firms)</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
Total number of eligible employee fathers	285,000	285,000	285,000
Take-up rates (see Table 18)	8%	4%	2%
Eligible fathers taking leave	22,800	11,400	5,700
Employees in workplaces with less than 50 people (%)	25	25	25
Employee fathers in small firms	5,700	2,400	1,400
Half day rate for managers and senior personnel	£76.31	£76.31	£76.31
One-off costs (£million)	<b>£0.4</b>	<b>£0.2</b>	<b>£0.1</b>
<b>Low (-20%)</b>	<b>£0.3</b>	<b>£0.2</b>	<b>£0.1</b>
<b>High (+20%)</b>	<b>£0.5</b>	<b>£0.3</b>	<b>£0.1</b>
<b>Total for all firms</b>	<b>£7.91</b>	<b>£7.70</b>	<b>£7.59</b>

Source: BIS estimates, ASHE 2011 and BIS Business Population Estimates. Note that columns may not sum to total due to rounding.

### **Recurring costs**

131. Recurring costs, both for individual employers and in aggregate are assumed to be the cost of administering fathers' take-up of SPL and SSPP.
132. Although administrative costs in aggregate are small (as would be expected due to the small number of cases per year), they will be felt by individual employers. That said, we are aiming to keep the administration similar to existing parental provisions, which should keep admin costs to a minimum. Some small businesses may nevertheless have little experience in handling cases of employees taking leave to have a child, and have little resource allocated to such tasks. The task of processing a father's claim for SPL and SSPP may fall to a Director with little experience of handling such claims, whereas for a larger employer experienced Human Resource professionals would handle this. The likelihood of SPL cases arising in small employers is relatively low, however. Alongside this, the guidance has been improved to further assist small businesses.

133. For larger employers it has been assumed that handling each case involves an hour of a personnel manager's time and two hours of a wages clerk's time. In small firms it has been assumed that this takes half a day of a manager's time. Again these are based on the ORC estimates of time taken to handle other parental leave related. <sup>34</sup>
134. This IA has also included a cost for all employees who are likely to claim, taking the leave in more than one block. The cost of an additional request for leave has been included to cover their taking leave in more than one block or requesting a change to their agreed leave arrangements.

**Table 13: Employer costs from recurring administrative burden of Shared Parental Leave Period (50 weeks of which 37 paid)**

Employer recurring costs (large firms)	Shared leave period (50 weeks, 37 paid)		
	High	Medium	Low
Eligible fathers likely to take leave <sup>(a)</sup>	22,800	11,400	5,700
Employees in workplaces with over 50 people (%)	75	75	75
Employee fathers in large firms	17,100	8,600	4,300
Hourly rate of wages clerk	£14.0	£14.0	£14.0
Hourly rate of personnel manager	£25.6	£25.6	£25.6
Recurring costs (£million)	<b>£0.9</b>	<b>£0.5</b>	<b>£0.2</b>
<b>Low (-20%)</b>	<b>£0.7</b>	<b>£0.4</b>	<b>£0.2</b>
<b>High (+20%)</b>	<b>£1.1</b>	<b>£0.6</b>	<b>£0.3</b>
Employer recurring costs (small firms)	Shared leave period (50 weeks, 37 paid)		
	High	Medium	Low
Eligible fathers likely to take leave <sup>(a)</sup>	22,800	11,400	5,700
Employees in workplaces with under 50 people (%)	25	25	25
Employee fathers in small firms	5,700	2,800	1,400
Half day rate for managers and senior personnel	£76.31	£76.31	£76.31
Recurring costs (£million)	<b>£0.4</b>	<b>£0.2</b>	<b>£0.1</b>
<b>Low (-20%)</b>	<b>£0.3</b>	<b>£0.2</b>	<b>£0.1</b>
<b>High (+20%)</b>	<b>£0.5</b>	<b>£0.3</b>	<b>£0.1</b>
<b>Total for all firms</b>	<b>£1.4</b>	<b>£0.7</b>	<b>£0.3</b>

Source: BIS estimates, ASHE 2011 and BIS Business Population Estimates. Note that columns may not sum to total due to rounding.

(a) Based on a proportion of 285,000 eligible fathers likely to take the leave using take-up rates in Table 18 of 8%, 4% and 2%. This includes fathers already covered by APL to cover requests to change arrangements.

135. The table shows costs for employers of administering requests for SPL has a one-off cost of between £7.6 million and £7.9 million and recurring cost of

<sup>34</sup>

between £0.3 million and £1.4 million. Figures are calculated using the following formula:

Admin burden = employees taking leave (000's) x wage cost of administrator(s)

136. These costs would of course be subject to change should the estimated number of employees claiming SSPP increase significantly above the initial estimates set out by Table 9 above.

## Summary of SPL and SSPP costs

137. Table 14 below provides a summary of all the additional costs of introducing SPL and SSPP/PA. We estimate this will introduce total recurring costs of between £0.3 million and £6.1 million, of which £0.3 million to £3.3 million will be borne by employers.
138. Additionally one-off costs will total between £14.5 million and £14.8 million, of which between £7.6 million and £7.9 million will be borne by employers.

**Table 14: Total costs from the introduction of Shared Parental Leave and SSPP**

	Shared leave period (50 weeks, 37 paid)		
	High	Medium	Low
<b>Recurring costs</b>			
Exchequer costs for additional statutory payments	£1.3	£0.3	£0.0
Exchequer costs for administration	£1.5	£1.2	£0.0
Employer SSPP contribution	£0.1	£0.0	£0.0
Employer costs for absence	£1.9	£0.5	£0.0
Employer personnel time costs (large firms)	£0.9	£0.5	£0.2
Employer personnel time costs (small firms)	£0.4	£0.2	£0.1
<b>Total</b>	<b>£6.1</b>	<b>£2.7</b>	<b>£0.3</b>
<b>One-off costs</b>			
Employer set-up costs (large and small firms)	£7.9	£7.7	£7.6
Exchequer set-up costs	£6.9	£6.9	£6.9
<b>Total</b>	<b>£14.8</b>	<b>£14.6</b>	<b>£14.5</b>

Source: BIS estimates. Note that columns may not sum to total due to rounding.

## Changes to Adoption leave and pay (one-off and recurring)

139. As set out earlier in this impact assessment under the new proposals for maternity, paternity and parental leave and pay, we propose that the eligibility criteria for adopters mirror the eligibility criteria for birth parents so that the

parental leave and pay arrangements available for adopters can be more closely aligned to what is available for birth parents.

### Exchequer costs

140. In this impact assessment we have estimated the Exchequer cost from changing the qualifying period to a 'day 1 right', the additional Exchequer cost from paying 90% of earnings or statutory rate (which ever is lower) for the first 6 weeks of adoption leave and the employer administration and employer absence costs associated with the change in the qualifying test for adoption leave. These are considered below.

141. It is estimated that there are around 3000 adoptions per year<sup>35</sup>. For the purposes of these calculations we have used a figure of 4000 adoptions to cover overseas adoptions, the inclusion of certain surrogacy cases, a possible increase in adoptions due to planned improvements to the adoption process and possible effect of increased take-up of adoption pay due to the salary enhancement. Data from the Labour Force Survey on length of continuous employment for women showed that around 5% of women have worked less than 6 months with their current employer. We estimate that around 5% of the total adoptions will be affected by the change in the qualifying period; this represents around 208 additional couples.

142. We estimate that the additional Exchequer cost from changing the qualifying period is around £1.1million per annum.

Exchequer cost from change in qualifying period = additional couples eligible (208) X 41 weeks X £128.77 flat rate = £1.1 million per annum

143. We estimate that the additional Exchequer cost from introducing 90% or flat rate (which ever is lower) is around £7.0 million per annum. To estimate this cost we have assumed that couples will choose for the higher wage earner to take the first 6 weeks and so have used male median weekly salary figures from ASHE 2011.

Exchequer cost from change to 90% of earnings or flat rate (which ever is lower) =

4000 adopting couples X (£465.6 male median weekly wage X 90% - £128.77 flat rate) X 6 weeks = £7.0 million per annum

144. The one-off exchequer costs for making changes to the administration system for adoptive parents will be negligible, as they will be encompassed in the changes needed to deliver a new system for birth parents.

### Employer costs

#### *Costs of change to Day 1 right*

145. To estimate the cost of absence for employers from the introduction of a day 1 right we estimate absence for 54 weeks (assumes full 52 weeks maternity and 2 weeks paternity). The cost of absence is estimated using a similar methodology to the rest of this IA where we assume a average weekly salary of £452.56 from ASHE 2011 and use a range of 7% to 14% for the cost of absence. The cost of absence has been estimated between £0.3 million and £0.7 million per annum.

<sup>35</sup>

British Adoption and Fostering website.

146. Additional admin costs for employers resulting the day 1 right are estimated assuming it takes half a day for managers to handle each application (from ASHE this costs £76.3 per application). The total number of applications is equal to 416 (double the number of adopting couples). The total additional admin cost is estimated at £0.03 million.

#### *Cost of Adoption Appointments*

147. We also propose to provide adopters the right to time off to attend the introduction appointments which take place between the matching of a child and their placement. The primary adopter will be entitled to paid time off to attend up to five meetings whilst the secondary adopter will be entitled to unpaid time off to attend up to two meetings. These meetings have been capped at 6.5 hours each.
148. To estimate the costs of absence for employers to attend adoption appointments we have used similar methodology to the rest of this IA where we assume an average hourly salary of £12.98 from ASHE 2011 and use a range of 7% and 14% for the costs of absence. For the primary adopter costs include their wage costs since these appointments are paid. For the secondary adopter, the costs are only the additional costs of an employer having an employee absence. The costs have assumed that the employee will be absent on average for 3.5 hours.
149. Employers may incur recurring administrative costs associated with each individual request for unpaid leave to attend an antenatal appointment. These are likely to be relatively small, as in most cases this right will be exercised via an informal request procedure. We take the prudent approach of assuming that for every additional appointment attended as a result of this policy change, there is an associated administrative cost for the employer. We assume that this cost is in the form of half an hour of time for a personnel manager. Using ASHE 2011 data, the median wage for a personnel manager is £21.97 per hour. Taking into account non-wage costs (an additional 16.4% on top of wage costs), the administrative cost per appointment is estimated to be £12.79. Applying this estimate to the additional number of appointments attended as a result of the policy change yields recurring admin costs of between £358,000.

This additional administrative cost has been calculated by:

4000 adopting couples x 7 appointments x 0.5 median hourly wage of HR manager.

**Table 15. Recurring costs from changes to adoption eligibility criteria and pay (£millions)**

	Low	Medium	High
Exchequer costs from introducing day 1 right	£1.1m	£1.1m	£1.1m
Exchequer costs from 90% payments for first 6 weeks	£7.0m	£7.0m	£7.0m
Employer absence cost for day 1 right	£0.3m	£0.5m	£0.7m
Employer admin cost for day 1 right	£0.03m	£0.03m	£0.03m
Employer adoption appointment absence costs	£1.0m	£1.0m	£1.1
Employer adoption appointment admin costs	£0.4	£0.4	£0.4
Total	£9.7m	£9.9m	£10.2

Source: BIS calculations



## Beyond the first Year – Unpaid Parental Leave

150. At present unpaid parental leave must be taken before the child's fifth birthday (unless the child is disabled). The policy proposal is to increase the age to which parental leave is available, to include parents of older children who would particularly benefit during school holidays. The total amount of unpaid parental leave is also to be extended, from 13 weeks to 18 weeks, to fulfil the UK's obligations under the Parental Leave Directive. For the purposes of this IA, the cost of extending the number of weeks for children under the age of 5 has not been included since this is an EU obligation and has already been costed in the Parental Leave Directive IA<sup>36</sup>.
151. The methodology adopted for estimating the costs and benefits associated with the extension of unpaid parental leave follows closely and builds upon that used for the development of earlier policy in this area. Specifically this relates to impact assessment work carried out in 1999 and 2001<sup>37</sup>.
152. To be currently eligible to take unpaid parental leave, a person must satisfy the following criteria:
- Be an employee (including part-time, fixed-term, or agency workers).
  - Have at least 12 months service with their current employer
  - Have parental responsibility for a child under five, a disabled child under 18, or be an adopter of a child placed with them within the last five years.
153. This Impact Assessment estimates the impact of changing this last criterion, so that all those with parental responsibility for a child can take unpaid parental leave, to a maximum of 18 weeks over the lifetime of the child, until the child reaches 18 years of age.
154. The Parental Leave Directive does not clearly specify any age limit. Therefore, in line with our policy objective of encouraging a cultural shift towards more shared parenting, we have decided to extend the right to unpaid parental leave until the child is 18 years of age. However, we do not anticipate that this will unduly disadvantage business compared to the current position. The take-up of unpaid parental leave in teenage years is likely to be rather low, and the 4 week limit for unpaid parental leave taken in any one year ensures that any burden on business is capped. Extending the limit to 18 years provides parents with the flexibility to cater for unforeseen circumstances. Businesses will also maintain the right to delay the commencement of the unpaid leave. Therefore we are confident that the benefits of extending the age limit to 18, although unquantified below, justify the impact on business, as it forms part of the overall system changes.

### ***Number of beneficiaries and take-up of unpaid parental leave***

155. Labour Force Survey figures for Quarter 2 (April to June) 2011 show that (excluding parents of disabled children) there are 3.4 million parents who are

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<sup>36</sup> Impact Assessment of European Commission proposal for a directive to implement revised Framework Agreement on Parental Leave, BIS October 2009.

<sup>37</sup> Parental Leave Regulations 1999, Regulatory Impact Assessment, Employment Relations Directorate, DTI, November 1999, and Parental Leave Regulations: changes to extend entitlement, Employment relations Directorate, DTI, October 2001.

currently eligible for unpaid parental leave, in that their current employer has employed them over a year and they have a dependent child under the age of 5. This is split between about 1.83 million men and 1.57 million women. Table 16 below shows that increasing the age threshold for unpaid parental leave to 18 would mean an additional 5.12 million parents become eligible<sup>38</sup>.

156. The statutory entitlement to parental leave after the first year of a child's life is unpaid. The Regulatory Impact Assessment<sup>39</sup> prepared in support of the original regulations assumed take-up of 10% for fathers and 50% for mothers. However, later survey evidence has found take up to be lower, particularly for mothers. Survey evidence collected by DTI in autumn 2000 found that 12% of employed parents who said their employers provided unpaid parental leave also said that they had taken unpaid parental leave since December 1999. Contrary to the assumptions made previously, take-up rates were identical for mothers and fathers.
157. More recent survey evidence indicates that these proportions have not changed greatly. The Maternity and Paternity Rights and Benefits Survey of parents in 2005 found that of mothers who had returned to work, 11% had taken unpaid parental leave since their maternity leave had ended. This represented a small increase on the 2002 figure of 8%. Of fathers, 10% describing themselves as entitled to unpaid parental leave took advantage of the provision in 2002 and 8% in 2005.
158. The most recent evidence is from the DWP 2009 Maternity and Paternity Rights and Women Returners Survey 2009/10. This found that the take-up figures were lower in the first 18 months. 31% of mothers said they had access to unpaid parental leave but only 6% had used it. It should be noted that maternity leave and pay have increased over this period, paid leave increasing from 26 weeks to 39 weeks. The same survey found 66% of mothers take their full entitlement to paid maternity leave. This would reduce their need to use unpaid parental leave during the first year.
159. These findings only relate to whether unpaid parental leave has been taken in the first 18 months after the birth of the child whilst unpaid parental leave is available up to the child reaching the age of 5. The Fourth Work Life Balance survey of employees asked all parents whether since starting their current job or in the last 12 months whether they had taken unpaid parental leave. The survey found that only 11% of all parents of dependent children had taken unpaid parental leave. Whilst current take-up rates are low, expanding the amount of unpaid parental leave and the period in which it can be taken can still be expected to increase the number of weeks taken. In particular having a longer period over which to take the leave means that it is more likely that parents will experience a scenario where the leave would be useful to them.
160. Given the range of survey findings presented above, we assume that annual take-up of unpaid parental leave will be in the range of 6% to 12% of eligible parents with a child aged between 5 and 7, but that this take-up decreases with

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<sup>38</sup> Data from the Maternity and Paternity Rights and Women Returners Survey 2009/10 shows that roughly 6% of babies are born with a disability. Since parents of disabled children already have the right to 18 weeks of unpaid parental leave up to the age of 18, we discount the populations of employee parents in each age group by 6% to account for those parents who are unaffected by the policy change.

<sup>39</sup> Impact Assessment of European Commission proposal for a directive to implement revised Framework Agreement on Parental Leave, BIS October 2009.

the age of the child, as the need for unpaid parental leave diminishes.<sup>40</sup> Table 26 below shows how we assume the take-up of unpaid parental leave reduces over time.

161. Each parent is currently entitled to 13 weeks of unpaid parental leave per child. This overall entitlement will increase to 18 weeks. Parents are limited to four weeks unpaid parental leave in any one year. In addition to the evidence that take-up rates are low, the available evidence also suggests that currently very few, if any parents come close to using their 13 weeks allowance. It is possible however that some parents would use the 18 weeks over the full 18 years, although the available evidence suggests that this will be a very small minority of parents. In any case, the analysis below is based on the expected average number of weeks of unpaid parental leave taken per parent in any given year, and therefore is consistent with a small number of parents taking the full 18 weeks.
162. Our analysis below focuses on take-up of parental leave after the age of five, but it is possible that this approach over-estimates the impact of the policy change in terms of additional leave taken. For example, as discussed above, there may be a small number of parents who would currently take 13 weeks of unpaid parental leave before their child reaches the age of five, but if the policy was changed, would stretch this leave out until the child reaches the age of 18. However, given the survey evidence above it seems likely that there is a negligible number of parents who currently use up their 13 week allowance, and therefore we treat all of the parental leave taken after the age of 5 as additional.
163. To calculate the number of additional weeks leave taken as a result of this policy change we use the following equation:  
$$\text{Number weeks taken} = \text{Number additional eligible parents} \times \text{take-up (\%)} \times \text{average duration of leave}$$

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<sup>40</sup>

The need for unpaid parental leave is expected to diminish over time for a number of reasons – for example childcare becomes cheaper from the age of 8 as higher children to carer ratios are permitted.

**Table 16: Estimated eligibility and take-up for unpaid parental leave**

	Age of youngest dependent child				Total (5 – 18)
	5 – 7	8 - 11	12 - 15	16 - 17	
<b>Total employees ('000)<sup>a</sup></b>	1,227	1,453	1,714	728	5,122
Males	585	668	768	318	2,340
Females	643	785	946	410	2,783
<b>Take-up assumptions (per cent)</b>					
Males	6 – 12	4 - 7	2 - 5	2 - 5	-
Females	6 – 12	4 - 7	2 - 5	2 - 5	-
<b>Additional weeks taken (on average) per year</b>					
Male	1	1	1	0.5	-
Female	2	2	2	1	-
<b>Gross weekly pay (plus non-wage cost)<sup>b</sup></b>					
Males	£541.96	£541.96	£541.96	£541.96	-
Females	£362.47	£362.47	£362.47	£362.47	-

a) BIS estimates from ONS' Labour Force Survey

b) Annual Survey of Hours and Earnings 2011

## Employer costs of extending unpaid parental leave

164. There are two main elements of the recurring costs that employers are likely to face in dealing with unpaid parental leave:

- Cost of arranging cover for people on unpaid parental leave
- Administrative costs

## Employer cost of absence

165. As parental leave beyond the first year is unpaid, the cost of absence to employers is simply the cost of internal reallocation of work. Employers may decide to cover an employee's absence on parental leave either through recruitment of a temporary replacement or through re-arranging existing workloads and staffing. As parental leave is taken in short spells of one week, it is assumed that all employers react by reallocating work within their organisations rather than by recruiting temporary replacements.<sup>41</sup> As elsewhere in this Impact Assessment, the costs of internal reallocation are

<sup>41</sup> See "Work and Families: Choice and Flexibility, Final Regulatory Impact Assessment on the Work and Families Bill, DTI (October 2005)" for a full explanation of the methodology employed here (Show in Annex 4).

assumed to be 7 to 14 per cent of weekly labour costs. Annex 4 outlines the evidence and reasoning behind our assumptions on reorganisation costs.

166. The magnitude of this additional cost will be determined by the number of additional parents eligible for unpaid parental leave, the proportion of these who take-up the leave in any one year, and the average duration of leave taken. These costs are estimated below and are based on the assumptions presented in Table 16. Table 17 shows the cost of absence borne by employers due to the expected take-up of leave, where the age limit is extended to 18.
167. Combining length of leave assumptions by these average cost estimates implies that the proposed extension of unpaid parental to parents with older children would cost employers, as a result of increased absence cover, from between £7.6 million and £30.9 million a year if extended to parents with a child under 18.

**Table 17: Employer costs from additional absences from extending unpaid parental leave**

	Unpaid parental leave extended to parents with children aged under 18	
	High take-up	Low take-up
Additional males eligible to take leave ('000)	2,340	2,340
Additional females eligible to take leave ('000)	2,783	2,783
<b>Total employer cost of absence (high 14%)</b>	<b>£30.9m</b>	<b>£15.2m</b>
Males	£12.4m	£6.1m
Females	£18.5m	£9.1m
<b>Total employer cost of absence (low 7%)</b>	<b>£15.5m</b>	<b>£7.6m</b>
Males	£6.2m	£3.0m
Females	£9.3m	£4.5m

Source: BIS estimates from ONS' Labour Force Survey. High estimates based on 14% reorganisation costs plus take-up at the high end of the range. Low estimates based on 7% reorganisation costs and take-up assumed to be at the low end of the take-up range. Note that columns may not sum to total due to rounding.

168. The range for the estimated cost of absence presented in Table 17 is wide as it incorporates both uncertainties about the number of parents who will take up their entitlement to additional parental leave as well as uncertainty about the degree of costs that employers are likely to face.

## Employer administrative burden (recurring)

169. There will be some small administration costs associated with managing additional requests for unpaid parental leave. For cases where the request is granted, the costs relate mainly to arranging for the individual's job to be covered. It has been assumed in this Impact Assessment that managing a request would take half an hour of a personnel manager's time in large firms or managing director in small firms. Details of these costs are set out in Table 18 below.

**Table 18: Employer costs from the additional administrative cost of extending unpaid parental leave**

	High take-up	Low take-up
Half an hour of management time (ASHE 2011)	£12.79	£12.79
<b>Total employees</b>	<b>£4.7</b>	<b>£2.3</b>
Males	£2.2	£1.1
Females	£2.5	£1.2
<b>Of which: admin burden (10% for writing letter)</b>	<b>£0.5</b>	<b>£0.2</b>
Males	£0.2	£0.1
Females	£0.2	£0.1

Source: BIS estimates from ONS' Labour Force Survey. Note that columns may not sum to total due to rounding.

170. For those firms where a request is to be postponed, firms are required to write to employees and this requirement represents an administrative burden of compliance. In this case it again has been assumed that this would take half an hour of HR or manager's time. This is probably a generous estimate since a standard letter has been made available for employers to use on the Business Link website. We have assumed that 10% of requests will be postponed.

171. The annual cost of the proposed extension of unpaid parental leave to parents with older children would cost employers, as result of greater administration, between £2.3 and £4.7 million a year if extended to parents with a child under 18.

### ***Employer administrative costs (one-off)***

172. As a result of this policy change, it is likely that employers will incur some administrative familiarisation costs. It has been assumed that this familiarisation will be rolled into the familiarisation for all the changes outlined in the IA and so are dealt with below under Familiarisation costs.

### ***Additional employment tribunals***

173. Previous impact assessments included a cost for additional tribunal cases. For this impact assessment it is assumed the change in the parents eligible would not in itself generate more cases.

### ***Costs to the exchequer and individual citizens***

174. As there is no element of statutory pay for parental leave beyond the first year, this policy proposal does not have any direct cost implications for the exchequer.

175. There are no costs for individual citizens. Those employees who choose to take unpaid parental leave as a result of this policy change make a voluntary choice to give up their weekly wage, presumably because they perceive a greater benefit from a week off work to care for their child.

## Familiarisation with the new rights

176. The changes to the parental leave system will have familiarisation costs for business. Whilst much of the system remains fairly similar in terms of maternity and paternity leave and qualifying criteria, (albeit with different durations), the additional shared parental leave for fathers and the extension of unpaid parental leave after the first year will take businesses some time to become accustomed to. For this reason we have based these costs on a range of hours of HR or manager time depending on the size of business. We have assumed that for small firms a manager could take up to an hour and a half to familiarise themselves with the changes. This time increases with size of firm since larger organisations with many branches will have to make arrangements for information about the new entitlements to be cascaded throughout the organisation.
177. The cost will primarily be in management time. The relevant assumptions are set out in the table below. For all firms, time has been valued using ASHE 2011 wage figures for HR managers (SOC Code 1145) of £21.97 per hour, uprated by 16.4% to include non-wage labour costs to £25.57.
178. In total familiarisation costs are estimated to be £41.2m.

**Table 19: Total familiarisation costs from the introduction of Shared Parental Leave and Statutory Shared Parental Pay.**

Firm size (number of employees)	Number of firms	Average management cost (hours)	Estimated total cost to business
<b>Recurring costs</b>			
1-4	596,835	1.5	£22.9m
5-9	230,850	1.5	£8.9m
10-19	117,085	1.5	£4.5m
20-49	68,435	1.5	£2.6m
50-99	22,290	2	£1.1m
100-199	10,085	2	£0.5m
200-249	2,070	2	£0.1m
250-499	4,010	2	£0.2m
500+	4,580	3	£0.4m
<b>Total</b>	<b>1,056,240</b>		<b>£41.2m</b>

Source: BIS estimates based on 2011 BIS Business Population Estimates and ASHE 2011. Note that columns may not sum to total due to rounding.

## Benefits of greater parental rights

179. The introduction of the proposed policy is expected to have significant economic and non-economic benefits. These include:
- Financial benefits to parents due to an increase in the amount of paid leave taken;
  - Enhancing child welfare;
  - Providing an opportunity for fathers to take time off work to care for their baby, in response to growing numbers of fathers who want greater opportunities to care for their child;
  - Providing both parents with more flexibility over their childcare arrangements;
  - Enabling mothers to return to work earlier where their preferred option is for the father or partner to take over responsibility for caring for the child;
  - By providing mothers with a real choice over their timing of return to the labour market, this not only supports their connection to the workforce and future career development, but also helps maintain an important source of labour supply, thereby helping the UK meet the Lisbon objectives<sup>42</sup>;
  - Employer benefits through increased retention of staff and greater flexibility in discussing how and when parental leave is taken.
180. Whilst the UK generally has a flexible labour market, with high rates of participation and limited regulation, there are areas where problems have been identified. The current system of maternity rights were first developed at a time where mothers were seen as the primary carer. Evidence suggests that these rights were effective in improving women's attachment to the labour market. When the rights were first introduced in 1979, only a quarter of women returned to work after the birth of their child. By 2002 this figure had risen to over three quarters with 84% returning to their pre-birth employer.
181. However, since these arrangements were developed, the need for shared parenting has been recognised. As indicated earlier in the IA, the current system of maternity and parental leave is not flexible and does little to encourage shared parenting. Therefore, the proposed policy aims to address this particular issue and consequently there is evidence that it is likely to have benefits for employers
182. The benefits for the employer from the introduction of the proposed policy are likely to be lower staff turnover (and so lower recruitment and training costs), reduced loss of knowledge and human capital, higher commitment and therefore increased return on investment in training as employees stay longer. There will also be the benefit to individual employers of some employees being away from work for shorter periods of time where the mother shares the leave with the father.

<sup>42</sup>

In 2004, the UK female employment rate was 65.6%, already exceeding the Lisbon target of 60% to be achieved by 2010. Source: Table 5, Employment in Europe 2005, DG Employment and Social Affairs, European Commission.



183. There is some evidence which suggests that workplaces which offer an extensive range of family-friendly policies are more likely to have above-average performance<sup>43</sup>. Other studies have found case study evidence suggesting that a range of family friendly policies can either reduce absence rates or at least formalise them. In terms of staff retention, we have already seen that the proportion of mothers returning to the same employer is now high<sup>44</sup>. Stronger associations have been identified between work life balance policies and reducing home/work conflict. This can lead to a range of positive outcomes including: higher levels of job satisfaction, morale and organisational commitment, greater effort and less stress and work strain. These in turn, have been shown to be associated with business benefits such as reduced leaving intentions, fewer absences, less tardiness and improvements to performance and productivity.<sup>45</sup>
184. In the case of fathers, it has been reported by the Fatherhood Institute that 25% of fathers change jobs (often within the first two years after the birth) because they cannot reconcile work with the demands of fatherhood<sup>46</sup>. There is also evidence that shows fathers' perceived conflict between work/caring already causes them substantial stress<sup>47</sup> which can be associated with higher turnover and lower commitment. The introduction of the proposed policy will help to combat these issues and lower unnecessary turnover. Research has shown that 82% of male employees say paid paternity leave is an important feature of employee benefits to them,<sup>48</sup> thus the introduction of the proposed policy is likely to have a positive impact on commitment and retention of staff.
185. In the case of mothers, the proposed policy will provide mothers with a real choice over their timing of return to the labour market, this not only supports their connection to the workforce and hence their future career development, but also helps maintain an important source of labour supply. Thereby, lowering the mother's labour turnover and increasing their commitment.
186. Maternity and parental leave changes, along with other family-friendly measures, may also confer wider social and economic benefits. These include sustaining family life and ensuring the next generation has the best possible start in life and increasing the sustainable level of employment by promoting labour market attachment thus increasing the effective labour supply.

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<sup>43</sup> Gray, H. (2002) Family-Friendly Working: What a Performance! An Analysis of the Relationship Between the Availability of Family-Friendly Policies and Establishment Performance. CEPDP, 529. Centre for Economic Performance, London School of Economics and Political Science, London, UK.

<sup>44</sup> In preparation of this IA, BIS commissioned a literature review of the Costs and Benefits of Adopting Work Life Balance Working Practices (BIS, forthcoming). Whilst this found some evidence to support the business benefits of family friendly practices, there were difficulties in identifying measurable business benefits. This was because these policies apply specifically to parents at particular points in their lives and are used by small numbers of staff for short periods, making it difficult to identify significant findings. These issues lead to variance in the findings which also reflected different data-sets used. For these reasons we did not feel it would be practical to attempt to monetarise these benefits.

<sup>45</sup> Smeaton, D, Ray, K, Knight, G, 'Costs and Benefits to Business of Adopting Work Life Balance Working Practices: A Literature Review, BIS, forthcoming.

<sup>46</sup> Fatherhood Institute, <http://www.fatherhoodinstitute.org/>, 2010.

<sup>47</sup> Hill, E.J., Hawkins, A.J., Martinson, V, & Ferris, M. (2003). Work-Family Conflict, Fit, and Adaptive Strategies in a Global High-Tech Company. *Fathering*, 1, 3, 239-261. Levine, J.A., & Pittinsky, T.L. (1997). *The Working Father: new strategies for balancing work and family*. Reading, MA: Addison-Wesley.

<sup>48</sup> Personnel Today (2009). HR Opinion Panel Snapshot Survey. London.

## Child welfare

187. These proposals provide families more freedom through encouraging mothers and fathers to take a more equal and active role in the upbringing of their children. This has many benefits, both for the families and for wider society. The provision of leave for father to attend antenatal appointments seeks to help and encourage fathers to become involved in the life of their child at the earliest possible opportunity. Research suggests this early involvement is shown to positively influence the father's involvement with their child in future months and years<sup>49</sup>.
188. The policy proposals build on this early involvement by fathers by creating a flexible system of shared leave that can be used to provide flexibility for families whilst creating opportunities where the family chooses to, for each parent to be involved in the upbringing of their child.
189. Evidence suggests that greater parental leave (whether taken by the mother or father) has benefits for the child's welfare. Two weeks formal leave (as taken by 50% of fathers) was linked to an increased involvement in changing nappies and night-feeding by dads<sup>50</sup>. Infant mortality is significantly reduced when parents spend more time with their children, particularly at the post neo-natal stage of 28 days to 1 year old. This is particularly true when the leave is taken in a job-secure context<sup>51</sup>. Greater involvement by fathers has a long term effect on children and young people – including better peer relationships, fewer behavioural problems, lower criminality, higher educational and occupational mobility and higher self-esteem<sup>52</sup>. The current policy proposal increases the flexibility parents have in arranging care within the family and thus providing greater opportunities and choice for the father to be involved in care.

## Equality and employment

190. Research has shown that the current model of maternity, paternity and parental leave policies in the UK and other European countries can act to undermine gender equality. Policies that allow families to allocate paid and unpaid leave heavily or even exclusively for mothers can reinforce traditional gender roles and women's disadvantage in the labour market<sup>53</sup>.
191. The current policy proposal enables families to have greater flexibility and choice about how they care for their child. Promoting equality in caring responsibilities and employment extends far beyond the employment rights spectrum and requires a culture change across society; however these proposals contribute to this wider objective.
192. Research into maternity, paternity and parental leave policies and attachment to the labour market show a range of conclusions. Research has shown that paid leave schemes strengthen women's ties to paid work by raising

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<sup>49</sup> Flouri, E. (2005) *Fathering and Child Outcomes*, Wiley-Blackwell, London.

<sup>50</sup> La Valle, I., Clery, E., Carmen, M. C. (2008) '*Maternity Rights and Mothers' Employment Decisions*'. Department for Work and Pensions, Research Report No. 496.

<sup>51</sup> Ruhm, C. (2000) '*Parental Leave and Child Health*', *Journal of Health Economics*, vol. 19 no. 6, pp. 931–960; Tanaka, S. (2005) '*Parental Leave and Child Health Across OECD Countries*', *Economic Journal*, vol. 115 no. 501, pp. F7–F28.

<sup>52</sup> Flouri, E. & Buchanan, A. (2003) '*What Predicts Fathers Involvement with Their Children? A prospective study of intact families*', *British Journal of Developmental Psychology*, Vol 21 no. 1, pp. 81-97.

<sup>53</sup> Ray, R., Gornick, J.C. and Schmitt, J. (2008) '*Parental Leave Policies in 21 Countries: Assessing Generosity and Gender Inequality*'. Washington, DC: Centre for Economic and Policy Research. Available at [http://www.cepr.net/documents/publications/parental\\_2008\\_09.pdf](http://www.cepr.net/documents/publications/parental_2008_09.pdf)

employment rates<sup>54</sup>, reducing new mothers' labour market exits<sup>55</sup>, decreasing their job turnover<sup>56</sup> and lessening the earnings gap between women with and without children<sup>57</sup>. These benefits are particularly true for leave of shorter durations. Evidence from Sweden suggests that a mother's future earnings increased on average by 7% over a four year period for every month of leave the father takes<sup>58</sup>.

193. The current policy proposal has the benefit of allowing mothers to realise these benefits, if they so wish, by allowing greater flexibility of caring responsibilities with the father thus enabling the mother to return to work. It is expected that this legislation will ease the problems of many parents, giving them more choices over how they organise their time and thus widen employment opportunities. The benefits of parental leave will extend beyond employees to their partners and children, as well as to society as a whole.

## Work-life balance

194. The option of shared parental leave, even if not taken up, will enable people to achieve a better balance between work and family responsibilities as it widens choices. It will also give those parents who need to use parental leave a wider choice of employers. The promotion of active fatherhood may also be crucial in removing the obstacles that prevent women achieving their full potential at work<sup>59</sup>. By encouraging fathers to take a greater role in childcare, both parents may be more able to balance work and family responsibilities, helping to provide the environment for increased maternal employment. If people expect to stay in work then employers and employees may be more willing to invest in training.

## Family benefits from payments

195. The introduction of SPL and SSPP mean that more families will be able to have more choice in how they organise childcare and employment in the first year after the child is born. This will enable more mothers to return at a time that suits their chosen combination of working and parental responsibilities and will allow families more flexibility in arranging appropriate childcare arrangements. The benefit to families of changes to availability of pay can be represented as the total value of new payments received. This is shown in Table 20 and is the sum of the Exchequer cost for the shared parental leave periods and the additional adoption payments (£8.1 million to £9.3m million).

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<sup>54</sup> Ruhm, C.J. (1998) 'The Economic Consequences of Parental Leave Mandates: Lessons from Europe', *The Quarterly Journal of Economics* 113(1): pp285-317; Rønsen, M. (1999) 'Assessing the Impact of Parental Leave: Effects on Fertility and Female Employment' in P. Moss and F. Devin (eds) *Parental Leave: Progress or Pitfall?* (pp:193-225). Brussels: NIDI/CBGS Publications.

<sup>55</sup> Hofferth, S.L. and Curtin, S.C. (2003) 'The Impact of Parental Leave on Maternal Return to Work after Childbirth in the United States'. Paris: OECD Social, Employment and Migration Working Papers 7.

<sup>56</sup> Glass, J. and Riley, L. (1998) 'Family Responsive Policies and Employee Retention Following Childbirth', *Social Forces* 76(4): pp:1401-35.

<sup>57</sup> Waldfogel, J. (1997) 'Working Mothers Then and Now: A Cross-Cohort Analysis of the Effects of Maternity Leave on Women's Pay', in F.D. Blau and R.G. Ehrenberg (eds) *Gender and Family Issues in the Workplace*, pp:92-126. New York: Russell Sage Foundation.

<sup>58</sup> Johansson, E. (2010) 'The effect of own and spousal parental leave on earnings', Institute for Labour Market Policy Evaluation, working paper No. 4.

<sup>59</sup> Equality and Human Rights Commission (2009) 'Working Better: Meeting the changing needs of families, workers and employers in the 21st century'. Available at <http://www.equalityhumanrights.com>

## Risks and assumptions

196. The estimates presented in this impact assessment are based upon a number of assumptions about the future, including eligible populations, take-up rates, duration of leave as well as the procedural impact that leave taken by parents has on business and the exchequer. As many of these assumptions are inherently uncertain, and future outcomes may not follow existing trends, there is a risk that the costs and benefits fall outside the range of outcomes presented above. However, in constructing our analysis we have carefully chosen high and low assumptions that cover a wide range of outcomes and minimises the risk of the actual impact falling outside the range of our estimates. To the extent that our data is imperfect however, the risk remains that this Impact Assessment does not fully capture the potential impacts of the proposed policy change.
197. In addition, there may be a risk of fraud with the entitlement to shared periods of paid leave and the aim will be to minimise this as far as possible. Although checks with third parties may prove useful, the financial and time costs of involving every case with either HMRC and/or the employer in the verification process would be significant. Instead HMRC could introduce a combination of random and risk-based checks on employers and employees.
198. We are looking at the possibility of using HMRC's Real Time Information system to provide a check that the total amount of paid leave per family has not been exceeded. This would result in reduced need for compliance checks by HMRC and give assurances to employers that there has not been an overpayment. However, there will still be issues of fraud relating to couples where one partner is self-employed due to running checks across both HMRC and DWP systems.
199. Further assessment of these risks and the costs of checks on employees and employers will be undertaken once the consultation on administrative detail has been completed.

## Wider Impacts

200. In putting enforcement mechanisms in place, the Government is aware of the need to strike a balance between avoiding placing undue burdens on business and ensuring that employees receive their rights. Where statutory payments are concerned we also need to consider the balance between these interests and protecting the tax payer from payments made or claimed either in genuine error or fraudulently. We expect the compliance risks for the new scheme to be low and similar to current arrangements, and that the steps taken to ensure compliance will be proportionate.
201. As part of our assessment of the impacts of the proposed policy changes, we considered whether there would be any impact on the total output of the economy. If the policy is successful in meeting its objectives, there will be a greater amount of time spent by parents in caring for their children, which means that in this time they are not contributing to the productive capacity of the economy, as they might otherwise have been. However, we concluded that there would be no overall impact on output, as there are a number of ways that the labour supply could expand so that the capacity of the economy to supply output is unchanged. We assume that either parents make up the work in other time periods, or else other workers are able to step in to provide the labour, whether this is through providing additional overtime or through a temporary employment arrangement. This would apply both to employed and self-

employed parents taking parental leave. The substitution of leisure time for parents with the leisure time of those not on parental leave means that the overall productive capacity of the economy remains unchanged.

## Summary Table of Costs and Benefits

202. Table 20 below provides a summary of all the additional costs of introducing the parental rights described in this impact assessment:

	Estimated costs and benefits (£ millions)		
	High	Best Estimate (medium)	Low
<b>COSTS</b>			
Annually recurring costs:			
Exchequer adoption costs	£8.1	£8.1	£8.1
Exchequer SPL policy costs	£1.2	£0.3	£0.0
Exchequer SPL admin recurring costs	£1.5	£1.2	£0.0
Employer recurring costs			
of which adoption	£34.6	£24.8	£16.3
of which Antenatal	£2.2	£2.0	£1.7
of which SPL	£1.2	£0.9	£0.6
of which Unpaid Parental Leave	£3.3	£1.2	£0.3
	£27.9	£20.8	£13.7
<b>Total recurring costs:</b>	<b>£45.5</b>	<b>£34.4</b>	<b>£24.4</b>
Transition costs (one-off):			
Exchequer admin one off costs	£6.9	£6.9	£6.9
Employer familiarisation costs	£41.2	£41.2	£41.2
Employer set-up costs	£7.9	£7.7	£7.6
<b>Total transition costs:</b>	<b>£56.0</b>	<b>£55.8</b>	<b>£55.7</b>
<b>BENEFITS</b>			
Annually recurring benefits for parents from additional Exchequer payments	£9.3	£8.4	£8.1
<b>Plus unquantified benefits:</b>	Greater flexibility over childcare arrangements, opportunity for fathers to spend more time with their children; greater connection of women to workplace; reduced gender gap in employment.		

Source: BIS / HMRC. Note that columns may not sum to total due to rounding.

## One-In, One-Out

203. The policies assessed in this Impact Assessment are within the scope of 'One-in, One-out' (OIOO). Although some of the proposed policy changes implement EU requirements, only elements additional to current EU requirements have been included in the estimated costs in this IA and therefore included for OIOO.
204. All of the impacts on business included in this Impact Assessment are direct impacts on business. The table below summarises the direct impacts on business from the different strands of the proposed parental leave system.
205. All of the costs to employers identified above are included in the OIOO estimate. We estimate that the policy is a net cost for business and the policy will be scored as an 'in' measure for the purposes of OIOO.
206. Using data from BIS Business Population Estimates for 2011 and the Labour Force Survey 2011 Q2 data we estimate that 70% of the one-off and recurring employer costs will be incurred by businesses. Public sector employers are not included in the OIOO estimates.
207. Table 21 shows the direct impact on business. The equivalent annual net costs to firms will be £20.1 million (in 2009 prices)<sup>60</sup>. Table 22 shows which of the costs and benefits presented in this Impact Assessment have been included in the calculation of the OIOO figure.

**Table 21: Summary of Equivalent Annual Cost and Benefit (direct impact on employers)**

Scope of law	Equivalent annual cost (£m)	Equivalent annual benefit (£m)	Equivalent net cost (£m)
Shared Parental Leave package	£20.1	£0.0	£20.1

Source: BIS estimates. Figures have been rounded.

<sup>60</sup> The costs and benefits in this Impact Assessment are presented in 2011 prices, with the exception of the net cost to business for the purposes of OIOO, which has been converted into 2009 prices using the HMT GDP deflator, in accordance with the OIOO Methodology.

**Table 22: Costs and benefits of preferred option including summary of costs included for One-in, one out (£m)**

Description of cost/benefit	Included for OIOO (Direct Impact on Business)	Impact on business (%)	Year									Nominal Total	Present Value Total		
			0	1	2	3	4	5	6	7	8			9	
<b><u>Transition Costs</u></b>															
Exchequer Transition Costs	No	0%	6.9											6.9	6.9
Employer Transition Costs	Yes	70%	48.8											48.8	48.8
<b><u>Annual Costs</u></b>															
<b><u>Exchequer costs</u></b>															
Exchequer adoption costs	No	0%	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	80.6	69.4
Exchequer SPL statutory payment costs	No	0%	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.1	2.6
Exchequer SPL recurring admin costs	No	0%	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	11.8	10.2
<b><u>Employer</u></b>															
Adoption employer costs	Yes	70%	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	19.6	16.9
Antenatal admin and absence costs	Yes	70%	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	9.2	7.9
Shared Parental Leave Employer Costs	Yes	70%	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	11.8	10.1
Unpaid Parental Leave Employer Costs	Yes	70%	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	20.8	207.5	178.7
<b><u>Annual Benefits:</u></b>															
Additional Payments to employee parents	No	0%	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	83.7	72.0

## **Moratorium on new regulations affecting micro-businesses**

207. There are no plans to create a two-tier system of maternity and parental leave by exempting micro- and new companies. Doing so would deny these employers the ability to flexibility to negotiate with their employees on when leave is taken or to split the burden of absence where the mother works for a small employer. An exemption for micro-businesses would also make the system of parental leave unworkable, as where one parent works for a micro-business, an exemption for micro-businesses would deny access to the new parental leave system for the other parent, creating additional complexity for the employer of the second parent, who would also have to be familiar with the parental leave system for micro-businesses.



## Annexes

### Annex 1: Post Implementation Review (PIR) Plan

<p><b>Basis of the review:</b> [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>It is intended to introduce shared parental leave in 2015. The review of the changes will take place in 2017, when the new right has become established.</p>
<p><b>Review objective:</b> [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>The objective of the review is to assess the effectiveness of the policy in achieving the following objectives:</p> <ul style="list-style-type: none"><li>• Give parents more choice and flexibility in how they share the care of their child in the first year, thus enabling both parents to retain a strong link with the labour market;</li><li>• Encourage more fathers to play a greater caring role (pre-birth and in the first year);</li><li>• Increase flexibility for employers and employees to reach agreement on how best to balance work and domestic needs without state interference.</li></ul>
<p><b>Review approach and rationale:</b> [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>It is planned that the Maternity and Paternity Rights and Work Life Balance series of surveys will continue and these can be designed to form the central part of the evaluation process. In addition data will be available for other survey sources such as the Workplace Employment Relations survey 2011 and future Fair Treatment at work surveys. Other sources of data will be available from the Labour Force Survey, Employment Tribunals Service and potentially HMRC administrative data on statutory payments.</p>
<p><b>Baseline:</b> [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>The 2009 Maternity and Paternity Rights Survey has currently been completed and published and the 4<sup>th</sup> Work Life Balance survey of employees is completed and due to be published in 2012 . These have been designed to provide a baseline on the use of maternity, paternity, parental and additional paternity leave by parents. Data will also be available from the Labour Force Survey of more general take-up of flexible working.</p>
<p><b>Success criteria:</b> [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>Increased take-up of parental leave by fathers due to greater involvement with their child.</p> <p>Increased choice and flexibility families have in arranging time-off and child care, measured by the amount of parents who report they have worked (or taken leave) flexibly and/or shared leave with their partner.</p>
<p><b>Monitoring information arrangements:</b> [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p> <p>Data and information will be monitored post implementation through a range of data sources including the Maternity and Paternity Rights Survey, Work Life Balance Survey</p>

and potentially administrative data from the HMRC.

## Annex 2: Specific impact tests

### **Small Firms Impact Test**

Small businesses may experience a disproportionate impact on the running of their business when an individual takes leave, compared to larger businesses, particularly where small businesses do not have a dedicated HR function. As a group, small businesses are as likely to encounter requests for leave as larger businesses, though individual small businesses will be less likely to be affected by the new entitlements, as they have fewer employees per business.

However, it should also be noted that smaller employers are entitled to recover 100% of any payments they make (plus 3% compensation for the extra National Insurance Contributions payable), compared to a 92% recovery entitlement for larger firms. To some extent, this will offset the disproportionate impact on small firms, although other costs such as the cost of covering for absence will still remain.

According to data from the Department for Business Innovation and Skills SME statistics<sup>61</sup> in 2008 there were around 1.238 million businesses in the UK employing 19.2 million employees. Around 97% (around 1.205 million) of all businesses employ fewer than 50 employees. Data for Q2 2010 from the Labour Force Survey (Table A2.1) shows that 48% of all employees and 43% of male employees with a child under the age of 1 work for small firms.

**Table A2.1: Number of employees in the workplace**

No. of employees in respondent's workplace	All employees	Male employees with child aged less than 1
1-10	19%	18%
11-19	9%	7%
20-24	4%	5%
don't know but under 25	2%	1%
25-49	14%	12%
50-249	23%	24%
250-499	8%	9%
don't know but between 50 and 499	3%	3%
500 or more	18%	21%
Total	100%	100%

Source: ONS Labour Force Survey, Q2 2010

Furthermore the BIS will consider what guidance is necessary for all businesses to ensure that any communication, whether involving the mother's and father's employers or HMRC is simple and effective, which will also limit the impact and costs of administering the leave and pay. Small businesses and their representative organisations will be encouraged in particular to work with government on this and ensure that the guidance and advice produced is clear, relevant and comprehensive.

61 SME Statistics for the UK and the Regions 2008, Department for Business Innovation and Skills, available at: <http://stats.bis.gov.uk/ed/sme/>

# Equality Duties Impact Test

## Race

It is important that proposals outlined do not have a disproportionate effect on any on ethnic group. An assessment of the overall effect of the proposals is that all groups will be equally entitled. Table A2.2 below shows that the proportions of eligible employees are often higher among ethnic minority groups. This suggests that the proposal will benefit ethnic minority groups in particular as there might be greater take-up.

**Table A2.2: Ethnicity**

Ethnic Group	Male employees with child aged less than 1 ('000's)	% of male employees
White	432	3.8%
Mixed	*	*
Asian or Asian British	47	6.8%
Black or Black British	21	8.3%
Chinese	*	*
Other ethnic group	18	9.4%
Total	527	4.2%

\* Table cells with a weighted count of less than 10,000 people have been suppressed.  
Source: ONS Labour Force Survey, Q2 2010

## Disability

The proposal is designed to have a positive impact on all families. Therefore, the proposed changes are unlikely to create any barriers to equality in terms of an employee's disability. Furthermore, we do not expect that employers employing individuals with disabilities will be unduly affected by the proposed adjustments in this impact assessment.

## Gender

This proposal concerns gender equality in that it is providing fathers more opportunity to look after their children in the first year of life. By providing greater flexibility and choice for whether the father or mother provide the caring responsibilities the proposal will provide greater gender equality both in the workplace and the home. This may also contribute to reducing the gender pay gap. Fathers now contribute around a third of all time spent by parents in caring for their children and evidence suggests that fathers would like to be even more involved.

The Government has already taken significant steps to enable fathers to play a bigger role in bringing up their children with parental leave, two weeks paid paternity leave and the right to request flexible working hours. These proposals will add to these provisions giving fathers further time off to bring up their children and provide greater choices about balancing their work and caring responsibilities.

These proposals will contribute to building a modern system of statutory payments and leave that is fair and flexible enough to accommodate parents' reasonable expectations of choice in how they care for their children.

*Sexual orientation, religion and belief, age, gender reassignment and pregnancy and maternity*

The proposal is designed to have a positive impact on all families. Therefore, the proposed changes are unlikely to create any barriers to equality in terms of an employee's sexual orientation, religion and belief, age and gender reassignment. The policy proposals aim to provide benefits to families where there is a pregnancy and maternity therefore the effects of this policy will clearly benefit families with new born or young children over families without. Furthermore, we do not expect that employers employing individuals in these groups will be unduly affected by the proposed adjustments in this impact assessment.

A full equality impact assessment will be published separately to this document.

## Competition Assessment

The proposed changes would apply to all firms and it is unlikely to affect the competitiveness of any particular sector, although for occupations that are traditionally male-dominated these proposals could have a greater impact. While such employers may have experience in administering paternity leave and pay, they are less likely to have managed longer absences as in maternity leave. Therefore, the introduction of an entitlement to SPL/SSPP may have more of an impact on these employers than on employers whose workforce is predominately female.

In terms of absences, the costs and difficulties could be greater if the employer operates in a skilled area where there is a shortage of temporary workers.

Table A2.3 shows that inexperience dealing with maternity leave is particularly likely in the construction sector as it has the lowest share of women workers. Agriculture, energy, manufacturing and transport and communications may also be disproportionately affected. However, given the fairly low number of fathers expected to take advantage of the proposals, the overall impact on these sectors will remain small, and in any case these sectors would be familiar with Statutory Paternity leave and pay, on which much of the administration for this scheme is based.

**Table A2.3: Employees by sector and gender**

Sector	All employees ('000's)	Men as a proportion of all employees in each sector
Agriculture, forestry and fishing	145	74%
Energy and water	434	80%
Manufacturing	2,677	77%
Construction	1,349	85%
Distribution, hotels and restaurants	4,888	50%
Transport and communication	2,013	74%
Banking and finance	3,753	52%
Public admin, education and health	8,309	30%
Other services	1,152	46%
Total	24,719	51%

Source: ONS Labour Force Survey, Q2 2010

The results of the competition filter test showed that there is no need to do a detailed assessment of the impact of the proposals on competition. In the filter test, the issue of market share is not relevant because the proposals apply to all sectors of the economy and at the same time, with the total number of paternity cases per year expected to be low, the likelihood of any particular employer being affected by a case is low.

The proposed policies will not affect market structure or the potential of new firms to enter markets nor are the proposals expected to have an impact of firms' production decisions.

## Annex 3: Calculation of take-up figures

Calculations draw on the Maternity and Paternity Rights Survey of Parents 2005.

The proportion of eligible couples that would make use of the new opportunities was estimated as follows:

- The mother must have said that she would have transferred some of her entitlement to statutory maternity leave to her partner, when asked; and
- The father must have indicated by his behaviour that he was strongly committed to caring for his children, or (higher estimates) said he would have wanted to stay at home to care for his child using maternity leave and pay transferred from the mother, when asked.

A father was considered to show strong commitment if he had:

- Taken parental leave to help out at home / look after his baby / child / partner;
- Left paid work since the birth of his child, as he preferred to look after the child(ren);
- Used a career break for family reasons;
- Changed his job arrangements or hours, or employer, since the birth of his child, in order to spend more time with his child or partner.

Couples where fathers had not taken at least 5 days' leave at the time of the birth of their child were excluded, regardless of their other answers, as it was considered that this indicated a lack of serious intent to participate in childcare.

The calculations also took into account the relative incomes of both partners before the birth of their child, and the combined household income. Couples were excluded if the father earned £1,000 a month more than the mother, on the basis that the fathers' lost earnings would be too much of a sacrifice to make APL&P a realistic choice for the family. For lower-earning couples (where the combined income was less than £40,000 a year), the exclusion was made if the father earned £500 a month more than the mother.

Where the mother earned significantly more than the father, measured as £1,000 a month more (or £500 where the couple's combined income was less than £40,000), it was assumed that this would constitute a strong incentive for the family to share leave. Therefore, even if only one member of a couple expressed an interest, it was assumed that there was still a 50% chance that the couple would take it up.

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**Table A3: Figures used to generate take-up estimates**

	Take-up (per cent)
<b>Fathers</b>	
- Behaviour indicates significant commitment to spending time with the child	14
- Behaviour indicates commitment or say they would use transferred leave (In both cases the father must have used at least a week of paternity leave)	38
<b>Mothers</b>	
- Say they would transfer their leave	26
<b>Couples (before income adjustment)</b>	
- Father's behaviour indicates commitment and mother says she would transfer leave	5
- Father's behaviour indicates commitment or father says he would use transferred leave, and mother says she would transfer leave	13
<b>Couples (after income adjustment)</b>	
- Father's behaviour indicates commitment and mother says she would transfer leave	4
	<b>LOW ESTIMATE</b>
- Father's behaviour indicates commitment or father says he would use transferred leave, and mother says she would transfer leave; OR one partner indicates interest in leave and mother earns significantly more (50% of these couples included)	8
	<b>HIGH ESTIMATE</b>

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Source: BIS calculations based on the Maternity and Paternity Rights Survey of Parents 2005

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## Annex 4: Estimating Employer Cost of Absence

The policy changes assessed in this IA include extension of existing leave arrangements or the introduction of new leave arrangements. This will lead to some parents spending longer away from work. Employee absence has cost implications for employers, even though the employers do not incur wage costs for the periods of parental leave discussed in this Impact Assessment (although large businesses do incur some of the cost of the statutory payment for the paid leave elements).

When an employee is absent, the costs incurred by employers will differ, depending on how the employer chooses to deal with the absence.

### Types of Absence costs:

- **Wage costs**, if the employee is paid by the employer despite being absent
- **Re-organisation costs:**
  - Employing temporary cover, which is likely to be more expensive than the absent worker, and may also be less productive
  - Re-allocating work among existing staff, which is costly because either additional overtime is paid so that output remains constant, or because in re-allocating work, some other work is dropped, resulting in a loss of output.
  - Not covering the absent employee's work and accepting a loss of output

The re-organisation costs above may also include an element of loss of productivity, for example when a temp is hired to cover the work, or a colleague is reallocated to work they are less familiar with, they are likely to be less productive.

The choice between different types of cover will be influenced by four factors: the duration of absences and their nature (planned or unplanned), the size of the company/workplace, the nature of the business, and the skills needed in the particular job. While we recognise that differences in these factors mean that employers may use different methods to cover absence in different cases, we consider that in terms of employer costs, the same assumptions apply in each case.

### **Cost assumptions**

In order to monetise the impact of the proposed policies in terms of the costs of absence incurred by employers, it is necessary to put a figure on the unit cost of reorganising work as mentioned above. The cost of absence is difficult to measure, as many of the costs are not directly observed. For example, when surveyed about absence costs, employers may highlight the wage costs associated with short-term sickness absence for example, but fail to identify the associated re-organisation costs or loss of productivity.

Moreover, whilst studies may seek to identify the cost of absence in general, including both planned and unplanned, and paid and unpaid absence, the absence covered in this impact assessment is unpaid and planned – for example parents must

give notice to their employer before taking paternity, maternity, or parental leave, and where this leave is paid, it is (largely) funded by the government.

With this in mind, we present below the most recent estimates of the cost of absence by two leading employer bodies, the Confederation of British Industry (CBI) and the Chartered Institute of Personnel and Development (CIPD).

In 2011 the CBI published a survey on absence and workplace health.<sup>62</sup> The survey found a median cost of absence of £760 per employee per year, based on an average of 6.5 days absence per employee. This figure includes the wage costs of absence, as well as an estimate of the reorganisation costs and loss of productivity. Therefore the weekly cost of absence is estimated to be £585, and subtracting the average weekly wage costs of £453 leaves indirect costs of £132, or 29% of wage costs. However, this does not account for standard non-wage costs such as employer National Insurance contributions and employer pension contributions.

Based on Eurostat data, we assume throughout this Impact Assessment that non-wage labour costs are 16.4% of wage costs. Uprating the average weekly wage costs by 21% to £527 means that only about £58 (or 11% of total labour costs) of the weekly cost of absence can be attributed to reorganisation costs – the rest of the costs are due to the capital spent on unproductive labour. However, this 11% figure is likely to be an underestimate, as for the reasons discussed above, the reorganisation costs of absence may be difficult for employers to observe. On the other hand, the CBI figure refers to both unplanned and planned absences, whilst the leave discussed in this Impact Assessment is all planned, which should mean that the reorganisation costs covered here are smaller than for absence in general.

The CIPD published a similar survey, also in 2011. They identified a median cost of absence of 7.7 days per employee per year, with a median cost of absence of £673 per employee per year. It is not clear what wage data is used to calculate this figure, but using data from the Annual Survey of Hours and Earnings (ASHE) 2011, which found that median full-time weekly earnings were £499, we find that the cost of five days of absence  $((673/7.7)*5)$ , at £437 is less than the median full-time weekly earnings. This suggests further that employers find it difficult to identify the cost of absence, and indeed the CIPD present a table highlighting the costs that employers took into account when calculating the cost of absence (Table A4 below). Only 27% of employers took the cost of temporary cover into account, 23% factored in the cost of additional overtime, and 21% included the costs due to lost production. One explanation for the median weekly cost of absence being lower than median weekly earnings may be that if reorganisation costs are not accounted for, employees may receive only a proportion of their salary if they are on long-term sick leave.

<b>Table A4: Criteria included in calculation of average cost of employee absence per employee</b>	
	%
Occupational sick pay	81
Statutory sick pay	65
Temporary cover	27

<sup>62</sup> Healthy returns? Absence and workplace health survey 2011, Confederation of British Industry

Additional overtime costs	23
Lost production or service provision	21
Other	6
Source: Absence management – Annual survey report 2011, Chartered Institute of Personnel and Development	

On the basis of the discussion above, the following principles are used in this IA to calculate the costs of absence to employers:

- The costs of meeting absences through re-organisation are assumed to be between 7% to 14% of total labour costs (both wage and non-wage costs). This mark-up appears prudent given the evidence presented above, which for example in the case of the CBI survey suggests re-organisation costs of around 11% of total labour costs, but as the CIPD survey shows, employers may not fully take into account the reorganisation costs when considering cost of absence. Therefore we opt for a range of 7% to 14% reorganisation costs, consistent with the (limited) evidence available.
- We think this is justified and prudent, and that the true value is likely to lie in this range, because whilst on the one hand we anticipate that the studies quoted above underestimate the reorganisation costs, at the same time the absences assessed in this Impact Assessment are planned, meaning that employers can optimise their reorganisation to minimise costs.
- This approach is consistent with that of previous Impact Assessments covering absence, and stakeholders have broadly voiced their support for this approach, recognising that this is a difficult area in which to monetise costs.
- Reorganisation costs are assumed to stay constant as length of absence increases: this is because many of the costs involved (overtime payments, opportunity costs from displaced outputs elsewhere) are unlikely to diminish over time.
- Short-term absences are assumed to be met through reorganisation of work, longer term absences primarily through employment of temporary cover;
- We recognise that there may be variation in absence costs by size of business, as different sizes of organisation may respond to absence in different ways. However as the studies presented above average out the costs of absence over organisations of all sizes, we apply the 7% to 14% assumption equally across all firms.

## Annex 5: Glossary

Additional Paternity Leave (APL)	If a mother entitled to Statutory Maternity Leave returns to work, the father can take a period of up to 26 weeks leave, starting no earlier than the 20 <sup>th</sup> week after the child is born. To be eligible statutory Paternity Leave and in continuous employment with their employer up to the start of APL.
Additional Statutory Paternity Pay (ASPP)	Additional Statutory Paternity Pay (ASPP) may be paid if the mother returns to work during the mother's SMP or MA period. Eligibility for the pay element (ASPP) is further conditional upon the mother being entitled to Statutory Maternity Pay (SMP) or Maternity Allowance (MA) and having some of the entitlement remaining prior to the start of ASPP.
Additional Maternity Leave (AML)	Employed women are entitled to Additional Maternity Leave (AML) of 26 weeks, in addition to 26 weeks Ordinary Maternity Leave (OML).
Emergency leave / time off for dependents	All employees, regardless of length of service, are entitled to take time off to deal with an emergency involving a dependent, including a disruption in care; a dependent is defined as a spouse, child, parent or someone living in the same household. The entitlement to time off to care for dependents is limited to short-term, emergency situations.
Family-friendly arrangements	The family-friendly arrangements explored by the survey include: family leave and flexible working arrangements (see below) and employer supported childcare (see above).
Keeping in Touch (KIT) days	Mothers on the Statutory Maternity Leave are entitled to work for their current employer without affecting their maternity pay entitlements. Mothers can use up to ten KIT days.
Maternity Allowance (MA)	Women who do not qualify for Statutory Maternity Pay (SMP) are entitled to Maternity Allowance if they have been an employed or self-employed earner in any 26 weeks in the 66 week period ending with the week before the week the baby is due. They must also have had average weekly earnings of £30 during any 13 weeks of the qualifying period.

Occupational Maternity Pay (OMP)	Occupational Maternity Pay (OMP) is paid to women by their employer as part of the employment contract. Women who qualify for Statutory Maternity Pay (SMP) and receive OMP will usually have SMP incorporated into their OMP.
Parental leave	Up to 13 weeks statutory parental leave is available to parents with one year's continuous service with their employer and who have a child under the age of six. If they have a disabled child the entitlement lasts till the child is 18 and parents can take up to 18 weeks.
Paternity leave	Employed men who have completed 26 weeks of service by the 15 <sup>th</sup> week before the baby is due are entitled to two weeks paid paternity leave.
Statutory Maternity Leave	All employed women are entitled to 52 weeks of Statutory Maternity Leave (SML).
Statutory Maternity Pay (SMP)	Women are entitled to Statutory Maternity Pay (SMP) if they have completed 26 weeks continuous employment with their employer into the 15 <sup>th</sup> week before the baby is due, and have earned on average at least the lower earnings limit for NI contributions for a specific 8 week period. SMP is paid for 39 weeks.
Statutory Paternity Pay (SPP)	Men are entitled to Statutory Paternity Pay (SPP) if they have completed 26 weeks continuous employment with their employer into the 15 <sup>th</sup> week before the baby is due, and have earned on average at least the lower earnings limit for NI contributions. SPP is paid for two weeks.

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