

Summary: Analysis & Evidence

Description: (Legislative Option): Reforming Paternity Leave and Pay to allow fathers/partners to take two non-consecutive weeks of paid leave at any point in the first year, with reduced notification periods.

FULL ECONOMIC ASSESSMENT

Price Base Year 2022	PV Base Year 2024	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £4.5m
COSTS (£m)		Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		0.8	10	0.0	0.8
High		1.1		8.8	76.6
Best Estimate		1.0		4.4	39.0
Description and scale of key monetised costs by 'main affected groups'					
Businesses costs: <ul style="list-style-type: none"> One-off familiarisation costs for large businesses - £ 0.7 million. Reoccurring annual costs relating to administering the leave - £ 0.3 million Reoccurring wage-like costs - £0.2 million Reoccurring reorganisation costs - £2.9 million 					
Exchequer costs: <ul style="list-style-type: none"> One-off to HMRC cost relating to the implementation of IT systems - £0.5 million. Statutory payments costs that are funded by the Exchequer - £2.3 million 					
Other key non-monetised costs by 'main affected groups'					
There could be additional costs associated for business, as fathers/partners will use their leave entitlement over the course of a year, increasing the likelihood of absence over the year.					
BENEFITS (£m)		Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		Optional		Optional	Optional
High		Optional		Optional	Optional
Best Estimate		0.0		1.9	15.9
Description and scale of key monetised benefits by 'main affected groups'					
The key monetisable benefit is in the form of statutory payments for individuals. The majority of the benefits are non-monetisable, including individual benefits, reputational benefits, and benefits to the wider economy as a result of more engaged fathers / partners. The potential benefits include more fathers / partners taking paid Paternity Leave, increased paternal involvement in their children's lives and the knock-on impact of supporting increased female labour market participation.					
Other key non-monetised benefits by 'main affected groups'					
Fathers/partners will have increased flexibility around when to take Statutory Paternity Leave and Pay , allowing them to benefit from their full entitlement over a longer time period.					
Key assumptions/sensitivities/risks Discount rate (%)					3.5%
Estimated costs are sensitive to assumptions of take up rate and individuals responses to the policy reforms, in particular the number of fathers / partners that will take unpaid leave or take additional weeks of leave due to additional flexibility. We also make key assumptions on business costs such as time taken to familiarise themselves with the policy reforms.					

BUSINESS ASSESSMENT

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 4.5	Benefits: 0.0	Net: 4.5	N/A – De Minimis

Evidence Base

Problem under consideration and rationale for intervention

1. The 2019 Parental Rights Survey² showed that 59% of all fathers (increasing to 70% among those who were 'employees' before the birth of their child) took paternity leave after the birth of their child and 21% took some other sort of time off. Of those taking Statutory Paternity Leave and Pay, 62% did not take their full entitlement reportedly because they could not afford to. Beyond financial reasons, responses to a 2019 consultation on high level options for reforming parental leave and pay also suggested there is a need for more flexibility around when Statutory Paternity Leave and Pay can be taken.
2. Evidence from Scandinavia suggests that giving fathers more parental leave leads to a more equal division of household chores and childcare.³ Fathers who spend time with their child in their first year, particularly parenting on their own, are also more likely to be involved with their children subsequently. There is also evidence that increased involvement of fathers improves outcomes for children.⁴
3. The Conservative manifesto committed to look at ways to make it easier for fathers / partners to take Statutory Paternity Leave and Pay. The proposed reforms to Statutory Paternity Leave and Pay will increase the flexibility of the current system. This will allow both parents to bond with their children at any point in the first year, taking leave at times most beneficial to the family, and establish their childcare roles, including helping facilitate a mother's return to work.
4. The leave entitlement will improve flexibility, and encourage more fathers/partners to take their available leave. The existing system requires Statutory Paternity Leave and Pay to be taken in one block (of either one or two weeks) which can act as a barrier to some fathers/partners taking it. Currently Statutory Paternity Leave and Pay must end within 56 days of the birth (or due date if the baby is early). These reforms will mean the leave can be taken, in up to two blocks of one week, during the first 52 weeks of the child's life.
5. DBT analysis of 2019 survey data shows that current take-up of Paternity Leave and Pay i.e., of all fathers who take some time off following the birth, is 74% for the first week of leave and 66% for the second week.⁵ The Parental Rights Survey⁶ also shows the primary reasons preventing fathers from taking leave are affordability with 35% of fathers that did not take any statutory leave doing so because they could not afford to and 62% of those that did not take their full entitlement also citing affordability. By enabling fathers to take their two weeks of leave non-consecutively, some additional fathers would benefit from their full entitlement whilst balancing work commitments and spreading out the weeks of reduced pay may alleviate some financial pressure. Beyond financial reasons, responses to a 2019 consultation on high level options for reforming parental leave and pay also suggested that there is a need for more flexibility around when Statutory Paternity Leave and Pay can be taken.
6. The government has already launched an online tool to help expectant parents plan their time off in the key, early stages of their baby's life. While it primarily aims to support parents to agree Shared Parental Leave arrangements, as part of that, it also allows parents to plan their Maternity/Adoption and Paternity Leave. Parents can check their eligibility for the scheme, calculate their pay entitlement and download all the documents they need to secure leave from their employer.
7. However the tool on its own does not deliver the outcomes sought, as it fails to address the fact that fathers/partners are not able to take their leave flexibly, hence we also propose pursuing legislative reform.

Current system of Statutory Paternity Leave and Pay

² The 2019 Parental Rights Survey (previously The Maternity and Paternity Rights Survey) involved more than 3,300 parents.

³ Kotsadam, A. and Finseraas, H. (2011) – The state intervenes in the battle of sexes: Causal effects of paternity leave.

⁴ Norman, H., Fagan, C. and Elliot, M. (2017) – How can policy support fathers to be more involved in childcare? Evidence from cross-country policy comparisons and UK longitudinal household data.

⁵ Internal analysis of data from the 2019 Parental Rights Survey, a representative survey involving more than 3,300 parents.; <https://www.gov.uk/government/publications/shared-parental-leave-spl-evaluation>

⁶ <https://www.employment-studies.co.uk/resource/parental-rights-survey-2019>

8. ^[Obj] At present, fathers/partners are entitled to two weeks Paternity Leave, which are paid at the Statutory Paternity Pay rate (£172.48 in 2023/24^[Obj] or 90% of average weekly earnings (whichever is lower).^[Obj] If father/partner is entitled to up to two weeks of leave, if they take one week, they cannot take the other week on a separate occasion. Fathers/partners also only have up to eight weeks following the birth of the child to take Statutory Paternity Leave and Pay, meaning it is unlikely they will have the sole caring responsibility as the mother is highly likely to be on leave. This may further entrench the view that the mother will be the primary carer for the child.

Rationale for intervention

9. Statutory paternity legislation sets out minimum employment rights which employers must offer to their employees. It is necessary for government to set minimum standards of Statutory Paternity Leave and Pay because wider society benefits from parents being able to care for their children whilst retaining their employment status. These reforms change those minimum standards.
10. If Paternity Leave and Pay was left to individual employers, economic theory suggests that there might be a market failure. Individual employers may not provide socially optimal levels of Paternity Leave and Pay because their calculations of how much leave to provide, who would be eligible and how they can take their leave would not take into the account the positive externalities, i.e. the social benefits arising from enhanced Statutory Paternity Leave and Pay, only the private benefits to the businesses (e.g., from improved morale, staff retention/ability to attract new recruits and PR).
11. There is inefficiency in the market when societal benefits are not realised, where private returns to an individual or firm from carrying out a particular action differ from the returns to society as a whole. Government intervenes in order to correct this inefficiency. For example, the reforms to Statutory Paternity Leave and Pay will help support more employee fathers/partners to increase the time they spend with children. Without minimum statutory entitlements in this area, there may only be weak incentives for employers to provide similar entitlements due to the costs they would face and no legal obligation, to do so. In these circumstances the full societal benefits of leave would not be realised.
12. In addition to Statutory Paternity Leave and Pay, fathers/partners potentially have access to further leave through Shared Parental Leave and Pay. Shared Parental Leave and Pay gives eligible couples up to 50 weeks of leave and up to 37 weeks of pay by creating a shared 'pot' of leave and pay that mothers and fathers/partners can take in blocks separated by periods of work, or all at once.
13. There is also a difference between the parental leave entitlement available to mothers and fathers^[Obj]. At present, mothers are entitled to take leave for up to one year following their child's birth, whereas fathers/partners have the first 8 week in which to take Statutory Paternity Leave and Pay ^[Obj].^[Obj] Thus, by extending the window of time within which Statutory Paternity Leave and Pay can be taken to 52 weeks, we are bringing this entitlement onto an equal footing in relation to the length of time available to take the leave.. This helps to balance the needs of employee parents and makes it easier for employers to understand the policy. it easier for employers to understand the policy.
14. There are benefits to the individual affected and to society generally from more fathers/partners being able to take more time away from work to start a family and develop a bond with their child. In particular, time away from work can help fathers/partners care for their children, bond with their child, and support the other parent in childcare. By enabling Statutory Paternity Leave and Pay to be taken more flexibly, it will continue to provide a social benefit associated with a more engaged, productive, and healthy workforce, which allows parents to maintain a continued attachment to the labour market.
15. Legislation is needed to help facilitate the cultural change required where more fathers/partners take Statutory Paternity Leave and Pay, owing to the greater flexibility in how they can take it. Therefore, there is a need to legislate to enhance previous government intervention in this area and raise the minimum standard for employees, with the welcome understanding that many employers will go further than legislated.

⁷ We have used the 2023/24 flat rate for this analysis, and all wage costs in this Impact Assessment are costed using the most recent Annual Survey of Hours and Earnings (ASHE) 2022 data.

⁸ <https://www.gov.uk/paternity-pay-leave/pay>

⁹ Mothers are entitled to 52 weeks of Statutory Maternity Leave, of which 39 weeks are paid. The first 6 weeks are paid at 90% of salary and the remaining 33 weeks are paid at the Statutory Maternity Pay (SMP) flat rate (£172.48 in 2023/24). <https://www.gov.uk/maternity-pay-leave>

Policy Objectives

16. The proposed option for Statutory Paternity Leave and Pay aims to: aims to:
- Allow more fathers/partners to play a greater role in caring for their children; through allowing fathers/partners to take their leave non-consecutively and up to a year after the birth, encouraging greater paternal involvement including solo parenting.
 - Increase flexibility and affordability for fathers/partners on when they can take their Statutory Paternity Leave and Pay. Fathers/partners can take their two weeks of leave non-consecutively, allowing them to benefit from their full entitlement, whilst balancing work commitments and spreading out the weeks of reduced pay may alleviate some financial pressure.

Options Analysis

The main options being considered are:

- **Option 1: Do nothing**
17. This option would involve maintaining the status quo where employees are not able to take Statutory Paternity Leave and Pay in non-consecutive weeks at any point in the first year. This would mean that fathers/partners across the labour force continue to face barriers, which may act as a disincentive to taking any, or all, of their full entitlement. Some fathers/partners may continue to rely on annual leave or other forms of leave to take time off after the birth of their child.
- **Option 2: Changes to the flexibility of Paternity Leave and Pay**
18. The commitment to look at ways to make it easier for fathers/partners to take Paternity Leave was included in the Conservative manifesto. **This option will require secondary legislation.** Making Paternity Leave and Pay more flexible involves a number of changes to the way that Paternity Leave can currently be taken.
19. **Extending the window to take leave from 8 to 52 weeks** – 64% of respondents¹⁰ to the 2019 consultation suggested Government should promote flexibility in the entitlement, and allowing fathers/partners to take leave within one year after birth was the most commonly suggested measure by respondents.¹¹ This change has the potential to encourage solo parenting by allowing fathers/partners to take their leave when the mother is back at work – rather than limiting it to the first 8 weeks when the mother is far less likely to have returned to work. This is important as evidence shows that fathers who spend time solo parenting are more likely to play a greater role in caring for their children in later years.¹²
20. **Allowing fathers/partners to take their leave in two non-consecutive weeks** – DBT analysis of 2019 survey data shows that of fathers who take some leave, current take-up of Paternity Leave¹³ is 74% for the first week of leave, and of those, 66% for the second week. Data shows the primary reasons preventing fathers from taking their full entitlement are affordability and being too busy at work. Enabling fathers/partners to take their two weeks of leave non-consecutively would allow them to benefit from their full entitlement whilst balancing work commitments and spreading out the weeks of reduced pay may alleviate some financial pressure.
21. **Adjustments to the notice period** – To improve how the policy works in practice when these changes are implemented, we will be making adjustments to the way fathers/partners give notice of leave to their employer. Fathers/Partners-to-be will no longer need to give their employer provisional dates of leave when they give their notice of entitlement at 15 weeks before birth. Instead, they will give notice of their intended leave dates 4 weeks before each leave period begins. Our proposal will also allow fathers/partners to change the number of blocks of leaves they plan to take, change the dates they

¹⁰ 81 online responses and 37 email responses out of 185 total responses

¹¹ 19 online responses and 12 email responses out of 185 total responses (17%) spontaneously said they would favour allowing fathers to take their leave within 52 weeks after birth

¹² O'Brien, M., Wall, K. (2015). 'Fathers on Leave Alone' in O'Brien, M., Wall, K. Comparative Perspectives on Work-Life Balance and Gender Equality, Springer Open. P.6

¹³ <https://www.gov.uk/government/publications/shared-parental-leave-spl-evaluation>

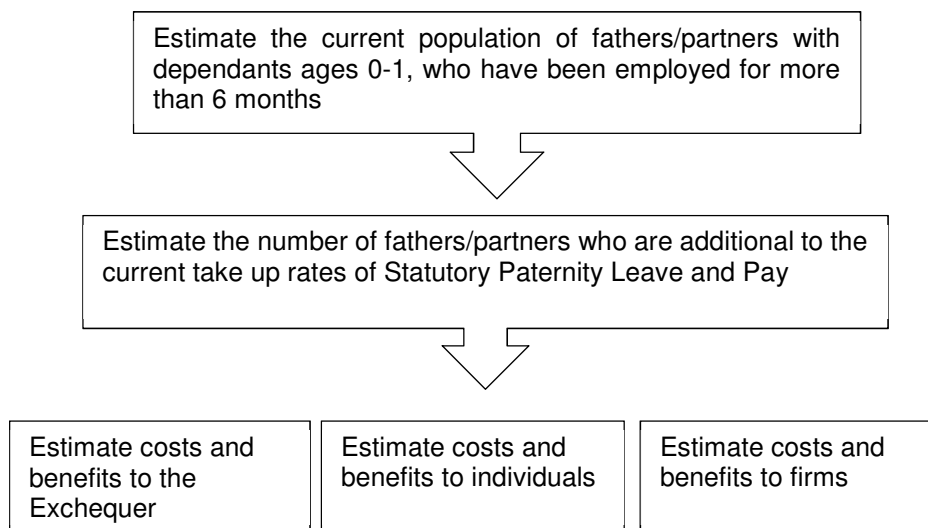
plan to take leave (notice of the new leave dates must be given 4 weeks before the new leave period starts, or as soon as reasonably practicable). Notice requirements are designed for guidance purposes, promoting best practice and giving employees and employers more certainty and aiding businesses in minimising absence costs. In the consultation response, employers and employees considered this to be a realistic option, aligning with the practicalities of taking leave. We anticipate that these changes will have a negligible impact on leave taking behaviour and have not estimated these impacts specifically.

Rationale and evidence that justify the level of analysis used in the IA (proportionality approach):

- 22. We have made use of the available evidence base to model the costs and benefits of reforming Statutory Paternity Leave and Pay. Where relevant, we have used methodology from similar family-related leave policies to model the impacts on business. To estimate labour absence costs and familiarisation costs, we have used methodology used in the Neonatal Care Leave¹⁴, Pregnancy and Maternity Discrimination Protection and Carers Leave IAs¹⁵ as these have similarities with the Statutory Paternity Leave and Pay proposal. Whilst the target populations differ, it is reasonable to assume that employers will respond in a broadly similar way to other recent employment right reforms. We have used relevant survey evidence from the Parental Rights Survey and CIPD¹⁶ surveys, to feed into the cost and benefit modelling.
- 23. Our best estimate for the annual cost to business of the policy proposal is approximately £4.9m and a £0.7m one-off cost. Our best estimate of the annual cost to the Exchequer is £2.26m and a £0.5 one-off cost.
- 24. Take up of Statutory Paternity Leave and Pay has been estimated using evidence from the Parental Rights Survey 2019. Given uncertainty, we have used a low, central and high estimate for each of the policy options. Given the low central and high take up estimates, we have then applied this to an eligible population of fathers/partners based on data from the Labour Force Survey. This has been compared with pre-pandemic levels to ensure that the eligible population will be representative of the fathers/partners being brought into scope across the appraisal period.

Monetised and non-monetised costs and benefits of each option

Modelling Approach



- 25. We have modelled the costs to the exchequer, to businesses, and have qualitatively discussed benefits to individuals from making Statutory Paternity Leave and Pay more flexible.

¹⁴ <https://bills.parliament.uk/bills/3190/publications>

¹⁵ <https://bills.parliament.uk/bills/3199/publications>

¹⁶ <https://www.cipd.co.uk/knowledge/culture/well-being/health-well-being-work>

26. The costs would only arise upon the implementation of the policy reforms. We have adjusted our key assumptions and estimates using the latest available LFS, ASHE and ONS data and have reflected stakeholder evidence to ensure the assessment of costs of the policy are as accurate as possible.
27. We have not monetised the benefits to individuals and businesses of the policy in this IA because of the challenges in being able to capture and monetise the benefits to the full extent. However, a transfer for statutory paternity pay from Exchequer to individuals is considered, and has been calculated as, benefits to individuals now taking additional weeks of leave due to increased policy flexibility.
28. For the counterfactual, we assume employees are only entitled to Statutory Paternity Leave and Pay if they have 26 weeks continuous service with their employer and leave can only be taken in one block. We also assume all other eligibility criteria and the way that leave can be taken remains the same.¹⁷
29. The model first attempts to build the target population that would be affected by making Statutory Paternity Leave and Pay more flexible by calculating the current number of fathers/partners eligible to take leave and then modelling the impact of adjusting take up. We apply assumed take-up rates to the eligible population to estimate the total number of fathers/partners that would use the entitlement. These take up rates are informed by evidence from the Parental Rights Survey 2019.
30. The costs to business are driven by the reorganisation costs of absent employees, administrative costs from processing leave requests and costs of familiarising with the legislation. Making Paternity Leave more flexible will also create wage-like costs for some businesses due to the fact that some employers can only reclaim 92% of Statutory Paternity Pay from Government, unless they qualify for Small Employers' Relief (if they pay £45,000 or less in Class 1 National Insurance contributions) in which case they can reclaim 103% of statutory costs.
31. Regarding employer costs, we estimate the costs of absence resulting from additional fathers taking leave, the wage-like costs (proportion of statutory payments not covered by the Exchequer) and recurring administrative costs of processing additional leave requests. In addition, we model the one-off familiarisation costs incurred as employers spend time to understand the changes to existing legislation in the first year the reforms come into force, taking into account any differences in how small and large businesses respond to changes in legislation.
32. For Exchequer costs, we first calculate the costs of providing paid leave at a statutory rate (£172.48 for 2023/24). We make an adjustment to these costs to reflect the fact that employers cover a proportion of the statutory payments (i.e., small firms can reclaim 103% and large firms 92% of statutory payments). We also consider one-off costs to the Exchequer of updating and maintaining their current systems for Paternity Leave. Figures for these estimates are provided by HMRC.
33. For employers who already have occupational paternity policies which allow for greater flexibility (e.g., if employees can take leave throughout the first 12 months) than the statutory minimum provides, the introduction of the legislation will impose limited or no additional costs. The Parental Rights Survey¹⁸ suggests that 58% of fathers that took Paternity Leave received full pay, however the survey found little evidence that employers were offering leave in a more flexible way. Where employers offer employees more flexibility, this will mean our costs to business are representative of an upper band. However, we have not been able to estimate and adjust for this in the analysis as there is insufficient evidence on employers that offer greater flexibility and how they would respond to new regulation.

Eligibility Criterion

34. As with other family related pay entitlements, to qualify for statutory pay the employee needs to have been working for their current employer for 26 weeks at the 15th week before the baby is due. This means that the parent must have been employed by their current employer at the point the mother became pregnant. This criterion for statutory pay will remain unchanged.¹⁹

¹⁷ Current eligibility criteria can be found here: <https://www.gov.uk/paternity-pay-leave/eligibility>

¹⁸ <https://www.employment-studies.co.uk/resource/parental-rights-survey-2019>

¹⁹ <https://www.gov.uk/government/collections/statutory-pay#statutory-paternity-pay>

35. As with other family related leave entitlements, Paternity Leave will remain available to employees²⁰ only.
36. Furthermore, keeping the policy broadly consistent with how it currently works as well as other entitlements will make it comprehensible to employers and employees and ultimately help to reduce the familiarisation burden on businesses.

Flexibility:

37. All fathers eligible for Paternity Leave will now be able to take their leave more flexibly. All other eligibility criteria for Paternity Leave will remain the same.

Estimated Population

38. To estimate the number of individuals in scope we make use of data from the Labour Force Survey 2023²¹ which collects information on employment circumstances of the UK, to identify Great Britain male employees with dependent children under 1. This change will not apply to Northern Ireland, whose employment law is reserved. They may choose to make changes separately.
39. Making Paternity Leave and Pay more flexible will potentially impact the entire population of fathers, to identify the population within scope we use the Labour Force Survey 2023 to estimate there are 365,500 fathers with children under 1 in Great Britain, of which 343,700 are eligible. We assume the 2023 estimates of eligible population are representative of the eligible population for the appraisal period.
40. To estimate the impact on businesses, we need to consider the number of businesses that will be affected by the reforms. In order to ensure the costs and benefits are modelled for Great Britain only and to calculate the number of businesses impacted by the reforms, we use DBT business population statistics (2022) and strip out figures for Northern Ireland.

Table 1: Number of fathers eligible under the policy

Eligible fathers	
All male employees with dependent child under 1	365,500
All male employees with dependent child under 1 working for 6+months	343,700

41. Figure 1. Summarises the estimated eligible population for making Paternity Leave more flexible, which includes all those currently entitled to Paternity Leave, based on the final policy design.
42. No allowance is made for a change in the number of employee fathers due to either demographic change or behavioural change in the group. We are engaging a cautious approach to the data, which shows that although the birth rate in the UK has been broadly stable since the 1970s, there has been some small falls over the last 5 years. However, we assume that the population of fathers eligible for the policy is stable in the short term, therefore we do not attempt to account for demographic changes considering they are likely to manifest in the longer term and are highly uncertain.

²⁰ An employee is someone who works under an employment contract and is distinct from a 'worker' and 'self-employed' in employment law.

²¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/august2023>

Figure 1:

Expected uptake by introducing more flexibility:

No. of male employee with a child under the age of 1: 365,500
 No. of male employee with a child under the age of 1 who have been with the same employer for 6+ months: 343,700 (entitled to take leave)

Current number of male employees who take some form of leave:

Number of fathers who take 1 week of leave:

Number of eligible fathers = 343,700 x 74% = **254,300**

Number of fathers who take 2 weeks of leave:

Number of eligible fathers = 343,700 x 66% = **226,800**

All figures are rounded to the nearest 100

All employment related figures are taken from DBT analysis of Labour Force Survey Microdata, July-September 2022

Take-up behaviour

43. Under current legislation, Statutory Paternity Leave and Pay can only be taken in one 'block' – i.e., that fathers/partners can take either one or two weeks of leave, but they must be taken in consecutive weeks. However, the proposed reforms will allow this leave to be taken in separate blocks. We therefore make estimates on the changes in duration of leave taken by eligible fathers/partners given the reform.
44. The evidence on take-up rates from current Statutory Paternity Leave and Pay policy is based on estimates from the Parental Rights Survey (2019), this survey suggests 70% took Paternity Leave, 27% took other forms of leave (including Annual Leave) and 12% did not take any leave at all.
45. For the changes related to making Statutory Paternity Leave and Pay more flexible costs are calculated as additional to the estimated costs for the existing policy.
46. By making leave more flexible, it would enable more fathers/partners to take their available leave, thus indirectly increasing the amount of leave that fathers/partners will take. As such, the rates of take-up remain at between 70% and 74% for eligible fathers/partners.
47. We assume that there will be no additional take up of Paternity Leave in week one, however we do assume there will be improvements in take up of the second week of Paternity Leave due to the increased flexibility over a longer extension period.
48. We therefore estimate the take-up rate to be 72% in the central case, 70% in the low case and 74% in the upper case. This is based on evidence from the Parental Rights Survey.

Table 2: Take-Up assumptions

	Week 1	Week 2	Average
Current take-up of this week as leave/time off	74%	66%	70%
Expected take up of this week leave			
Low	74%	66%	70%
Central	74%	70%	72%
High	74%	74%	74%

Based on the Parental Rights Survey, 2019

49. Predicting the take-up rate for Paternity Leave following these proposals is highly uncertain given the number of factors involved; including financial incentives, workplace culture and family circumstances. Estimates of additional take up of Paternity Leave Policy are approximate, due to the difficult nature of predicting how fathers/partners would respond to the proposals. As the reforms are quite small, we have assumed a proportionately small take up, based on survey responses from fathers/partners who have or have not taken paternity leave and their reasons. The take up assumptions relate to the number of fathers/partners who reported difficulty taking their statutory leave in terms of affordability

and availability. We have therefore assumed that on average, leave taken will increase by 2 percentage points and 4 percentage points in the central and high scenarios, respectively.

50. Our estimates of the proportion of additional working fathers/partners who take up Paternity Leave are outlined in table 3.

Table 3: Estimates of additional population

Estimated additional population		Week 1	Week 2	Average
Current		254,300	226,800	240,600
Flexibility (additional)	Low	0	0	0
	Central	0	13,700	13,700
	High	0	27,500	27,500

Monetised and non-monetised benefits

Non-monetised Benefits

51. The key benefits that could flow from the policy reforms would take the form of improved health and wellbeing for both the parents and children. The outcomes are likely to be influenced by a range of different factors. Instead, we attempt to describe the benefits qualitatively, using existing literature and stakeholder engagement to support our arguments. Due to the uncertain nature of these benefits, monetising them would be challenging.

Wider benefits to the Economy

52. Extending the scope of Statutory Paternity Leave and Pay policy to a larger number of fathers/partners would help in meeting the core policy objective of making it easier for fathers/partners to take Statutory Paternity Leave and Pay. Allowing fathers/partners to take their leave in two non-consecutive weeks at any point in the first year of their child's life will primarily aid in spreading out the financial impact of taking leave.
53. Through raising the statutory floor, and therefore less variation across employers in terms of benefit entitlements, some barriers to employees in moving jobs/employers decrease. This will aid in setting a minimum standard, allowing employers to build on this for more attractive contract terms.
54. As previously discussed, mothers usually take on the primary caring responsibilities after the birth of a child. Reforming Paternity Leave and Pay may help in allowing mothers to return to work as they will know that the father/partner is available to support the child at home.

Employer benefits

55. Literature finds some evidence suggesting that workplaces offering a range of extensive family related policies are more likely to have above average performance compared to workplaces without such practices.²² This review was focused on the costs and benefits to businesses adopting flexible working policies and family related pay policies, but similar arguments could be made for the Statutory Paternity Leave and Pay reforms, which would allow more fathers/partners to temporarily leave the workplace to bond with their child.
56. In addition, there is also evidence of a range of positive outcomes linked with firms providing policies designed to promote a good work-life balance.²³ More specifically, the report examined the literature on the costs and benefits to business of adopting work-life balance working practices, such as flexible working and family friendly leave and pay policies.²⁴ The literature review found evidence that a range

²² 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.

²³ Costs and Benefits to Business of Adopting Work Life Balance Working Practices: A Literature Review, BIS, 2014

²⁴ Maternity, paternity, parental leave and childcare support provision.

of family related policies could reduce absence rates or better enable employers to prepare and manage absences, subject to formalised policies. Whilst the econometric evidence of this relationship was more mixed, the authors conclude that these policies either significantly reduce absenteeism or are business neutral. The review also found a wide range of evidence supporting the relationship between labour market participation and maternity and parental leave, in part driven by the ability to return to the same employer. This option would also aid fathers/partners to use this entitlement instead of exhausting annual leave entitlements.

57. As well as helping improve staff retention, further reputational benefits could follow where businesses opt to provide paternity arrangements that go beyond what their competitors offer. This could help attract and retain staff from a wider talent pool, giving employers an additional edge when recruiting staff, as well as reputational benefits, yielding further labour market benefits in the long term.

Individual benefits

58. A key objective of this policy would be to increase the amount of leave fathers/partners take as Statutory Paternity Leave and Pay, over the first year of the child's life.
59. Financially, the ability to take weeks of leave at different points may help ease financial burdens on fathers/partners who only receive the statutory rate, allowing for better financial planning and less impact on monthly pay.
60. The current arrangements give mothers access to more weeks of parental leave than fathers/partners more parental leave leads to a more equal division of household chores and childcare.²⁵ Fathers/partners who spend time with their child in their first year, particularly parenting on their own, are also more likely to be involved with their children subsequently. There is also evidence that increased involvement of fathers/partners improves outcomes for children.²⁶

Social

61. Evidence suggests that fathers/partners who take parental leave have more involvement in their children's lives.²⁷ Evidence also suggests that increased paternal involvement in a child's life will lead to better life outcomes for that child.²⁸ Fathers/partners who are more involved with their children also report greater life satisfaction and better psychological well-being.²⁹

Economic

62. There is evidence to suggest that fathers/partners' involvement in childcare benefits mothers' labour market attachment. Mothers with pre-school children are twice as likely to return to employment nine months and three years post-childbirth if the father is involved by sharing or doing the most childcare at these times.³⁰
63. We acknowledge that the evidence above refers to a broad umbrella of family friendly policies rather than specific to the policy reforms proposed, but we believe that many of these benefits would apply to the eligible population. Employers who support their organisation see benefits in multiple ways so by raising the minimum standards of flexible Statutory Paternity Leave and Pay, we could reasonably expect similar benefits to be realised.

Monetised Benefits

64. As previously noted, it is difficult to monetise the societal elements that make up most of the benefits associated with the Statutory Paternity Leave and Pay reforms. However, we can calculate the additional statutory payments that arise as a result of fathers/partners making use of the flexibility reforms. These are considered direct benefits to fathers/partners but, as they come at a cost to the

²⁵ Kotsadam, A. and Finseraas, H. (2011) – The state intervenes in the battle of sexes: Causal effects of paternity leave.

²⁶ Norman, H., Fagan, C. and Elliot, M. (2017) – How can policy support fathers to be more involved in childcare? Evidence from cross-country policy comparisons and UK longitudinal household data.

²⁷ Tanaka and Woldfogel (2007), O'Brien and Twamley (2016), [Fagan and Norman 2016 and EHRC \(2009\)](#)

²⁸ www.fatherhoodinstitute.org/wp-content/uploads/2014/11/Why-paternity-leave-matters-for-young-children.pdf.

²⁹ Schindler 2010 see page 14 of the Good Work Plan: Proposals to support families - Consultation

³⁰ <https://piecestudy.org/> and summary available here - https://blog.policy.manchester.ac.uk/growth_inclusion/2019/11/does-fathers-involvement-in-childcare-influence-mothers-employment-post-childbirth/

Exchequer, they are a transfer from the Exchequer to eligible fathers/partners. The benefit is directly equivalent to the recurring Exchequer cost.

65. The eligible population of fathers/partners who can claim statutory paternity pay is 343,700 and the statutory pay rate is £172.48 (23/24).

Figure 2: Payments to eligible fathers/partners

Estimated fathers/partners taking additional paternity leave: 13,700
 Statutory Rate (23/24): £172.48

Fathers x Statutory Payment Rate = Additional payments to eligible fathers
 $13,700 \times £172.48 = £2,371,000$

Rounded to the nearest £100.

Costs

Costs to business

66. In this section we explore the different costs relating to the impact of reforms to Statutory Paternity Leave and Pay. The classification of costs incurred by affected businesses are outlined in table 4 below.

Table 4: Classification of Costs and Benefits

Type of cost/benefit	Further Information
Absence costs	Re-organisation costs: Employers have to re-organise work among current staff, provide temporary cover or accept a small fall in output in response to employees going on leave. Wage-like costs: larger employers can reclaim 92% of statutory payments. Smaller employers can reclaim 103% dependent on the size of their National Insurance Contributions liability. There is a resulting net cost to larger businesses associated with the statutory payments.
Familiarisation costs	Employers must familiarise themselves with the new policy to understand how this affects their business. HMRC must update their IT systems upon introduction of the policy.
Administrative costs	Employers incur administrative costs as they administer requests for Paternity Leave & Pay through their HR systems. Exchequer recurring administration costs: HMRC will incur a recurring admin cost from processing claims for pay.
Exchequer costs	Statutory payment cost: The Exchequer is responsible for the cost of Statutory Paternity Pay for each employee who qualifies for the paid element of the leave. This will be offset by the contribution employers make to these payments (wage-like costs).
Employee benefits	Employees will have a direct benefit from the statutory payment they receive for the amount of paid leave taken.

One-off familiarisation Costs

67. Increasing the flexibility for Statutory Paternity Leave and Pay will create familiarisation costs for business.
68. As per table 5, As a widespread right, the take-up of Statutory Paternity Leave and Pay has been broadly stable over time. As such familiarity across small and large firms are likely to already be familiar with the policy and have policy and processes established and understood. Given the change in the

flexibility is small, it is unlikely to generate a significant change in process and systems for employers. We assume, unless their company policies vary extensively from the statutory rights, employers are unlikely to need to consult lawyers. However, we assume they will need to consult ACAS guidance for these changes.

Table 5: Number of individuals in receipt of Statutory Paternity Pay (SPP) 2014/15 to 2021/22

Year	Total value of SPP Payments	No. of individuals in receipt of SPP
2014/15	£53,000,000	211,700
2015/16	£54,800,000	215,100
2016/17	£59,600,000	219,900
2017/18	£55,500,000	212,700
2018/19	£54,500,000	201,800
2019/20	£57,900,000	208,000
2020/21	£50,200,000	176,400
2021/22	£59,300,000	204,200

Source: HMRC statutory payments data

69. We assume some time is needed to familiarise with changes to the flexibility of Statutory Paternity Leave and Pay. The flexibility reforms, mirror existing parental leave policies (e.g., taking multiple blocks as in Shared Parental Leave) so we expect the familiarisation process to be straight forward. However, for smaller or newer firms, they may opt to spend a short time viewing online guidance but little beyond this. In contrast, larger businesses with dedicated HR departments, responsible for understanding and disseminating knowledge of employment law will invest time in familiarisation at the point the legislation comes into effect.
70. Medium and large businesses (>50 employees)³¹ are more likely to invest time in familiarisation at the point the legislation is introduced, as they have dedicated HR departments responsible for understanding and articulating changes in employment law routinely. Costings use the uprated wage of HR Directors, and we expect they will spend time understanding the changes to the policy and inform other members of staff (particularly managers) of the new groups eligible for Paternity Leave/changes to how the groups may take Statutory Paternity Leave and Pay. Some of these employers are also likely to have an enhanced paternity policy in place and will need to understand how any changes interact with their own policy. However, this is discretionary, and costings do not adjust for 'gold-plating'.
71. We assume small businesses will spend less time on familiarisation than each large business, as smaller firms, by definition, have fewer staff to inform. It is feasible that small and medium size businesses will only familiarise themselves with the legislation at the point in which they have to i.e., when fathers/partners' requests statutory leave for Paternity Leave. They also have less complex communication systems so filtering information down the organisation will be less resource intensive. As such, we have included these costs as part of the ongoing familiarisation costs as opposed to a one-off cost.
72. **For these changes, we assume it will take 0.5 hours** of an HR professionals time in large firms to update their guidance, disseminate the update amongst staff and, if necessary, update any other processes, to check Gov.uk/call ACAS, and understand the changes. The highest week's take-up estimate (i.e., week 1) is used because it is only in the second week that take-up is expected to drop off and at that point, the familiarisation cost has already occurred. This means that the numbers requesting leave are the same across the low, central and high estimates.
73. For all firms, time has been valued using data from the Annual Survey of Hours and Earnings (ASHE) 2022.³² We have used median wage figure for HR managers and Directors (SOC code 11.35) of

³¹ We consider large businesses as those with >50 employees based on contributions to statutory paternity pay.

³² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/allemployeesashtable1>

£24.59 per hour and have updated this by 18%³³ to £28.99 per hour to include non-wage labour costs for large firms.

74. There is not a robust evidence base on how long businesses will need to a) familiarise themselves with the changes and b) process each request – a 2017 CIPD survey³⁴ on employment law burdens stated 50% of businesses interviewed considered parental leave-based employment law to be well drafted and easy to apply, implying mixed views. Where possible, we have tried to use other individual rights estimates as a starting point. However, it's worth noting that for many recent parental leave entitlements, they are for new policies with a low incidence rate – by contrast, Statutory Paternity Leave and Pay is both long standing with a relatively high incidence rate.
75. The standard cost model (SCM) has been used to calculate the cost of familiarisation for large businesses and other business estimated costs from the legislation changes. Since these are one-off familiarisation costs, frequency is assumed to have the value 1.

Figure 3: Derivation of one-off familiarisation costs

The standard approach used in similar family-related leave entitlements to costing familiarisation has been used. Since these are one-off familiarisation costs, frequency is assumed to have value 1.

Familiarisation cost

$$= \text{Average wage rate per hour (HR Director)} \times \text{time spent on activity} \\ \times \text{no. businesses affected} \times \text{frequency}$$

76. Applying these hourly costs to our familiarisation time estimates and using Business Population Estimates³⁵ for medium and large businesses, and the number of fathers/partners brought into scope, we estimate total familiarisation costs to be £736,500 for flexibility reforms.
77. For small firms, we have used Manager/ Director (SOC code 1) of £22.04 per hour and have updated this by 18% to £25.99 per hour to include non-wage labour costs for small firms. These are included under recurring familiarisation costs.

Table 6: One-off familiarisation costs

Firm size (number of employees)	Number of firms	Assumed familiarisation time (hrs)	Estimated cost to business
0-49 ^(a)	1,426,500	0	£0
50-99	26,000	0.5	£377,300
100-199	11,900	0.5	£172,600
200-249	2,500	0.5	£36,100
250-499	4,900	0.5	£71,600
500+	5,400	0.5	£78,800
Total	1,477,300		£736,500

Source: DBT estimates based on 2022 Business Population Estimates and 2022 ASHE. Note that columns may not sum to total due to rounding.

- (0) The Business Population Estimates only provides a category for the public sector for businesses with zero or one employee. We have used the ratio of the private sector and applied it to the whole economy. Private sector businesses make up the vast majority of the business population, so aggregate results are not strongly affected by this.

³³ Updated by Index of Labour costs per Hour, UK- Office for National Statistics (ons.gov.uk): <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/indexoflabourcostsperhourilch/julytoseptember2020>

³⁴ <https://www.cipd.org/uk/knowledge/reports/employment-regulation-in-the-uk-burden-or-benefit/>

³⁵ <https://www.gov.uk/government/statistics/business-population-estimates-2021>

Administrative Costs

78. Statutory Paternity Leave and Pay is widespread with a broadly stable and high take-up rate over time, so we expect business to already have established processes in place for administering Paternity Leave Requests.
79. The changes to improve flexibility are expected to incur a greater administrative cost to businesses than the current policy because they contain multiple new components, however these are designed to mirror existing statutory provisions under Shared Parental Leave and it is expected that this will mitigate the burden on businesses. The most impactful will be the change to allow for fathers/partners to take leave in non-consecutive blocks, as in theory this could mean employers may have to process a request for one employee a maximum of three times (pre-birth, pre block 1, pre block 2). Given evidence on the take-up of the block feature for Shared Parental Leave (very low, around 15%)³⁶, and the relatively small drop off in take-up between weeks 1 and 2 of Paternity Leave, it is expected that only a small minority of fathers/partners will have requests for Statutory Paternity Leave and Pay that will need to be processed by their employers more than once.
80. As with familiarisation costs, we assume that in small businesses a manager or director will process requests for Statutory Paternity Leave and Pay and in large businesses a dedicated HR team will do this. Similarly, as with familiarisation costs, recurring administration costs for flexibility reform have been costed for the additional time taken for all those in scope – because changes will apply to all fathers/partners taking Statutory Paternity Leave and Pay.
81. **For these changes, we therefore assume it will take 30 additional minutes of an HR professionals time in large firms** to process requests including any multiple requests from the same employee to take Statutory Paternity Leave and Pay in more than 1 block, and **an additional 30 minutes of a manager’s time in small firms to do the same when they need to do so**. Note that this is in addition to processing time that is already accounted for the current policy. In line with the logic applied in other parental leave costings, processing time is not distinguished between large and small firms. It is the estimated time taken *on average* and there may be variance between firms based on level of automation, experience, nature of request etc.
82. Recurring administrative costs are assumed to be the cost of administering the additional requests for Statutory Paternity Leave and Pay. We estimate the number of additional leave requests by apply the level of take-up assumed to the estimated additional eligible population.
83. Based on ASHE data, we use the uprated average wage (including non-wage labour costs) for an HR Manager/Director of £25.99 per hour. For a Manager/Director/Senior Official (for businesses with fewer than 50 employees) we estimate an uprated wage rate of £28.99 per hour. The cap on the number of weeks available does not impact the recurring administrative costs. The costs are based on the number who would qualify for the leave entitlement.³⁷
84. The calculations for the admin cost per case are as follows:

Figure 4: Recurring administration costs for Flexibility Reforms

$$\text{Additional employees} \times \text{Time per case (per hour)} \times \text{HR Professional uprated average wage} = \text{Admin cost}$$

Table 7: Recurring Administrative Costs

	Low Estimate	Best Estimate	High Estimate
Eligible fathers/partners	-	13,700	27,500
Large firms			
Eligible employees in workplace with 50 or more people	-	9,800	19,500
Time per case	0.5	0.5	0.5

³⁶ <https://www.employment-studies.co.uk/resource/parental-rights-survey-2019>

³⁷ Wages rates from ASHE2021
<https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe>

Upated hourly rate of HR Manager	£28.99	£28.99	£28.99
Total	£0	£141,400	£282,900
Small firms			
Eligible employees in workplaces with 49 or fewer people	-	4,000	8,000
Time per case	0.5	0.5	0.5
Upated hourly rate of Manager/Director	£25.99	£25.99	£25.99
Cost of recurring administration (Processing)	£0	£109,600	£219,200
Cost of one-off familiarisation	£0	£57,800	£115,600
Small business total	£0	£167,400	£334,800
Total	£0	£308,800	£617,600

Absence costs

85. These costs fall upon businesses as a result of employees taking Statutory Paternity Leave and Pay. This is split into two elements:

- i) **Reorganisation costs:** These include the costs of employing temporary cover, which is likely to be more expensive in the short term and less productive than the absent worker. Costs could also include reallocating work among existing staff, which could also drive-up costs, either because overtime is paid to maintain output or that in reallocating work, other work is dropped, resulting in a loss of output. Lastly, some work could be dropped altogether, which also leads to output loss.
- ii) **Wage – like costs:** This includes the cost of not being able to reclaim the entire amount of statutory payments made from the employer to the employee. Since large businesses cannot re-claim the full amount, this yields additional costs for some employers.

Re-organisation costs

86. Our approach to estimating reorganisation costs is based on that used in the Impact Assessment for introduction of Parental Bereavement Leave. We use CBI survey³⁸ data to measure the cost of impact as a percentage of total weekly labour costs (wages and non-wages). Following this approach, we find that absence costs equate to 35% of total labour costs, on the average wage across the economy, which is then applied to the number of weeks an individual is on leave. Based on the additional take up assumption for Flexibility reforms, reorganisation costs for this option are presented below. Further explanation of the costing approach is set out in the Annex.

Figure 5: Re-organisation costs for Flexibility Reforms

$$\text{Reorganisation costs} = \text{No. Cases} \times \text{Reorganisation cost per week} \times \text{No. weeks}$$

Table 8: Annual Re-organisation Costs

	Low Estimate	Best Estimate	High Estimate
No. additional fathers/partners taking up leave entitlement	0	13,700	27,500
Total re-organisation costs	0	£2,900,000	£5,900,000

Wage like costs

³⁸ Source: CIPD 2018 survey <https://www.cbi.org.uk/media-centre/articles/time-for-employers-to-place-workplace-health-and-wellbeing-front-of-mind-cbibupahca-heathcare/>

87. Employers administer statutory pay on behalf of Government and small employers can recover 103% of statutory payments that they make to their employees from HMRC. This represents a benefit to small businesses of 3% of their Statutory Paternity Pay. Larger employers (defined as those with a National Insurance contributions bill of £45,000 or more) can recover 92% of Statutory Paternity Pay made to their employees, thus large employers face a cost of 8% of their Statutory Paternity Pay. Using Business Population Estimates we calculate an average contribution of 5.8% to Statutory Paternity Pay from employers.
88. In order to obtain the business contribution to statutory payments, we must first calculate the total value of statutory payments made to employees and then apply the rate at which businesses are able to recover statutory payments based on the size of business. This is calculated in the same fashion as the reorganisation costs, albeit with the statutory rate applied.
89. As previously mentioned, Statutory Paternity Pay still requires 26 weeks of continuous service. Instead, wage like costs will capture the additional cost of statutory payments who are eligible for paternity policy and take additional weeks of leave due to the flexibility reforms.
90. Using business population estimates, we assume that the eligible additional population will be comprised of approximately 71% from large firms and 29% from small firms.

Table 9: Wage-like costs for business

	Low Estimate	Best Estimate	High Estimate
<i>No. fathers/partners taking up leave entitlement</i>	0	13,700	27,500
Wage-like costs in large firms	£0	£134,600	£269,200
Wage-like costs in small firms	£0	-£20,600	-£41,300
Total wage like costs (less small firm compensation)	£0	£114,000	£227,900

Notes

1. *Estimates rounded to the nearest 100.*
2. *Larger employers incur a small cost (they can reclaim 92%) while smaller employers incur a small benefit (they can reclaim 103%).*

Deadweight cost

91. 'Deadweight' refers to outcomes that would have occurred without Government intervention and may represent a transfer of costs from employers to the Exchequer without any additional take-up related benefits. Within the context of Statutory Paternity Leave and Pay, deadweight could arise because:
- a. Some employers may already provide paternity leave in a more flexible way than the current entitlement. An employer that currently chooses to do so would not be eligible to reclaim Statutory Paternity Pay from Government as you cannot claim money if the employee is not eligible. However, the employer might voluntarily opt to offer this leave at their own cost.
 - b. Employees may choose to use other forms of leave such as annual leave or Shared Parental Leave to take leave which covers the first year following childbirth.
92. Evidence from the Management and Wellbeing Practices Survey³⁹ finds that relatively few employers choose to offer pay above the statutory level for Paternity Leave (17% of workplaces), whilst the Parental Rights Survey⁴⁰ suggests that 58% of fathers/partners that took Paternity Leave received full pay, however the survey found little evidence that employers were offering leave in a more flexible way.
93. The introduction of the policy will not yield any additional costs to employers who are already providing flexibility.

³⁹ <https://www.niesr.ac.uk/projects/management-and-wellbeing-practices-survey>

⁴⁰ <https://www.employment-studies.co.uk/resource/parental-rights-survey-2019>

94. We therefore assume the deadweight risk is close to zero, as the flexibility of the policy is changing rather than the amount of Statutory Paternity Pay, where there is a greater risk. We assume firms with policies that extend above and beyond the statutory minimum will continue to do so.

Recurring Administrative Costs

95. Employers who already have an existing provision are likely to incur an administrative cost to process and arrange these claims. Therefore, the reform of the existing legislation is not expected to generate additional recurring administration costs for this group. We estimate the current business cost of administration using the assumption outlined above – that 59% of employers already provide an unpaid leave entitlement for employees. For smaller firms, who familiarise on a case-by-case basis, the familiarisation costs have been calculated as part of the recurring admin costs. For those firms that already have leave policies in place, the familiarisation that small and micro businesses incur at point of receiving a request is directly attributable to the introduction of the policy and would not be a cost already incurred by the small and micro businesses.

Non-monetised costs

96. Evidence suggests that some fathers/partners use their annual leave if they are not eligible for Statutory Paternity Leave and Pay or where they are eligible but are incentivised by fully paid annual leave. One of the intended effects of the policy would be to give more fathers/partners the means to use Statutory Paternity Leave and Pay, giving them more opportunity to reserve Annual Leave for non-childcare purposes and the things they value. In doing so, this could increase the amount of total leave taken and thus the costs faced by employers. However, the changes proposed are not anticipated to significantly increase take-up of Statutory Paternity Leave and Pay will likely have a smaller impact on Annual Leave take-up. Given the modest impact and lack of evidence, we have not modelled any displacement/interaction effects that the new entitlement would have on annual leave.

Costs to the Exchequer

One-off admin costs

97. There would be additional costs to the Exchequer in the form of a one-off admin cost, that would be incurred to make changes to the existing IT systems, such as amendments to allow employers to process 2 blocks of leave over the year. Changes are required to ensure that the system continues to process payments efficiently. The system is currently set-up for one block of pay so the fact that leave can now be claimed in two separate blocks will mean that the system needs updating. HMRC has estimated for these changes to be around £0.5 million.

Recurring Statutory payments

98. By making Statutory Paternity Leave and Pay flexible we calculate the additional cost to the exchequer as a result of the additional weeks of leave taken by fathers/partners who otherwise would not have taken them if only allowed to be taken in one block.
99. There will be additional cost to the Exchequer in the form of payments at the statutory rate (£172.48 in 2023/24). We assume there will be an extra 13,700 fathers/partners claiming for an additional week of Paternity Leave given the flexibility reforms.

Table 10: No of additional fathers/partners taking Statutory Paternity Leave and Pay and Exchequer costs, under different scenarios

Proposed option:	Low	Central	High
Number of additional fathers/partners	0	13,700	27,500
Cost of statutory payments (excluding business contribution)	£0	£2,257,000	£4,514,000

Table 11: Total Statutory Payment Costs

Type of cost	Cost
Total value of additional statutory payments	£2,371,000
<i>Of which claimed back from Exchequer by business</i>	£2,257,000
<i>Of which business contributes</i>	£114,000

Summary:

100. Table 12 below summaries all of the monetised costs and benefits presented within the Impact Assessment. Both the costs and benefits of this policy will be realised when the regulations come into effect.

101. The Total Net Present Value figure is 4.8 and the Business Net Present Value figure is -42.4.

Table 12: Summary of costs and benefits

COSTS			
	Low Estimate (£)	Best Estimate (£)	High Estimate (£)
Business costs			
One-off (familiarisation costs)	£600,000	£700,000	£900,000
Recurring (annual) costs	£0	£3,400,000	£6,700,000
<i>Of which absence costs</i>	£0	£2,900,000	£5,900,000
<i>Of which wage-like costs</i>	£0	£200,000	£200,000
<i>Of which recurring admin costs</i>	£0	£300,000	£600,000
Exchequer costs			
One-off implementation cost	£500,000	£500,000	£500,000
<i>Recurring statutory payment cost (excluding amount covered by business)</i>	£0	£2,300,000	£4,500,000
BENEFITS			
Recurring additional statutory leave payments*	£0	£2,400,000	£4,700,000

Rounded to the nearest £0.1m

*transfer from Exchequer and businesses to individuals.

Cost of Option (2019 prices, 2020 present value)			
Total Net Present Social Value	Business Net Present Value	Net direct cost to business per year	BIT Score
-23.1	-39.0	4.5	22.7

Small and Micro- Business Assessment (SaMBA)

102. We do not plan to exempt small and micro-businesses from the new entitlement. Allowing for the provision of the entitlement to differ across employers would create problems in the overall delivery of the policy objectives. Benefits described above would not materialise if some businesses were exempted from the policy. Whilst these benefits are yet to be quantified, where possible, their existence is independent of the size of the business.

103. The proposed policy will affect employees in businesses of all sizes, including small and micro businesses. We do not intend to exempt small and micro businesses from the new policy. Exempting small and micro businesses would not meet the intended policy objectives for fathers/partners who work in these small firms. Allowing for minimum statutory rights of employees to differ across employers would create problems in the overall delivery of Statutory Paternity Leave and Pay and would undermine equal rights of employees. Benefits described above such as improving labour force attachment and productivity savings would not materialise if small and micro businesses were exempt from the policy.
104. Based on earlier view that small and micro-businesses familiarise on a case-by-case basis we include these costs as part of the recurring administrative costs and assess these to see if the smallest businesses bear a disproportionate burden. Table 13 below shows how the total annual costs are split between different sized businesses for each option.
105. Using the latest Business population statistics⁴¹, we estimate that around 97% of businesses affected are small and micro businesses⁴², with these businesses accounting for 29% of employees. We have no information on the characteristics of the parents who would be affected by the proposals and thus use a proxy, employee parents of children under the age of 1. We have little reason to believe these groups would have markedly different employment characteristics and use LFS to identify how this group is split across small and large firms. However, using LFS we find that respondents are only asked how many employees are reported to work at the respondent's workplace instead of organisation. Using the former will underestimate the number of employees working at the organisation level, upon which the costs estimated throughout are based on.
106. In spite this we do find that the workplace size distribution for this group is not much different to the overall employer size distribution for all employees and use the latter to base the SaMBA upon (Table 14). We therefore assume that 29% of eligible individuals are likely to work for small and micro-businesses.

Table 13: Small and Micro Businesses

Firm size	Number of firms	Number of employees (thousands)
1	132,500	100
2-4	786,800	2,100
5-9	280,700	1,900
10-19	147,100	2,000
20-49	79,500	2,500
50-99	26,000	1,800
100-199	11,900	1,700
200-249	2,500	600
250-499	4,900	1,700
500 or more	5,400	15,100
Total	1,477,300	29,600
All ⁴³	5,485,400	30,500

Source: DBT estimates based on 2022 Business Population Estimates. Note these figures only cover businesses and employees in Great Britain. Northern Ireland is excluded.

^(a) The Business Population Estimates only provide a category for the public sector for businesses with zero or one employee. We have used the ratio of the private sector and applied it to the whole economy to derive an estimate for the number of single employee businesses and their turnover. Private sector businesses make up the vast majority of the business population, so aggregate results are unlikely to be strongly affected by this.

Equality Assessment

⁴¹ Business Population Figures, 2022

⁴² Defined here as having fewer than 50 employees as per Eurostat (<https://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/sme>)

⁴³ This figure includes businesses which have 0 employees across Great Britain.

107. As a part of the Equality Act 2010, the Department for Business and Trade (as a public body) is legally obligated to have due regard for equality issues as part of the Public Sector Equality Duty (PSED). The PSED must have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
108. The protected characteristics consist of nine groups: age, disability, gender reassignment, marriage or civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation. This Equalities Assessment considers the potential equality impacts of the preferred option across as many of these characteristics as possible.
109. Any parent who qualifies, regardless of whether they have a protected characteristic, will benefit from these changes to Statutory Paternity Leave and Pay policy. Therefore, there are no negative impacts from the proposed policy change as it does not take anything away from groups with protected characteristics; all eligible fathers/partners who meet the qualifying criteria will have equal access to the leave entitlement.

Age

110. The policy is targeted at fathers/partners who are currently in work. Data on the characteristics of eligible fathers/partners reveals that they are more likely to fall into the 25-45 age categories. Thus, the policy will more likely help employed fathers/partners in these age groups. Table 14 below shows how the likelihood of being eligible for the policy increases with age.
111. The very young and the elderly are less likely to be fathers/partners of new-born or newly adopted children and are therefore less likely to take Statutory Paternity Leave and Pay. The Paternity Rights Survey shows that, 74% of eligible employee fathers/partners took paternity leave. Most fathers/partners who took Paternity Leave were older fathers/partners between 35-39 (83%) so this group is more likely to benefit.
112. This data is based on 2021 ONS Live births by parents characteristics data for England and Wales⁴⁴ and Scotland Live Births.⁴⁵

Table 14: Age Distribution

Age of fathers/partners	Number of fathers/partners	Percentage of fathers/partners
Under 20	5,600	0.9%
20-24	44,000	6.9%
25-29	124,900	19.7%
30-34	208,800	32.9%
35-39	154,500	24.3%
40-44	66,000	10.4%
45-49	21,100	3.3%
50-54	7,000	1.1%
55-59	2,200	0.4%
60-64	700	0.1%
65 and over	200	0.0%
Total	635,100	
Unknown age (birth had sole registration)	30,900	-

⁴⁴ <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/datasets/birthsummarytables>

⁴⁵ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/vital-events/births/births-time-series-data>

Gender

- 113. This policy will continue the work of the initial Statutory Paternity Leave and Pay policy by enabling new fathers/partners to balance caring responsibilities more flexibly with work, which in turn promotes gender equality at home and at work.
- 114. This change could advance equality of opportunity between men and women by encouraging more fathers/partners to take paternity leave – helping to promote gender equality by beginning to move away from the assumption that the mother should always be the primary carer for a child in the first year of life.

Pregnancy and Maternity

- 115. The design of the policy is to give more fathers/partners the right to Statutory Paternity Leave and Pay. Mothers will benefit from the entitlement as it allows for additional care for their child.

Race/Ethnicity

- 116. Non-white ethnic fathers were noted in the Parental Rights Survey to be less likely to take Statutory Paternity Leave and Pay, so this group of fathers/partners are potentially less likely to benefit from our changes to Statutory Paternity Leave and Pay.

Proportion of all fathers/partners that took any leave following the birth of their child, Parental Rights Survey (2019)

Table 15: Ethnicity Distribution

Ethnicity	Any Paternity leave
White (772)	85%+
All other ethnic groups combined (283)	66%-

Remaining Characteristics

- 117. Any parent who qualifies, regardless of whether they have a protected characteristic, will benefit from these changes to Statutory Paternity Leave and Pay policy. Therefore, there are no negative impacts from the proposed policy change as it does not take anything away from groups with protected characteristics; all eligible fathers/partners or partners who meet the qualifying criteria will have equal access to the leave entitlement.

Competition Assessment

- 118. As part of seeking clearance for a regulatory proposal through developing an Impact Assessment, it is recommended that policy makers give consideration to the potential impact of the reforms on competition. In order to complete a competition impact assessment, policy makers are required to first consider the following question:

“Does the measure affect a market where products or services are supplied by a private or public sector organisation?”

- 119. The option under discussion would apply to all employers and is unlikely to adversely affect the competitiveness of any particular sector given the relatively small number of businesses that will be affected.
- 120. Using the competition filter test we find there is no need to conduct a detailed assessment of the impact of the proposals on competition. We do not expect the market share for products and services provided by either the private or public sector to be affected by the proposed policy. The changes

would apply to all sectors of the economy and given the relatively small number of employees who would take-up an unpaid leave entitlement, it is unlikely to affect an employer's ability to operate.

121. Furthermore, the policies will not affect market structure or the ability of new firms to enter markets or affect firm's production decisions.

Family Test:

122. Section 149 of the Equality Act 2010 requires DBT to have due regard to promoting equality of opportunity, eliminating discrimination, and fostering good relations between groups. We consider the proposed policies will provide a net benefit to families, through allowing more fathers/partners to take Statutory Paternity Leave and Pay for caring duties and by allowing all fathers/partners to take it more flexibly.

123. Families will benefit from additional time for the father to spend time with their family, and the freedom for fathers/partners to take Statutory Paternity Leave and Pay more flexibly. This will allow families to adjust to their caring responsibilities and better balance being parents with work commitments.

124. For families experiencing couple separation, or at risk of deterioration of relationship quality and breakdown, we expect the changes to Statutory Paternity Leave and Pay to have a positive effect. Fathers/partners will benefit from the additional time, and flexibility, afforded by the entitlement. Fathers/partners who are already eligible for the leave will benefit from the flexibility. The cumulative effect of caring pressures and relationship breakdown could become significant for some family members, and we hope that the changes to Statutory Paternity Leave and Pay will mitigate these pressures to some degree.

125. The changes to Statutory Paternity Leave and Pay may affect family members' ability to play a full role in family life in several ways. For fathers/partners who are now eligible, the entitlement will allow for an increase in caring time for their child.

126. We do not expect the policy to have an impact on family formation.

Risks and assumptions

Modelling risk and assumptions

Assumptions Log		
Assumption	Detail	Discussion
Take-up rate	The take up assumptions are modelled on how many respondents to the PRS suggested they would take more leave with more support.	There is a risk the take up assumptions are too optimistic, however, without adequate data to support this, we have chosen an upper bound in order to ensure any potential increases in leave taken is accounted for.
Familiarisation costs	Familiarisation costs are captured explicitly for large firms, whereas they are included as part of admin costs for small and medium firms (therefore familiarisation occurs when requests arise). This broadly mirrors the approach taken in Parental Bereavement Leave and Neonatal Leave Impact Assessments.	Whilst the changes to the leave requirement are minimal, discussions with large firms have suggested that this cost may not be wholly representative of the time required to update internal policies appropriately. Therefore there is a risk that the time captured for familiarisation costs may have been underestimated.
Ongoing administration costs	We have assumed, using the take up estimates and business population estimates that the ongoing administration costs will only fall on	There is minimal evidence to understand the extent to which employers go above and beyond existing statutory requirements with

	businesses who have employees taking up more leave than previously entitled to.	respect to the length over which employees can take leave. As such, we have assumed that no employers go above and beyond.
Deadweight Costs	Deadweight in this scenario refers to the possibility that some employers are already providing comparable levels of leave to fathers/partners at their own expense. Therefore, the introduction of the policy will see no additional take-up behaviour and a transfer of existing costs from business to the Exchequer (as they will now be able to reclaim).	With minimal evidence on the extent of support employers provide to new parents, we make the simplifying assumption that employers do not have comparable policies to those under discussion. This in effect means there would be no 'deadweight' costs and all estimated costs to business would be additional.

127. The costing and analysis within the Impact Assessment are dependent on a key number of assumptions. We have identified areas where the existing evidence base supporting these assumptions are limited and where key risks lie. This are described:

- The extent to which Statutory Paternity Leave and Pay displaces alternative leave options such as annual leave.
- How the eligible population of fathers/partners will change each year

128. Currently we have assumed that the population of eligible fathers/partners is static, and that the proportion of fathers/partners taking the leave entitlement is constant over time. In line with analysis in the Carers leave and Neonatal leave impact assessments, we have mad ethe assumption that the number of fathers/partners will remain constant.

Annex A

Estimating absence costs to employers

129. The policy assessed in this impact assessment covers Statutory Paternity Leave and Pay reform legislation. This is likely result in absence costs to employers as additional fathers/partners would have the right to take Statutory Paternity Leave and Pay. This annex explains the underlying assumptions and derives re-organisation and wage-like costs.

Type of absence costs:

130. **Wage costs** - if the employee is paid by the employer despite being absent. While smaller employers will not incur such costs, larger employers will incur wage-like costs, since they cannot recover the entire statutory pay during the paid leave period.

131. Reorganisation costs

- Employing temporary cover, which is likely to be more expensive than the absent employee 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.

132. The choice between different types of cover will be influenced by four factors: the duration of absences and their nature (planned or unplanned, with for example, firms less likely to employ temporary cover for shorter absences), 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. While these might not describe the situation for each employer perfectly, we feel that this simplified approach describes the overall impacts on employers sufficiently well without overcomplicating this impact assessment.

Re-organisation Costs

133. In order to monetise the impact of the proposed policies in terms of the costs of absence incurred by employers, we must estimate the cost of re-organising work. This is difficult to measure as some costs are not directly observed, such as identifying loss of productivity. The approach taken in this Impact Assessment will largely follow that used in the Carer's Leave IA.⁴⁶

134. Moreover, whilst studies may seek to identify the cost of absence in general, including both planned and unplanned (paid and unpaid), the absence covered in this IA is paid and planned – for example, fathers/partners are required to give the correct notice⁴⁷ to their employer before taking Statutory Paternity Leave and Pay .

135. This first involves estimating the cost of reorganisation, which makes use of the most recent absence cost estimates from survey on absence and workplace health published by the Confederation of British Industry (CBI).

136. The survey found an average cost of absence of £720 per employee per year, based on an average of 5.2 days absence per employee. This figure includes the wage costs of absence, as well as an estimate of the reorganisation costs and non-wage labour costs, such as national insurance. Failing to uprate the average weekly wage costs to include National Insurance and employers' pension contributions would implicitly assume that such costs only arise in the case an employee is absent (as they are included in the absence costs), but not when the employee is present at work.

⁴⁶ <https://bills.parliament.uk/bills/3199/publications>

⁴⁷ At least 15 weeks before the baby is due, fathers/partners must tell their employer the due date, when they want the leave to start for example the day of the birth or the week after birth and if they want 1 or 2 weeks leave. Source: <https://www.gov.uk/paternity-pay-leave/how-to-claim>

137. Based on CBI data⁴⁸, we find that non-wage labour costs are 35% of wage costs. Including non-wage costs, we uplift the wage costs by this percentage to derive total labour costs of £512 a week. Deducting this figure from the median absence cost estimate above yields a reorganisation cost of £180 (35.1% of labour costs). We then convert this into 2022 prices.

Figure 6: Calculation for Reorganisation Cost Up-rating

<p><i>Median Absence cost = £720 per employee (5.2 days per year)</i></p> <p><i>Median Absence cost per work week = [£720 per employee ÷ 5.2] × 5 = £692</i></p> <p><i>Reorganisation costs = Total Absence Costs – Total Labour Costs</i></p> <p><i>Total Labour Costs (2017) = Wage costs × non-wage uplift = £434 × 1.18 = £512</i></p> <p><i>Reorganisation Costs = £692 – £512 = £180 (35.1% of Labour Costs)</i></p> <p><i>Conversion to 2022 prices = Median weekly earning (2022) × non-wage uplift = £517.50 × 17.9% = £610.13</i></p> <p><i>2022 Reorganisation Costs = Total labour costs (2022) × 35.1% labour cost = £214.13</i></p> <p style="text-align: center;"><i>Total reorganisation costs</i> <i>= No. weeks × Weekly reorganisation costs</i> <i>× (Eligible parents × Take – up rate)</i></p>
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138. The CBI figure refers to both unplanned and planned absences, whilst the leave considered by this policy proposal is considered to cover planned absence. Reorganisation costs due to planned absence are likely to be smaller as the employer is notified in advance and can plan ahead, which is likely to be the case for Statutory Paternity Leave and Pay. Therefore, the approach set out above is likely to yield higher absences costs than those actually incurred. Furthermore, we assume that the reorganisation cost per week is a fixed percentage of the total labour costs.

139. Finally, we recognise that there may be variation in absence costs across businesses. This is not modelled in this IA for simplicity. In reality, we would expect some businesses to have re-organisation costs above the estimated average of 20% of total labour costs, while some businesses might face costs significantly below.

Wage-like costs

140. Firms which paid less than £45,000 in NIC in the previous take year are defined as small and can recover the full amount of statutory payments paid to their employees. Employer NICs are 13.8% on weekly earnings above £184. Average weekly earnings in October 2022 were £595.90 per week, therefore the average weekly employer NIC contribution was £82.11 per week. Overall, average yearly contribution by an employer per employee was around £3,941.28 and therefore to have a total NICs bill of more than £45,000 per year, we estimate a business needs to have around 12 employees. However, the business population estimates are banded and so we cannot derive a precise estimate for the number of businesses with 12 or fewer employees. Thus, for the purpose of calculating the wage-like cost to employers, we define a small employer as one with fewer than 50 employees. This will likely mean we are treating more employers as small in terms of being able to reclaim statutory payments than in reality, which will overestimate the Exchequer costs.

141. Using Business Population Estimates 2022 we find 3% of businesses have at least 50 employees and are therefore expected to pay greater than £45,000 in NIC contribution (large businesses), and 97% of businesses have fewer than 50 employees and are therefore expected to pay less than £45,000 in NIC contribution (small businesses).

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142. Large employers (those with a National Insurance contributions bill of over £45,000) can recover 92% of statutory payments and will therefore face costs of 0.08×172.48 (2023/24 rates) = £12.16 for each week of leave taken.⁴⁹ Non-wage labour costs are already accounted for in the re-organisation costs and the £12.16 has therefore not been updated further.
143. Smaller employers (those with a National Insurance contributions bill of £45,000 or less) can reclaim 103% of statutory payments made to their employees through HMRC. They will on average receive $1.03 \times £151.97 = £156.53$ and derive a benefit of £4.56 in terms of wage-like costs per additional week of leave taken. The Box below shows how we have calculated the weighted contribution of payments.

Figure 7:

To derive the overall contribution to the statutory payments (wage-like costs) we must also consider the distribution of employees across small and large firms, as well the amounts firms contribute to the statutory payments or, in the case of small firms, receive a small compensatory amount per employee per week. The Box below shows how we have calculated the weighted contribution to the Paternity payments.

$$\begin{aligned}
 &\textbf{Weighted contribution to statutory payments per employee per week} \\
 &= (\% \textbf{ of employees at small firms} \\
 &\times \textbf{ contribution to statutory payments per employee}) \\
 &+ (\% \textbf{ of employees at large firms} \\
 &\times \textbf{ contribution to statutory payments per employee})
 \end{aligned}$$

$$\begin{aligned}
 &\textbf{Weighted contribution to statutory payments per employee per week} \\
 &= (20.2\% \times -£4.56) + (79.8\% \times £12.16) = -£0.92 + £9.71 = £8.79
 \end{aligned}$$

The figure is negative for small firms as they receive a small abatement of 3% in addition to the full amount of statutory payments, which they can recover. The weighted contribution is in level terms, to calculate this as %, we divide by the statutory rate for 2021/22, which yields:

$$\begin{aligned}
 &\textbf{Weighted contribution to statutory payments per employee per week} = (£8.79 \div £151.97) \\
 &= 5.8\%
 \end{aligned}$$

This is then applied to each employee estimated to take-up the policy to derive both Exchequer and the business contribution to statutory payments at an aggregate level.