

CONSULTATION ON MODERN WORKPLACES

Flexible parental leave:

Impact assessment

MAY 2011

Title: Flexible Parental Leave Lead department or agency: Department for Business, Innovation and Skills Other departments or agencies: Department for Work and Pensions	Impact Assessment (IA)
	IA No: BIS0148
	Date: 10/10/2010
	Stage: Consultation
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Craig Barratt (020 7215 3542)

Summary: Intervention and Options

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

The Coalition agreement committed to encouraging shared parenting from the earliest stages of pregnancy – including the promotion of a system of flexible parental leave. Current statutory maternity and paternity provisions are unbalanced and reinforce the culture where women do the majority of the caring and are more likely to be absent from the labour force as a result of having children. They do not allow parents to make simple and flexible choices about shared parenting as they place fathers in a subsidiary role; with limited access to worklife balance measures and time for parenting. The system is concentrated in the early years, with minimal provision for school age children. Without making significant changes to the statutory system, it is not possible to give greater equity and flexibility without unacceptable risk of legal challenge.

What are the policy objectives and the intended effects?

The objectives of the policy are to provide parents with choice and flexibility to enable them to share childcare should they wish to do so and to remove the barriers in the current system that prevent this; to encourage fathers to take a more active and engaged role in bringing up their children, including reducing or adjusting working hours to provide childcare; continue to provide the necessary protection for pregnant women and new mothers in the weeks surrounding the birth of a child. We aim to encourage both parents to retain a strong link with the labour market throughout their child's formative years; retaining skills and reducing the burden on the welfare state. We aim to do this in a way that reduces the disruption to employers that can be caused by employee absence. The intended effect is to encourage shared parenting, including an increase in leave taking by fathers and to reduce the impact of maternity on wages and employment rates of new mothers.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

For parents of children aged under one, we considered doing nothing or introducing a system of flexible parental leave. It was considered that in order to meet the policy objectives of providing parental choice and to increasing the number of fathers able or likely to use leave, flexible parental leave is the preferred option. This could be done through amending legislation to make the statutory scheme more flexible. Or this could be done through non-legislative means, such as encouraging employers to offer enhanced occupational paternity leave and pay in addition to statutory entitlements, and encouraging or incentivising employers to develop flexible parental leave schemes on a voluntary basis. However it is difficult to see how this could be workable unless both parents work for the same employer.

We have concluded that in order to genuinely promote a system of flexible parental leave, it is necessary to have in place a statutory system underpinned by legislation. The existing leave entitlements cannot be adapted to be made more flexible without unacceptable risk of challenge under EU law – which requires parental leave to be made available to both parents on an equal basis. A wholly new system of flexible parental leave is therefore required if greater flexibility is to be given in the first year.

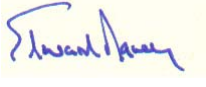
Following the adoption of a revised Parental leave directive in March 2010, it is necessary to increase current parental leave to 18 weeks. UK law states this must be taken before the child's fifth birthday – we are consulting on consolidating the two leave systems and allowing parents to take leave over a longer period; until the child is 8; 12; 16 or 18.

To encourage shared parenting from early pregnancy, we are also considering how to enable more fathers to attend ultrasound scans.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed 04/2017
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: 

Date: **16 May 2011**

Summary: Analysis and Evidence

Policy Option 1

Description: Extension of parental rights to include; 2 hospital visits by working fathers, entitlement to Flexible Parent Leave & Pay (4 weeks reserved for working fathers, 4 weeks reserved for working mothers and 17 weeks shared with partner) and unpaid parental leave extended to all parents with child under 5.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£ 232	High: -£ 603	Best Estimate: -£ 374

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£ 79.0	£ 98.6	£ 928
High	£ 100.7	£ 254.3	£ 2,290
Best Estimate	£ 87.8	£ 163.5	£ 1,495

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

Recurring costs:

Employers (from cover for absence & administration): £44.6 to £5.7 million (Best: £ 20.5m)

Exchequer (from additional statutory payments & administration): £209.7 to £93.0 million (Best: £143.0m)

One-off costs:

Employers: £14.4 to £3.1 million (Best: £8.5m); Exchequer: £86.3 to £75.9 million (Best: £79.4m)

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

Very small cost in employers becoming aware of the provision. 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; costs for DWP for mothers and fathers in receipt of Maternity Allowance/ Parental Allowance.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/Q	£ 80.9	£ 696
High	N/Q	£ 195.9	£ 1,687
Best Estimate	N/Q	£ 130.3	£ 1,122

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 the total value of new payments received. (Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m)). No evidence is available to quantify 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 so increasing fairness; greater connection of women to the workplace; reduced gender gap in employment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Estimated take-up of Flexible Parental Leave will be between 13 and 4 per cent for the reserved leave period and between 8 and 4 per cent for the shared leave period, different profile for the self-employed and for parents soon to be entitled to Additional Parental Leave. Amount of time taken is unlikely to be greater than 17 weeks but could be considerably less. Estimated take-up of extending parental leave to parents with older children will be between 6 and 12 per cent. Amount of time taken is unlikely to be the full thirteen weeks, more likely to be one or two weeks.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £ 0.2 m	AB savings: £ 0 m	Net: £ 0.2 m	Policy cost savings: N/A	Yes

Summary: Analysis and Evidence

Policy Option 2

Description: Extension of parental rights to include; 2 hospital visits by working fathers, entitlement to Shared Parent Leave & Pay (4 weeks reserved for working fathers, 4 weeks reserved for working mothers and 17 weeks shared with partner) and unpaid parental leave extended to all parents with child under 8.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£ 302	High: -£ 803	Best Estimate: -£ 522

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£ 79.0	£ 106.8	£ 999
High	£ 100.7	£ 280.6	£ 2,516
Best Estimate	£ 87.8	£ 180.8	£ 1,644

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

Recurring costs:

Employers (from cover for absence & administration): £70.9 to £13.9 million (Best: £ 37.8m)

Exchequer (from additional statutory payments & administration): £209.7 to £93.0 million (Best: £143.0m)

One-off costs:

Employers: £14.4 to £3.1 million (Best: £8.5m); Exchequer: £86.3 to £75.9 million (Best: £79.4m)

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

Very small cost in employers becoming aware of the provision. 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; costs for DWP for mothers and fathers in receipt of Maternity Allowance/ Parental Allowance.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/Q	£ 80.9	£ 696
High	N/Q	£ 195.9	£ 1,687
Best Estimate	N/Q	£ 130.3	£ 1,122

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 the total value of new payments received. (Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m)). No evidence is available to quantify 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 so increasing fairness; greater connection of women to the workplace; reduced gender gap in employment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Estimated take-up of Flexible Parental Leave will be between 13 and 4 per cent for the reserved leave period and between 8 and 4 per cent for the shared leave period, different profile for the self-employed and for parents soon to be entitled to Additional Parental Leave. Amount of time taken is unlikely to be greater than 17 weeks but could be considerably less. Estimated take-up of extending parental leave to parents with older children will be between 6 and 12 per cent. Amount of time taken is unlikely to be the full thirteen weeks, more likely to be one or two weeks.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £ 0.2 m	AB savings: £ 0 m	Net: £ 0.2 m	Policy cost savings: N/A	Yes

Summary: Analysis and Evidence

Policy Option 3

Description: Extension of parental rights to include; 2 hospital visits by working fathers, entitlement to Flexible Parent Leave & Pay (4 weeks reserved for working fathers, 4 weeks reserved for working mothers and 17 weeks shared with partner) and unpaid parental leave extended to all parents with child under 12.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£ 363	High: -£ 999	Best Estimate: -£ 637

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£ 79.0	£ 113.8	£ 1,059
High	£ 100.7	£ 300.3	£ 2,685
Best Estimate	£ 87.8	£ 194.1	£ 1,758

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

Recurring costs:

Employers (from cover for absence & administration): £90.6 to £20.8 million (Best: £ 51.1m)

Exchequer (from additional statutory payments & administration): £209.7 to £93.0 million (Best: £143.0m)

One-off costs:

Employers: £14.4 to £3.1 million (Best: £8.5m); Exchequer: £86.3 to £75.9 million (Best: £79.4m)

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

Very small cost in employers becoming aware of the provision. 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; costs for DWP for mothers and fathers in receipt of Maternity Allowance/ Parental Allowance.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/Q	£ 80.9	£ 696
High	N/Q	£ 195.9	£ 1,687
Best Estimate	N/Q	£ 130.3	£ 1,122

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 the total value of new payments received. (Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m)). No evidence is available to quantify 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 so increasing fairness; greater connection of women to the workplace; reduced gender gap in employment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Estimated take-up of Flexible Parental Leave will be between 13 and 4 per cent for the reserved leave period and between 8 and 4 per cent for the shared leave period, different profile for the self-employed and for parents soon to be entitled to Additional Parental Leave. Amount of time taken is unlikely to be greater than 17 weeks but could be considerably less. Estimated take-up of extending parental leave to parents with older children will be between 6 and 12 per cent. Amount of time taken is unlikely to be the full thirteen weeks, more likely to be one or two weeks.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £ 0.3 m	AB savings: £ 0 m	Net: £ 0.3 m	Policy cost savings: N/A	Yes

Summary: Analysis and Evidence

Policy Option 4

Description: Extension of parental rights to include; 2 hospital visits by working fathers, entitlement to Flexible Parent Leave & Pay (4 weeks reserved for working fathers, 4 weeks reserved for working mothers and 17 weeks shared with partner) and unpaid parental leave extended to all parents with child under 16.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£ 395	High: -£ 1,130	Best Estimate: -£ 719

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£ 79.0	£ 117.6	£ 1,091
High	£ 100.7	£ 315.5	£ 2,816
Best Estimate	£ 87.8	£ 203.6	£ 1,840

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

Recurring costs:

Employers (from cover for absence & administration): £105.8 to £24.6 million (Best: £60.6m)

Exchequer (from additional statutory payments & administration): £209.7 to £93.0 million (Best: £143.0m)

One-off costs:

Employers: £14.4 to £3.1 million (Best: £8.5m); Exchequer: £86.3 to £75.9 million (Best: £79.4m)

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

Very small cost in employers becoming aware of the provision. 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; costs for DWP for mothers and fathers in receipt of Maternity Allowance/ Parental Allowance.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/Q	£ 80.9	£ 696
High	N/Q	£ 195.9	£ 1,687
Best Estimate	N/Q	£ 130.3	£ 1,122

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 the total value of new payments received. (Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m)). No evidence is available to quantify 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 so increasing fairness; greater connection of women to the workplace; reduced gender gap in employment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Estimated take-up of Flexible Parental Leave will be between 13 and 4 per cent for the reserved leave period and between 8 and 4 per cent for the shared leave period, different profile for the self-employed and for parents soon to be entitled to Additional Parental Leave. Amount of time taken is unlikely to be greater than 17 weeks but could be considerably less. Estimated take-up of extending parental leave to parents with older children will be between 6 and 12 per cent. Amount of time taken is unlikely to be the full thirteen weeks, more likely to be one or two weeks.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £ 0.4 m	AB savings: £ 0 m	Net: £ 0.4 m	Policy cost savings: N/A	Yes

Summary: Analysis and Evidence

Policy Option 5

Description: Extension of parental rights to include; 2 hospital visits by working fathers, entitlement to Flexible Parent Leave & Pay (4 weeks reserved for working fathers, 4 weeks reserved for working mothers and 17 weeks shared with partner) and unpaid parental leave extended to all parents with child under 18.

Price Base Year 2010	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£ 408	High: -£ 1,183	Best Estimate: -£ 752

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£ 79.0	£ 119.2	£ 1,105
High	£ 100.7	£ 321.7	£ 2,870
Best Estimate	£ 87.8	£ 207.5	£ 1,874

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

Recurring costs:

Employers (from cover for absence & administration): £112.0 to £26.2 million (Best: £64.5m)

Exchequer (from additional statutory payments & administration): £209.7 to £93.0 million (Best: £143.0m)

One-off costs:

Employers: £14.4 to £3.1 million (Best: £ 8.5m); Exchequer: £86.3 to £75.9 million (Best: £79.4m)

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

Very small cost in employers becoming aware of the provision. 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; costs for DWP for mothers and fathers in receipt of Maternity Allowance/ Parental Allowance.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/Q	£ 80.9	£ 696
High	N/Q	£ 195.9	£ 1,687
Best Estimate	N/Q	£ 130.3	£ 1,122

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 the total value of new payments received. (Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m)). No evidence is available to quantify 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 so increasing fairness; greater connection of women to the workplace; reduced gender gap in employment.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Estimated take-up of Flexible Parental Leave will be between 13 and 4 per cent for the reserved leave period and between 8 and 4 per cent for the shared leave period, different profile for the self-employed and for parents soon to be entitled to Additional Parental Leave. Amount of time taken is unlikely to be greater than 17 weeks but could be considerably less. Estimated take-up of extending parental leave to parents with older children will be between 6 and 12 per cent. Amount of time taken is unlikely to be the full thirteen weeks, more likely to be one or two weeks.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £ 0.5 m	AB savings: £ 0 m	Net: £ 0.5 m	Policy cost savings: N/A	Yes

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			01/04/2015		
Which organisation(s) will enforce the policy?			Tribunal Service		
What is the annual change in enforcement cost (£m)?			£ N/A		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			Yes		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A		Non-traded: N/A
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs:		Benefits:
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	Yes	32
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes	32
Small firms Small Firms Impact Test guidance	Yes	32
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Work & Families: Choice & Flexibility, Final IA, Oct 2005, URN 06/627. www.bis.gov.uk/files/file27449.pdf
2	Parental Leave Regulations: Final IA, Nov 1999, URN 06/1919 www.bis.gov.uk/files/file34183.pdf
3	Parental Leave Regulations: Changes to the extend entitlement Final IA, Oct 2001, URN 06/927 http://www.bis.gov.uk/files/file32480.pdf
4	Parental Leave Directive: Final IA, Nov 2009, URN 09/1491. www.bis.gov.uk/files/file53640.pdf
5	Additional Paternity Leave & Pay: Final IA, Jan 2010; URN 10/557. www.bis.gov.uk/files/file54236.pdf
6	Maternity and Paternity Rights and Benefits: Survey of Parents 2005, ERRS No.50, URN 08/836. www.dti.gov.uk/files/file27446.pdf
7	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	87.8	0	0	0	0	0	0	0	0	0
Annual recurring cost	207.5	207.5	207.5	207.5	207.5	207.5	207.5	207.5	207.5	207.5
Total annual costs	295.3	207.5	207.5	207.5	207.5	207.5	207.5	207.5	207.5	207.5
Transition benefits	0	0	0	0	0	0	0	0	0	0
Annual recurring benefits	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3
Total annual benefits	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3	130.3

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Problem under consideration

1. The Coalition agreement committed to encouraging shared parenting from the earliest stages of pregnancy – including the promotion of a system of flexible parental leave.
2. The current system can not be described as flexible and does little to encourage shared parenting. Current statutory maternity and paternity provisions are unbalanced, reinforcing the culture where women do the majority of the caring and are more likely to be absent from the labour force as a result of having children. The current provisions place fathers in a subsidiary role; with limited access to worklife balance measures and time for parenting. The system is also inflexible and concentrated in the early years, with minimal provision for school age children.
3. In order to promote a system of flexible parental leave, it is necessary to have in place a statutory system that is both flexible enough to give parents choice in how it may be taken; but that also encourages fathers as well as mothers to take some of the leave. The existing leave entitlements are a barrier to sharing leave and cannot be adapted to be made more flexible without unacceptable risk of challenge under EU law – which requires parental leave to be made available to both parents on an equal basis. Moreover, a non-statutory scheme would not meet European requirements. A wholly new system of flexible parental leave is therefore required if greater flexibility is to be given in the first year.
4. Under CJEU case law, leave which is parental in nature must be available on a non-discriminatory basis. (The effect of this on the eligibility conditions for APL is being considered) We intend to ensure that the proposed system of flexible 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

5. The coalition agreement committed the Government to encourage shared parenting from the earliest stages of pregnancy – including the promotion of a system of flexible parental leave. Under the current system the UK has a highly gendered and inflexible approach to the leave and pay available to working parents as illustrated in Table 3.

Table 1: Current statutory parental leave & pay/allowance entitlements

Women	Men
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 the Statutory Maternity Pay (SMP) rate, currently £124.88 per week or 39 weeks Maternity Allowance (MA) at the lesser of £124.88 or 90% of earnings	All paid at Statutory Paternity Pay (SPP) rate, also currently £124.88 per week
From April 2011, Additional Paternity Leave (APL) is effective. If mum returns to work, dad can take a period of up to 26 weeks leave, starting no earlier than the 20 th week after the child is born. Additional Statutory Paternity Pay (ASPP) may be paid during the mother's SMP or MA period,	

Source: DirectGov

6. Further, Additional Parental Leave (APL) and Additional Statutory Paternity Pay (ASPP) are only available to fathers who are:
- Eligible for Statutory Paternity Leave² and in continuous employment with their employer up to the start of APL. In other words, fathers will have been with their employer for the 60 weeks prior to the start of APL.
 - 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.

Rationale for intervention

7. As the statutory scheme provides minimum standards and guides contractual enhancements, it is necessary to make legislative changes to this in order to rectify this imbalance and encourage shared parenting.

Policy objective

8. The consultation proposes that any new system of flexible parental leave should seek to:
- Provide choice and flexibility for parents to enable them to shared child-caring responsibilities
 - Remove the barriers to parents seeking to play an active and engaged part in the care of their children whilst recognising the special position of pregnant women who have no option but to take time off;
 - Encourage fathers to take a more active and engaged role in bringing up their children, including reducing or adjusting working hours to provide childcare;
 - Encourage both parents to retain a strong link with employment throughout their child's formative years; retaining skills and reducing the burden on the welfare state;
 - Reduce the disruption to employers that can be caused by employee absence; by reducing the uncertainty of absences and minimising the administration of payments.

Options identification

9. The main options being considered are:
- Do nothing – The commitment to create a system of flexible parental leave was included within the Coalition Agreement document it was also included in the manifestos of both parties. Doing nothing would not deliver this commitment.
 - Create a system of greater flexible 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 1st year of a child's life (including a 4 week reserve period for fathers)
 - The expansion of the right to unpaid parental leave after the 1st year, consulting on whether this should be extended to families with a child under 8, 12, 16 or 18.

Proposed system of parental leave and pay

10. It is proposed to reduce maternity leave (from 52 weeks to 18 weeks) and similarly reduce the period of Statutory Maternity Pay and Maternity Allowance (from 39 weeks to 18 weeks). The remaining leave would be reclassified as flexible parental leave that could be taken by either parent, up to 25 weeks may be paid – with no more than 21 weeks being paid to any one parent, to allow parents the maximum flexibility in how to balance work and caring responsibilities. This flexible leave could be taken in the manner that best suits the family – concurrently, part-time etc. The target implementation date is April 2015.
11. 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

² 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.

period of leave that is reserved for the mother and must be taken in a continuous block around the time of childbirth. However, this directive is currently subject to revision by the European Union and it is likely that the period of leave that must be reserved for the mother will be extended. In recognition of this, we propose that a maternity leave is reduced to 18 weeks. We propose that the first six weeks of Statutory Maternity Pay (SMP) will be paid at 90% of earnings, with the following 12 weeks capped at the standard rate (currently £124.88). Women who fail to get SMP may qualify for MA for 18 weeks capped at the standard rate of £124.88. This is in line with current maternity provisions.

12. On this proposal the right to Flexible Parental Leave (FPL) becomes available to all working fathers as a Day-1 right in line with current maternity leave provisions, but is shorter than the maximum qualifying period of one year set out in the Parental leave directive. We propose to consolidate the qualifying conditions for parental leave to avoid confusion by both employers and employees over who may be eligible to take each type of leave and when. The eligibility for the pay element, Statutory Flexible Parental Pay (SFPP) is conditional on an employee having six month service with their current employer in line with the current SMP / ASPP eligibility criteria.
13. In addition, provision will be made for those working parents who are not eligible for SFPP (including the self-employed). It is anticipated this will be in the form of a Parental Allowance payable by Jobcentre Plus. Eligibility will be in line with those for the current Maternity Allowance, i.e. parents would need to have earned at least £30 a week in any 26 weeks of the past 66 weeks. The 66-week period ends when pay is due to start. Average earnings are based on the 13 highest earning weeks. Both SFPP and PA are paid at 90% of average earnings up to a certain cap; this is £124.88 in 2010/11. These proposed provisions are in line with current Maternity Allowance (MA). A summary of this proposal is given in Table 4, and Charts 1 and 2 provide a comparison between the APL system and the proposed one.

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

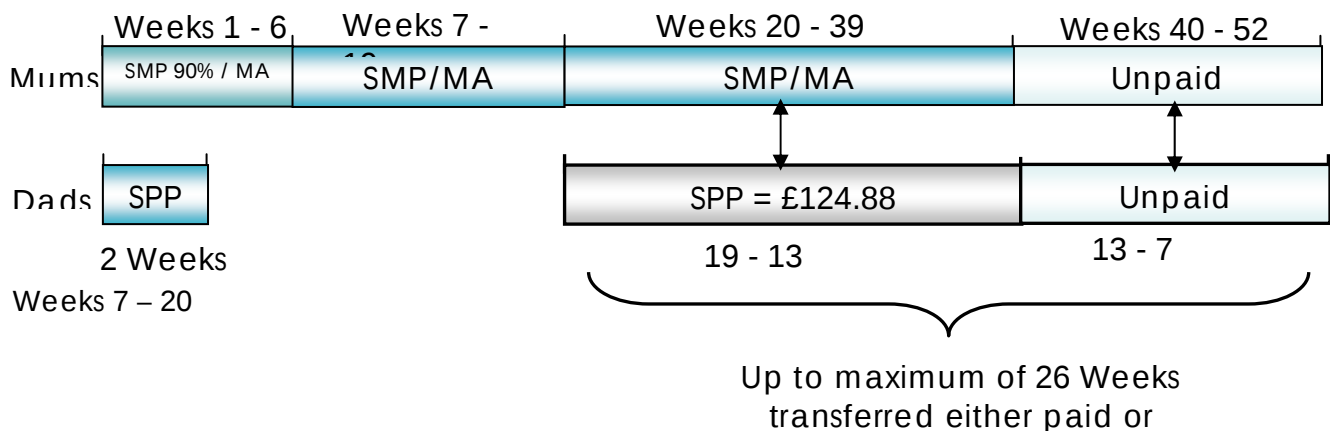


Chart 2: Proposed system of flexible parental leave & statutory pay / allowances

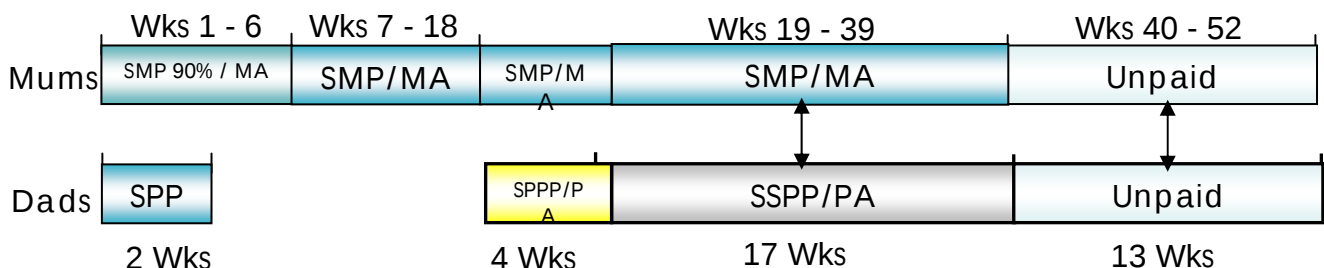


Table 2: Proposed statutory parental leave & pay entitlements under shared arrangements

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 £124.88 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	
Total: 30.5 wks of paid leave, rising to 39 wks if partner transfers maximum or partner is absent.	Total: 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

14. Some mothers have access to occupational maternity leave schemes whereby their employer offers terms above the statutory minimum. The Maternity and Paternity Rights Survey shows that employers do offer similar benefits for fathers taking statutory paternity leave as 70 per cent of fathers who took paternity leave did so on full pay. 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.

Pre-birth

15. Employed mothers-to-be are entitled to time off for ante-natal care. This is paid at their normal rate of pay by their employer and can include any ante-natal appointments or classes that their midwife or doctor recommends. Fathers are not entitled to any time off to accompany their pregnant partner. There is no time off right to attend or accompany a dependant to any other planned hospital appointments.
16. Non-legislative alternatives are already in place: BIS produces best practice guidance for employers providing time off for fathers attending ante-natal appointments and the NHS choices website provides guidance for mothers encouraging them to invite their partner to accompany them. 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.
17. There is strong evidence that father's attendance at ultrasound scans helps early bonding and increases his commitment to the pregnancy³. This consultation proposes that fathers should be able to take time out of the workplace in order to attend significant antenatal appointments at the mother's invitation. This is either proposed as a new right to unpaid time off or included as an amendment to the parental leave legislation so parental leave can be used to attend these appointments.

Number of beneficiaries and take-up

18. Estimates of the number of fathers who are 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 the UK in 2008 there were approximately 701,000 maternities⁴ where the mother would require such appointments. To calculate the number of eligible fathers the proportion of these maternities that involve lone mothers and mothers who do

³ Jan Draper (2002) 'It was a real good show': the ultrasound scan, fathers and the power of visual knowledge

⁴ Office for National Statistics Birth Statistics 2008, Series FM1 No 37. Available at:- www.statistics.gov.uk/downloads/theme_population/FM1-37/FM1_37_2008.pdf

not have a partner who is an employee need 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.

Table 3: Estimated eligibility for time off to attend antenatal appointments

Number of maternities A	% of mothers who are lone parents ^a B	% of fathers who are an employee partner ^b C	Number of eligible fathers D = A x (1-B) x C
701,000	13%	82%	500,000

^a The joint BIS/DWP Maternity and Paternity Rights and Benefits Survey of Parents 2005 – Survey of Mothers
^b The joint BIS/DWP Maternity and Paternity Rights and Benefits Survey of Parents 2005 – Survey of Fathers
Source: BIS estimates from the ONS Birth Statistics 2008 and Maternity and Paternity Rights Survey 2005

19. The proportion of mothers who are lone parents is taken from the Maternity and Paternity Rights survey 2005, the value is assumed to be constant. 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 and whose partner is an employee.
20. Estimates of the likely proportion of this 500 thousand who take-up the new entitlement take into account the number of fathers who are already attending ante-natal appointments, scans and other routine appointments related to the pregnancy. About 44% of employed fathers take time off during their partner's pregnancy – with almost 80% of these fathers doing so to attend ultra-sound scans or other hospital appointments⁵. In addition, 29% of those who take leave during their partners' pregnancy do so to attend antenatal classes and 61% to attend other routine hospital appointments. Many employed fathers will have taken this time as annual leave or made some arrangement to make time up later.
21. Some father's time off to attend a partner's antenatal appointment would have occurred in the absence of any policy change. Paragraph 19 shows that 44% of fathers already take some time off around their partners' pregnancy, mainly to attend antenatal appointments or scans. It is assumed the majority of these people will be unaffected by the policy as the time is either made up or taken using existing annual leave entitlements. The policy will affect fathers who choose not to (or cannot) make up lost time or use other leave entitlements therefore business may incur a cost from their absence. By introducing the right to unpaid time off for these appointments the take-up rate, in line with assumption of take-up of other unpaid leave (see para 59), is likely to increase by 6 to 12% of eligible fathers where time can not be made up or taken as annual leave.

Employer cost of absence

22. During an uncomplicated first pregnancy a mother-to-be has 10 midwife appointments and 2 ultrasound scans, subsequent pregnancies normally require 7 appointments plus two scans. A woman who develops complications may require many more appointments and additional scans.
23. In total this would represent a considerable amount of time off, much of it for appointments that may not require the father's attendance – for example a routine midwife check up. As many of these appointments may be routine, Table 2 shows the cost of absence to business for fathers who attend 1 to 3 antenatal appointments or scans. Each appointment a father attends is approximately 1 hour long, therefore with additional travel time it is assumed that employees would require on average 3 hours leave for each appointment.
24. 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 replacements⁶. Research commissioned by BIS (then DTI)⁷ found that employers are likely to incur short-term absence costs due to overtime payments and opportunity costs from displaced outputs elsewhere. Based

5 Maternity and Paternity Rights and Benefits: Survey of Parents 2005, D. Smeaton and A. Marsh (Page 7 Ref. 6).

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

7 Bevan, S. et al (2004) How employers manage absence. BIS Employment Relations Research Series No. 25, available at: www.bis.gov.uk/files/file11503.pdf

on these findings the IA assumes the costs of meeting absences through internal reorganisation are between 9-15% of labour costs. More information is shown in Annex 4.

Table 4: Estimated cost of absence due to the proposal to allow fathers to attend antenatal and ultrasound scan appointments

Eligible fathers	Additional take-up (excluding deadweight)	Cost per appointment ^a	Reorganisation cost	Overall cost of absence		
				1 appointment	2 appointments	3 appointments
500,000	6%	£38.63	9%	£0.1m	£0.2m	£0.3m
500,000	12%	£38.63	15%	£0.3m	£0.7m	£1.0m

^a Male median gross hourly pay for all employee jobs from the ONS Annual Survey of Hours and Earnings table 1.6a (uprated to 2010 prices) multiplied by 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

Administrative cost to employers

25. Costs relating to one off and recurring administrative impacts of this proposal to let fathers attend hospital appointments are considered negligible as in most cases this right will be based on an informal request procedure. Evidence for this assumption can be taken from the BIS Third Work-Life Balance: Employers Survey⁸ where in similar special leave cases 99% of respondents would almost always or sometimes allow 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 proposal. As the estimate of the number of fathers who take-up their entitlement is low (in terms of the proportion of the male working population) it is assumed that many employers (in particular small employers) will not adjust their systems immediately once the legislation is passed. Rather, it is assumed that individual employers would amend their HR practices gradually as cases appear, on a 'needs basis'⁹. This will be reviewed in subsequent versions of the impact assessment.

⁸ The Third Work-Life Balance Employer Survey: Main findings 2007, B. Hayward, B. Fong & A. Thornton.

⁹ 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.

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Number of eligible fathers

26. The Flexible Parental Leave (FPL) is an extension of Additional Parental Leave (APL) in terms of the criteria for eligibility, the amount of leave that can be taken or transferred to fathers (i.e. the duration) and the flexibility with which parents can take leave. The number of eligible mothers is the same as the current entitlement for SMP/MA. Under new proposals, most working fathers will benefit from a 4 week reserved period of leave and pay, but the shared leave period (i.e. maximum 30 weeks with at most 17 weeks paid and 13 weeks unpaid) is only wholly additional to self-employed fathers and employee fathers without a working partner. Employee fathers with a working partner will be entitled to a similar amount of shared leave and pay under APL (i.e. maximum 26 weeks with at most 19 weeks paid and 7 weeks unpaid). For the purposes of the impact assessment, we assume this slight change to eligibility criteria from APL/APSS to FPL/SFPP adds negligible costs for employee fathers with working partners, but will introduce costs from familiarisation and procedural costs both by employers and exchequer.
27. Table 5 provides a summary of leave entitlement, additional to APL, proposed for different types of couples.

Table 5: Additional leave entitlement from current system (post-April 2011)

	Reserved leave period
All fathers	4
	Shared leave period (17 weeks)
All fathers except	17
Employee fathers with employee partners	0
Employee fathers with self-employed partners	0
Source: Flexible Parental Leave consultation document	

28. Estimates for the number of working fathers eligible for the new flexible parental leave rights are approximate as no survey or administrative data exists on the eligibility for the new entitlement. Table 6 provides estimates of the maximum number of fathers who may be eligible for flexible parental leave.

Table 6: Estimated eligibility for flexible parental leave

	All eligible ('000's)
Employee father with:	524
employee partner	332
self-employed partner	18
without working partner	166
without a partner (lone parent)	8
Self-employed father with:	112
employee partner	57
self-employed partner	11
without working partner	41
without a partner (lone parent)	3
Total eligible fathers	638

Source: BIS estimates from ONS' Labour Force Survey

29. It is difficult to quantify the additional costs, which may arise from the additional flexibility of FPL by itself, where parents can take leave concurrently rather than just individually as required by APL. Views will be sought during the consultation on the extent of this flexibility and any additional costs will be reflected in subsequent versions of the impact assessment.

Take-up assumptions

30. Estimates of the projected take up of Flexible Parental Leave (FPL) & Flexible Statutory Parental Pay (SFPP) is approximate due to the difficult nature of predicting accurately how families would respond to the proposals. The BIS Maternity and Paternity Rights 2005 Survey¹⁰ provides some data that can be used to predict take up. This takes into consideration two factors:
- An estimate of mothers who indicate that they are interested in making use of flexible parental leave arrangements; and
 - An estimate of fathers who indicate they are interested in also making use of flexible parental leave rights, or already demonstrate a strong commitment to the upbringing of their child in its first year.
31. The proportion of partnerships where both these behaviours occur has been calculated, and this is used to estimate the number of fathers who are likely to take advantage of the proposed entitlements.
32. The evidence from this survey is supported by an analysis of 30 European paternity / parental leave programs 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)¹¹. As Table 7 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.

¹⁰ Maternity and Paternity Rights and Benefits: Survey of Parents 2005, D. Smeaton and A. Marsh (Page 7, Ref. 6)

¹¹ 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 7: 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 ^a	Earnings Replacement	Take-up ^b
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%

^a Family leave can be shared between parents, leave by sex is non-transferable.

^b Take-up rate refers to fathers' use of flexible 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

33. International evidence suggests that fathers' usage of parental leave is also higher under programmes that offer fathers targeted or reserved leave schemes as opposed to just making shared leave available to the father¹². Given the current proposal is introducing additional leave paid at a flat rate payment 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 marginally over time if this policy encourages a culture more favourable to fathers' involvement with children in their first year.
34. The proportion of working fathers expected to take up the proposed entitlement is given in Table 8. The figures for employee fathers generally follow the assumptions made in the APL impact assessment⁶. A slightly higher upper take-up rate (13 per cent) is allocated to the proposed reserve leave period, as a reserved element has been shown to have a positive effect on fathers' take-up of leave⁴. Self-employed fathers are more likely to take-up the reserved and shared leave as they have complete flexibility on how they take the leave and greater flexibility on their tax arrangements in claiming the paid element. We assume a similar take-up rate to employee fathers for self-employed fathers with an employee partner. Finally, we assume there is no take-up for self-employed couples who we assume will opt for a payment to the mother, again due to the greater flexibility around their tax arrangements and how they take the leave.
35. The range hopes 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. The proposed system of leave, built on APL, expand eligibility, the amount of leave that can be taken or transferred and the flexibility with which parents can take leave, so take-up is assumed to marginally increase from previous assumptions.

Table 8: Take-up assumptions for eligible fathers

12 O'Brien, M. (2009) 'Fathers, Parental Leave Policies, and Infant Quality of Life: International Perspectives and Policy Impact'. *Annals of the American Academy of Political and Social Science*, Vol 624, pp 190-213.

	Reserved leave period (4 weeks)		
	High (%)	Medium (%)	Low (%)
All employee fathers	13	8	4
All self-employed fathers	100	75	50
	Flexible leave period (30 weeks)		
	High	Medium	Low
All employee fathers except:	4	2	2
Employee fathers with employee partners ^a	0	0	0
Employee fathers with self-employed partners ^a	0	0	0
All self-employed fathers except:	100	75	50
Self-employed fathers with employee partners	8	4	4
Self-employed fathers with self-employed partners ^b	0	0	0

^a Assume the move from APL/APSS to FPL/SFPP will not result in additional take-up of the flexible leave period for these groups.

^b This couple group because of the flexibility of their tax arrangements has the flexibility to make one rather than two claims regardless of how they share the leave, we assume they make the decision to claim all the paid element of the leave through mother rather than make separate claims.

Source: BIS estimates (see Annex 3 for methodology)

36. A small number of fathers will be eligible for FPL but not SFPP, as they earn less than what would amount to the Lower Earnings Limit (currently £97 per week) and are therefore not eligible for statutory payments. Analysis of data from the Annual Survey of Hours and Earnings, around 4.5% of male employees earned less than this limit in 2008/09¹³. However, it is hard to estimate what proportion of those actually taking FPL would earn less than the limit. On the one hand, low earners might be less likely to take leave, if they need the income from work to support their families and would not receive any SFPP. On the other hand, their fall in weekly income from taking leave could still be less than the fall for higher earners, making them more likely to take leave.
37. Overall, this limit is likely to exclude at most a few hundred fathers. The calculations in the IA do not quantify the exclusion of fathers due to the flat rate cut-off. The numbers of fathers eligible for SFPP might vary slightly, depending on the timing of the pay calculation - for example if a father was earning less than the LEL before the birth of the child, but more than the LEL by the time he wanted to take FPL - but these variations are likely to be very small and are not quantified here.

Average duration of leave assumptions

38. The average duration of leave working fathers expected to take is given in Table 9. The BIS Maternity and Paternity Rights 2005 Survey provides some evidence of the average duration employee fathers' might take of their reserved leave (4 weeks). The survey showed almost 60 per cent of employee fathers took the full entitlement or more to 2 weeks paternity leave, while the remainder took less than 2 weeks. Therefore we assume a range of durations for the reserved leave period of 2, 3 and 4 weeks. For the self-employed because they can be more flexible on how much leave they take, we assume they take the full amount of the reserved period.
39. It has not been possible to conduct detailed analysis of what the effects will be on the number of fathers taking SLP & SFPP/PA and what the costs may be. As the duration of shared leave is no different in duration from APL, we use the assumptions presented in that IA where costs were provided based on a range of durations of two weeks, six weeks and 13 weeks. We assume the self-employed are more likely to take-up the full reserved and shared leave period when without a working partner because they have complete flexibility on how they take the leave, but we assume a similar average duration to employee fathers for self-employed fathers with an employee partner and no weeks taken for self-employed couples.

¹³ In fact the cut-off is equivalent to £120.94 a week, as the flat rate represents 90% of the earnings level.

Table 9: Average duration assumptions for working fathers

	Reserved leave period (4 weeks)		
	High	Medium	Low
All employee fathers	4	3	2
All self-employed fathers	4	4	4
	Shared leave period (30 weeks)		
	High	Medium	Low
All employee fathers			
With a employee or self-employed partner ^a	0	0	0
Without a working partner/ lone parent	13	6	2
All self-employed fathers			
With a employee partner	13	6	2
With a self-employed partner ^b	0	0	0
Without a working partner / lone parent	17	17	17

a Assume the move from APL/APSS to FPL/SFPP will not result in any change to the duration of the shared leave period taken by this group.

b This couple group because of the flexibility of their tax arrangements has the flexibility to make one rather than two claims regardless of how they share the leave, we assume they make the decision to claim all the paid element of the leave through mother rather than make separate claims.

Source: BIS estimates

Replacement

40. There is no replacement effect for the father's reserved leave period as this is clearly an additional entitlement. For the shared leave period, the leave and pay taken by the fathers will also be additional for working fathers without a working partner. For self-employed couples we assume while the leave may be shared the mother will claim the pay, as this group has the flexibility through their tax arrangements to make one rather than two claims and still share the leave. For other working couples, we assume that 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. At this stage we do not have the evidence to assess the extent of replacement but will be monitored in further research¹⁴.
41. Similarly there will Exchequer costs relating to working fathers whose leave will clearly be additional to that of the mother. Recent DWP research¹⁵ found that 84 per cent of mothers take all their entitlement to paid leave. A small proportion therefore, always planned to return to work early irrespective of whether SLP is available. In those cases, if the father takes FPL there will be a small additional cost since the costs of paying PA will not be directly offset by the savings in SMP. It is not possible to assess what proportion of the partners of those who go back early would actually take FPL. Some of those who go back early will be lone parents and some will have gone back early because they need two incomes.

Costs of greater shared parental leave

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

To the exchequer:

- Policy cost
- One-off implementation
- Recurring administrative burden

To employers:

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

43. The figures quoted in this IA are based on 2010 prices.

Exchequer cost of additional statutory payments

44. There will be Exchequer costs relating to the introduction of a reserved leave period and broader eligibility and extension of the shared leave period from APL. Therefore the costs presented in Table 10 are based on the multiplication of the assumptions in Table 6, 8 and 9 by the current flat rate for SPP/SMP (£124.88 in 2010/11). For example using assumptions in tables 6, 8 and 9:

Cost of payments = eligible population x take-up (%) x duration (weeks) x payment (£124.88)

45. Direct payments to employees are a cost on the exchequer only and costs to business are limited to absence costs and administration. Plus for the shared leave period, the deduction of 91.6 per cent¹⁶ from the cost of working fathers with an employee partner where we assume most of the

14 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.

15 Maternity rights and mothers employment decisions, DWP Research Report No 496, 2008)
<http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep496.pdf>

16 HMRC estimate from Additional Paternity Leave and Pay Impact Assessment, Jan 2010, URN 10/557, available at:-
www.bis.gov.uk/files/file54236.pdf

cost will be off-set by substitution of the mother's leave and pay entitlement. This means exchequer costs are likely to be in the region of £91m and £33m for the reserved leave period and £105m to £48m for the shared leave period; making a total **exchequer cost of between £196m and £81m for additional payments of SFPP/PA.**

Table 10: Exchequer costs from additional SFPP/PA to fathers

	Reserved leave period (4 weeks)		
	High	Medium	Low
Employee fathers	£34.7	£15.5	£5.3
Self-employed fathers	£55.9	£42.0	£28.0
Total	£90.6	£57.5	£33.3
	Shared leave period (30 weeks)		
	High	Medium	Low
All employee fathers	£11.3	£2.6	£0.9
Employee fathers with employee partners	£0.0	£0.0	£0.0
Employee fathers with self-employed partners	£0.0	£0.0	£0.0
Without a working partner/ lone parent	£11.3	£2.6	£0.9
All self-employed fathers	£94.0	£70.2	£46.8
With a employee partner	£0.6	£0.1	£0.0
With a self-employed partner	£0.0	£0.0	£0.0
Without a working partner / lone parent	£93.4	£70.1	£46.7
Total	£105.3	£72.8	£47.6

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

Exchequer administrative burden (one-off and recurring)

46. It proposed to administer FPL through an expansion of the APL system. Therefore, we refer to the APL IA (see Page 7, Ref. 5) which estimated the administrative costs to the Exchequer were around £6.9 million one-off costs to set up the necessary IT solution, manpower requirements and other first year costs, and £ 1.1 million recurring costs from on-going IT costs and the continued requirement for manpower. This was based 20 – 10 thousand claims each year, but the reserved leave period is likely to result in between 180 – 75 thousand additional claims and the shared leave period about 60 - 30 thousand more claims. It is envisaged requirements to administer the shared leave period will be additional to those required for the reserved leave period, so we assume 240 – 105 thousand claims a year and factor the original costs by about 12.5 and 11 times respectively which **gives one-off costs of between £86 and £76 million and recurring costs to the exchequer of between £14 and £12 million.** These costs will be refined in subsequent versions of the impact assessment.

Employer direct policy costs

47. Direct payments to employees are in the main a cost on the exchequer and costs to business are limited to absence costs, administration and a small proportion of statutory payment costs. This will affect mainly employee fathers without a working partner as the other groups will either be covered by the APL entitlement or claim Paternity Allowance (PA), administered by JobCentre Plus, rather than SFPP. However, it should also be noted larger employers are entitled to recover 92 per cent of any SFPP payments they make and smaller employers entitled to recover 100 per cent (plus 4.5 per cent compensation for the extra National Insurance Contributions payable).
48. It is also assumed that employers with occupational maternity provisions will not provide such rights to fathers receiving FPL and SFPP/PA. Employers who provide occupational maternity pay beyond the 18 weeks may decide to reduce their maternity schemes; provide a occupational

maternity scheme in addition to the statutory parental scheme or provide an occupational parental scheme but as this will not be imposed by the regulations, the costs are not considered here.

Employer cost of absence

49. 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, we assume that some employers reorganise existing employees to cover the absence while others hire temporary agency workers¹⁷. Annex 4 outlines how the action taken by business may vary with the length of leave taken and the size of the business. This additional cost depends on the number of weeks taken as leave and is based on the assumptions of the population likely to take leave (Tables 6), the take-up rate (table 8) 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.
50. Working father's reserved leave period clearly creates an additional absence. For the shared leave period, working fathers without a working partner will also create an additional absence from taking up the right to FPL. However for other working couples, it should be borne in mind that across employers as a whole the costs of absence of working fathers will be offset by the mother's early return to work thereby reducing absence costs for the mother's employer.

Table 11: Employer costs from additional absences from Flexible Parental Leave

	Reserved leave period (4 weeks)		
	High	Medium	Low
	Number of weeks absent (thousand)		
Employee fathers take-up leave	278	124	42
Median Gross weekly pay	£478.4	£478.4	£478.4
Plus non-wage costs	£578.8	£578.8	£578.8
Re-Organisation Costs (weeks absent x wage costs x 15%)	£24.1m	£10.8m	£3.7m
Re-Organisation Costs (weeks absent x wage costs x 9%)	£14.5m	£6.5m	£2.2m
	Shared leave period (30 weeks)		
	High	Medium	Low
	Number of weeks absent (thousand)		
All employee fathers	90	21	7
Employee fathers with employee partners	0	0	0
Employee fathers with self-employed partners	0	0	0
Without a working partner/ lone parent	90	21	7
Median Male gross weekly pay (incl. non-wage costs)	£578.8	£578.8	£578.8
Difference between Median Male & Female gross weekly pay (incl. non-wage costs)	£201.0	£201.0	£201.0
Re-Organisation Costs (at 15%)	£7.9m	£1.8m	£0.6m
Re-Organisation Costs (at 9%)	£4.7m	£1.1m	£0.4m

a 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, Ref. 5)

b In these cases, we assume the cost of absence is wholly additional as there no partner returning to work, therefore the whole male wage (incl. non-wage costs) is used.
Source: BIS estimates

51. 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 SLP 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 in the region of £24m and £2m for the reserved leave period and £8m to £0.5m

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

for the shared leave period; making a total **employer cost due to absence of between £32m and £3m due to additional absence from employee fathers.**

Employer administrative burden (one-off and recurring)

52. Table 12 shows a worked example of the estimated cost of administration for the reserved leave period (for brevity, costs due to the shared leave period are not shown). These costs borne by employers of fathers who make use of the FPL and SFPP/PA entitlements. 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 employers (and in particular small employers) will not adjust their systems immediately once the legislation is passed. Rather, it is assumed that individual employers would amend their HR practices gradually as cases appear, on a 'needs basis'¹⁸. Furthermore clear and extensive guidance will be made available to employers through a variety of channels, to ease the implementation as much as possible.
53. As a result, the aggregate cost of implementation is both small and ongoing as large employers taken together as a group make the necessary one-off changes over a period of years. There are no one-off costs for smaller employers, since it is assumed that smaller employers operate more informal payroll practices.
54. Recurring costs, both for individual employers and in aggregate are assumed to be the cost of administering fathers' take up of FPL and SFPP.
55. Although administrative costs in aggregate are small (as would be expected due to the small number of cases per year), for an individual employer the administrative costs might represent a greater burden, but we are aiming to keep the administration similar to existing parental provisions, which should assist an employer. Some small businesses may have little experience in handling cases of employees taking leave to have a child, and have little resource allocated to such tasks. In order to process a father's claim for SFPP, the task may fall to a Director who may have little experience of handling such claims, whereas for a larger employer, experienced Human Resource professionals would handle this. However, the likelihood of a case like this arising is very small. Alongside this, the guidance has been improved to further assist small businesses in handling cases.

Table 12: Employer costs from one-off and recurring administrative burden of FPL & SFPP/PA

Employer one-off costs (large firms)	Reserved leave period (4 weeks)		
	High	Medium	Low
Employees in workplaces with over 25 people (%)	64	64	64
Employee fathers in large firms (thousand)	44	27	14
Daily rate of personnel and wages clerk	£246.0	£246.0	£246.0
One-off costs (£million)			
Low	£8.7	£5.2	£2.7
High	£13.1	£7.8	£4.0

Employer recurring costs (large firms)	Reserved leave period (4 weeks)		
	High	Medium	Low
Employees in workplaces with over 25 people (%)	64	64	64
Employee fathers in large firms (thousand)	44	27	14
Hourly rate of wages clerk	£14.0	£14.0	£14.0
Hourly rate of personnel manager	£28.1	£28.1	£28.1
Recurring costs (£million)			

¹⁸ 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.

Employer one-off costs (large firms)**Reserved leave period (4 weeks)**

	High	Medium	Low
Low	£0.4	£0.4	£0.2
High	£2.5	£1.5	£0.8

Table 12: Employer costs from one-off and recurring administrative burden of FPL & SFPP/PA (Continued)

Employer recurring costs (small firms)	Reserved leave period (4 weeks)		
	High	Medium	Low
Employees in workplaces with over 25 people (%)	36	36	36
Employee fathers in small firms (thousand)	25	15	8
Half day rate for managers and senior personnel	£65.9	£65.9	£65.9
Recurring costs (£million)			
Low	£1.3	£0.8	£0.4
High	£2.0	£1.2	£0.6

Source: BIS estimates

56. The table shows costs for employers of administering requests for FPL has a **one-off cost of between £14 and 3 million and recurring cost of between £5 and 1 million**. Figures are calculated using the following formula:
- Admin burden = employees taking leave (000's) x wage cost of administrator(s)
57. These costs would of course be subject to change should the estimated number of employees claiming ASPP increase significantly above the initial estimates set out by Tables 6 and 8 above.

Summary of FPL and SFPP/PA costs

58. Table 13 below provides a summary of all the additional costs of introducing FPL and SFPP/PA, we estimate this will introduce **total recurring costs of between £247 million and £96 million, of which £37 to £3 million will be borne by employers**.
59. Additionally **total one-off costs will total between £101 and £79 million, of which between £14 and £3 million will be borne by employers**.

Table 13: Total costs from the introduction of FPL and SFPP/PA

	Reserved + Shared leave period (34 weeks)		
	High	Medium	Low
Recurring costs			
Exchequer costs for additional statutory payments	£195.9	£130.3	£80.9
Exchequer costs for administration	£13.8	£12.7	£12.1
Employer costs for absence	£32.0	£12.6	£2.6
Employer personnel time costs (large firms)	£2.7	£1.6	£0.2
Employer personnel time costs (small firms)	£2.2	£1.3	£0.5
Total costs	£246.6	£158.5	£96.2
One-off costs			
Employer set-up costs (large firms)	£14.4	£8.5	£3.1
Exchequer set-up costs	£86.3	£79.4	£75.9
Total	£100.7	£87.8	£79.0

Source: BIS estimates

Beyond the First Year

60. At present unpaid parental leave must be taken before the child's fifth birthday (unless the child is disabled). The 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. Considerations include what age is most appropriate e.g. to eight when childcare becomes more affordable due to smaller child to adult ratios; to twelve to cover the transitions to secondary school; or to eighteen to cover all parents.
61. 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 2001¹⁹.
62. In order to simplify the system of leave, we propose to have the same eligibility criteria for employees taking shared parental leave and reserved parental leave. We therefore propose to remove the current one year qualifying service criteria for parental leave. Whilst the consolidation of the system of leave and parental leave may be perceived as going beyond minimum EU requirements ("gold-plating") we believe that this will provide a system which is easier to understand and administer and ultimately be more beneficial to business than different eligibility criteria for different types of leave. In addition to this we believe that the non-quantified benefits outlined below apply to all parents and all children, therefore the combination of clarity for business and the equality of opportunity justify the equalisation of leave eligibility criteria.

Number of beneficiaries and take-up of unpaid parental leave

63. To be eligible to take unpaid parental leave, a person must satisfy the following criteria:

General

- Day-1 right
- Be an employee including part-time, fixed-term, or agency workers.

Parents

- 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.

64. The latest Labour Force Survey figures for Quarter 2 (April to June 2010) show that there are 3.2 million parents who are eligible for unpaid parental leave, in that their current employer for has employed them over a year and they have a dependent child under the age of 5. This is split between about 1.8 million men and 1.4 million women.
65. The statutory entitlement to parental leave is unpaid. The Regulatory Impact Assessment 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 BERR 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.
66. 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.
67. The most recent evidence is from a DWP survey of mothers. This found that the take-up figures were lower in this 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

¹⁹ 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.

period. The same survey found 84% of mothers take their full entitlement to paid maternity leave. This would reduce their need to use unpaid parental leave during the first year

68. 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 Third 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 six percent of all parents of dependent children had taken unpaid parental leave.
69. Given these later survey findings, it is assumed that take-up of unpaid parental leave will be in the range 6-12% of eligible parents. Table 14 shows the additional parents who become eligible to this right as the age of the youngest child is raised and eligibility criteria reduced.

Table 14: Assumptions for unpaid parental leave

	Total number of employees (not already covered) with a dependent child between				
	1 and 4 ^a	5 and 7	8 and 11	12 and 15	16 and 17
Total employees ('000)	347	1,307	1,621	1,720	702
Males	166	638	727	729	296
Females	181	669	893	990	406
Take-up (per cent)					
Males	6 - 12	6 - 12	4 - 7	2 - 5	2 - 5
Females	6 - 12	6 - 12	4 - 7	2 - 5	2 - 5
Additional weeks taken					
Male	1	1	1	1	0.5
Female	4	2	2	2	1
Gross weekly pay (plus non-wage cost)					
Males	£578.84	£578.84	£578.84	£578.84	£578.84
Females	£377.87	£377.87	£377.87	£377.87	£377.87
Reorganisation cost (per cent)					
Males	9 - 15	9 - 15	9 - 15	9 - 15	9 - 15
Females	9 - 15	9 - 15	9 - 15	9 - 15	9 - 15

^a Additional eligible parents as a result of changing eligibility to a day 1 right
Source: BIS estimates

Costs of extending unpaid parental leave

70. There are three 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
 - Defending applications to employment tribunals

Employer cost of absence

71. 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.²⁰ The costs of internal reallocation are assumed to be 9 to 15 per cent of weekly labour costs.

²⁰ 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).

Annex 4 outlines how the action taken by business may vary with the length of leave taken and the size of the business.

72. This additional cost depends on the number of parents who take advantage of the extra leave entitlements, and is based on the range presented in Table 14. Table 15 shows the cost of absence borne by employers due to fathers taking one extra week of leave and mothers taking two weeks. For example using assumptions in table 14:

Cost of absence = additional take-up ('000s) x weeks taken x wage costs x 9-15%

73. Combining length of leave assumptions by these average cost estimates implies that the annual cost of the proposed extension of unpaid parental to parents with older children would cost employers, as result of increased absence cover, from between £10 and £32 million a year if extended to parents with a child under 8; between £16 and £50 million a year if extended to parents with a child under 12; between £20 and £65 million a year if extended to parents with a child under 16; and between £21 and £70 million a year if extended to parents with a child under 18.

Table 15: Employer costs from additional absences from extending unpaid parental leave

	Cost of additional leave from employees with a youngest child				
	under 5	under 8	under 12	under 16	under 18
Total additional take-up	30	144	224	276	297
Males ('000's)	20	96	147	184	199
Females ('000's)	10	48	77	92	98
Total employees (high assumption) ^a	£6.6	£31.5	£50.1	£64.5	£70.4
Males	£1.7	£8.4	£12.8	£16.0	£17.2
Females	£4.9	£23.1	£37.3	£48.5	£53.1
Total employees (low assumption) ^b	£2.0	£9.5	£15.8	£19.3	£20.7
Males	£0.5	£2.5	£4.0	£4.8	£5.1
Females	£1.5	£6.9	£11.8	£14.5	£15.6

^a The high assumption is based on 12 per cent take-up and 15 per cent reorganisation costs

^b The low assumption is based on 6 per cent take-up and 9 per cent reorganisation costs.

Source: BIS estimates

74. The range for the estimated cost of absence presented in Table 15 is wide as it incorporates both uncertainties about the number of parents who will take up their entitlement additional parental leave as well as uncertainty about the degree of costs that employers are likely to face.

Employer administrative burden (recurring)

75. The bulk of the initial one-off administration costs were dealt with in the previous IAs in 1999, 2001 and 2009. However, there will be some one-off administrative costs in becoming familiar with the extension of the legislation. Larger organisations may have to make changes to record keeping systems. We have not made an estimate of these costs as it is assumed that they will be negligible.
76. There will also 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 IA 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 16 below and are calculated by the formula:

Admin burden = additional take-up (000's) x cost of management time (£9.41)

Table 16: Employer costs from the additional administrative of extending unpaid parental leave

	Cost of additional parents not already covered with a youngest child				
	under 5	under 8	under 12	under 16	under 18
Half an hour of management time	£9.41	£9.41	£9.41	£9.41	£9.41
Total employees (high assumption) ^a	£0.4	£1.9	£2.9	£3.7	£4.1
Males	£0.2	£0.9	£1.4	£1.7	£1.9
Females	£0.2	£1.0	£1.5	£2.0	£2.2
Total employees (low assumption) ^b	£0.2	£0.9	£1.5	£1.9	£2.0
Males	£0.1	£0.5	£0.7	£0.9	£0.9
Females	£0.1	£0.5	£0.8	£1.0	£1.1
Of which: admin burden (10% for writing letter)					
High assumption	£0.0	£0.2	£0.3	£0.4	£0.4
Low assumption	£0.0	£0.1	£0.2	£0.2	£0.2

^a The high assumption is based on 12 per cent take-up and 15 per cent reorganisation costs

^b The low assumption is based on 6 per cent take-up and 9 per cent reorganisation costs.

Source: BIS estimates

77. 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 per cent of requests will be postponed.
78. The annual cost of the proposed extension of unpaid parental to parents with older children would cost employers, as result of greater administration, around 1 to 2 million a year if extended to parents with a child under 8; between £2 and £3 million a year if extended to parents with a child under 12; between £2 and £4 million a year if extended to parents with a child under 16; and between £2 and £4 million a year if extended to parents with a child under 18.

Additional employment tribunals

79. 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.

Benefits of greater parental rights

80. The introduction of the proposed policy is expected to have significant economic and non-economic benefits. These include:
- Enhancing child welfare;
 - Providing an opportunity for fathers to take time off work to care for their baby, this responds to a 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 objectives²¹.

81. 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. 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; evidence shows it is likely to have benefits for employers.
82. 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.
83. Research by the LSE Centre for Economic Performance has shown that workplaces which offer an extensive range of family-friendly policies are much more likely to have above-average performance²². Analysis of the Workplace Employment Relations Survey showed that in particular workplaces where employees are entitled to parental leave were 60% more likely to have above average financial performance and 35% more likely to have above average labour productivity compared with workplaces without parental leave policies.
84. 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 fatherhood²³. There is also evidence that shows fathers' perceived conflict between work/caring already causes them substantial stress²⁴ 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 them²⁵ thus the introduction of the proposed policy is likely to have a positive impact on commitment.
85. 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.
86. 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

Child welfare

87. 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 fathers' involvement with their child in future months and years²⁶.

²¹ 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.

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

²⁴ 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.

²⁵ Personnel Today (2009). HR Opinion Panel Snapshot Survey. London.

²⁶ Flouri, E. (2005) *Fathering and Child Outcomes*, Wiley-Blackwell, London.

88. 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 for each parent to be involved in the upbringing of their child.
89. 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 dads²⁷. 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 context²⁸. 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-esteem²⁹. 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

90. The current policy proposal has the benefit of providing equal opportunities for the mother and father for both employment and childcare. 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 market³⁰. The current policy proposal removes this gender bias to provide greater opportunities for families to decide the care of their child. A reserved paid leave period has been shown to be particularly effective for giving the father the opportunity to become more involved in caring responsibilities³¹. 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.
91. 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 employment rates³², reducing new mothers' labour market exits³³, decreasing their job turnover³⁴ and lessening the earnings gap between women with and without children³⁵. 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 takes³⁶.
92. 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. The proposals also include the option to combine parental leave with part-time work which further strengthens a new mother's attachment to the labour market. 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

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

28 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.

29 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.

30 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

31 Moss, P. (2010) 'International Review of Leave Policies', Department for Business, Innovation and Skills - Employment Relations Research Series No. 115. Available at <http://www.bis.gov.uk/policies/employment-matters/research>

32 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.

33 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.

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

35 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.

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

parental leave will extend beyond employees to their partners and children, as well as to society as a whole.

Work-life balance

93. The option of flexible 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 work³⁷. 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

94. The introduction of FPL and SFPP/PA mean that more families will be able to have more choice in how they organise childcare and employment. 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 10 and is the sum of the Exchequer cost for the reserved and shared leave periods (£80.9m to £195.9m).

Non-quantifiable benefits

95. The evidence and benefits discussed above show there are many social benefits from implementing this policy.

Risks and assumptions

96. The estimates of costs presented in this impact assessment are based upon a number of assumptions that relate to possible take-up and procedural costs associated with the provision of maternity leave, shared parental leave and 4 week reserve periods.
97. 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.
98. Instead HMRC will introduce a combination of random and risk-based checks on employers and employees. The costs of these have been estimated separately below.
99. 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.

Wider impacts

100. 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 the steps taken to ensure compliance will be proportionate.

³⁷ 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>

Summary Table of Costs and Benefits

101. Table 17 below provides a summary of all the additional costs of introducing the parental rights described in this impact assessment:

Table 17: Total costs of options extending parental rights

Policy option	Unpaid parental leave covering all parents with a child (£ million)				
	under 5	under 8	under 12	under 16	under 18
2 ante-natal appointments + flexible parental leave (34 weeks)					
Recurring costs					
Exchequer costs					
High	£209.7	£209.7	£209.7	£209.7	£209.7
Medium	£143.0	£143.0	£143.0	£143.0	£143.0
Low	£93.0	£93.0	£93.0	£93.0	£93.0
Employer costs					
High	£44.6	£70.9	£90.6	£105.8	£112.0
Medium	£20.5	£37.8	£51.1	£60.6	£64.5
Low	£5.7	£13.9	£20.8	£24.6	£26.2
Total costs					
High	£254.3	£280.6	£300.3	£315.5	£321.7
Medium	£163.5	£180.8	£194.1	£203.6	£207.5
Low	£98.6	£106.8	£113.8	£117.6	£119.2
One-off costs					
Exchequer costs					
High	£86.3	£86.3	£86.3	£86.3	£86.3
Medium	£79.4	£79.4	£79.4	£79.4	£79.4
Low	£75.9	£75.9	£75.9	£75.9	£75.9
Employer costs					
High	£14.4	£14.4	£14.4	£14.4	£14.4
Medium	£8.5	£8.5	£8.5	£8.5	£8.5
Low	£3.1	£3.1	£3.1	£3.1	£3.1
Total costs					
High	£100.7	£100.7	£100.7	£100.7	£100.7
Medium	£87.8	£87.8	£87.8	£87.8	£87.8
Low	£79.0	£79.0	£79.0	£79.0	£79.0
Benefits					
Total benefits					
High	£195.9	£195.9	£195.9	£195.9	£195.9
Medium	£130.3	£130.3	£130.3	£130.3	£130.3
Low	£80.9	£80.9	£80.9	£80.9	£80.9

a Where a medium estimated cost does not exist, an average between the high and low estimate is used instead.

Source: BIS estimates

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [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];

It is intended to introduce flexible parental leave in 2015. The review of the changes will take place in 2017, when the new right has become established.

Review objective: [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?]

The objective of the review is to assess the effectiveness of the policy in achieving the following objectives:

- Provide choice and flexibility for parents to enable them to shared child-caring responsibilities
- Remove the barriers to parents seeking to play an active and engaged part in the care of their children whilst recognising the special position of pregnant women who have no option but to take time off;
- Encourage fathers to take a more active and engaged role in bringing up their children, including reducing or adjusting working hours to provide childcare;
- Encourage both parents to retain a strong link with employment throughout their child's formative years; retaining skills and reducing the burden on the welfare state;
- Reduce the disruption to employers that can be caused by employee absence; by reducing the uncertainty of absences and minimising the administration of payments.

Review approach and rationale: [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]

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.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The 2011 Maternity and Paternity Rights Survey is currently being undertaken and the 4th Work Life Balance survey of employees to be undertaken in 2010/2011. These will be 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.

Success criteria: [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]

Increased take-up of parental leave by fathers due to greater involvement with their child.

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.

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

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 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 4.5% 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 statistics³⁸ 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 42% of male employees.

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.

Equality Duties Impact Test

Race

It is important that proposals outlined do not have a disproportionate effect on any one 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.

³⁸ SME Statistics for the UK and the Regions 2008, Department for Business Innovation and Skills, available at: <http://stats.bis.gov.uk/ed/sme/>

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. 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.

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 FPL/SFPP 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 due to 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 on firms' production decisions.

One in, one out rule

The measures contained within this IA affect firms and therefore are included in the one in one out rule whereby no new regulation can be brought in without other regulation being removed. Therefore, regulatory savings to compensate for the additional transition cost will be sought.

The fact that the new flexible parental leave arrangements will, unlike APL/ASPP, apply to fathers where the mother is not economically active reflects the change in characteristics of these arrangements compared to APL/ASPP. The new characteristics make the arrangements more akin to parental leave. A natural consequence of this is that the eligibility conditions under EU law must not discriminate between men and women.

Table A2.4 shows the direct impact to businesses; there are no quantified benefits to business in this IA. Table A2.4 shows costs on business (including one-off costs) broken down by public sector and private / third sector and shows the total cost. In recognition of the higher proportion of women in public sector employment, the costs have been weighted accordingly.

The cost of introducing this set of proposals will be met by savings made to the dispute resolution system. These savings are outlined in the BIS Resolving Workplace Disputes consultation and impact assessment.

Table A2.4: Summary of Equivalent Annual Cost (Direct impact on employers)

Policy Option	Private / Third Sector (£m)		Public Sector (£m)		Total cost (£m)	
	High	Low	High	Low	High	Low
1	£46.0	£6.7	£13.0	£2.1	£59.0	£8.8
2	£63.5	£12.1	£21.8	£4.8	£85.4	£17.0
3	£76.5	£16.8	£28.5	£7.2	£105.0	£23.9
4	£86.5	£19.2	£33.8	£8.5	£120.2	£27.7
5	£90.5	£20.3	£35.9	£9.0	£126.4	£29.3

Source: BIS estimates. Figures have been rounded. For one in one out purposes the Department is seeking an out of equal measure.

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.

Table A3: Figures used to generate take-up estimates

Fathers	Take-up (per cent)
- 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
Mothers	
- Say they would transfer their leave	26
Couples (before income adjustment)	
- 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
	HIGH ESTIMATE
Couples (after income adjustment)	
- Father's behaviour indicates commitment and mother says she would transfer leave	4
	LOW ESTIMATE
- 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
	MEDIUM ESTIMATE

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

Annex 4: Cost of Absence

Some of the options assessed in this IA include extension of existing leave arrangements or the introduction of new leave arrangements. This will lead to parents spending longer away from work. This is likely to have cost implications for employers.

When an employee is absent, e.g. on maternity leave, employers have to decide how to cover for the absence. There are two principal strategies open to employers: a) employ a temporary replacement, either on a fixed term, casual or agency temp basis; or b) re-organise work among existing staff³⁹. Some employers will combine the two either through necessity or choice. 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. These are discussed below.

Duration and nature of absences

The length of the absence and its nature (whether planned or unplanned) will influence the decision of the employer whether to cover using a temporary worker or through re-organising the work among existing staff and managing the situation internally.

Short-term absences lasting a few weeks (such as the existing entitlement to paid annual leave or paternity leave) will tend not be covered by using a temporary employee. Instead work will be re-arranged among staff. Possible costs involved may be the payment of overtime and/or a loss in productivity⁴⁰.

Longer periods of leave are more likely to be covered using a temporary replacement. This involves recruitment of an additional employee either through an employment agency or through independent search for a suitable candidate.

Results from a study commissioned by BIS (then DTI)⁴¹ indicate that different employers have different length of absence thresholds when they decide to switch from internal to external cover. The threshold depends on the structure of the workforce as well as on the size of the company and the nature of business.

Size of the company

Large companies with a variety of skills and sufficient numbers of employees in each group may find it easier to cover for absent employees within the existing workforce. In contrast, small companies have a smaller pool of internal labour and may therefore find it more difficult to move employees from one job to another, particularly if the absent employee has skills that are not found among other members of the workforce. In many small companies with owner managers, the owner will take on more work in order to cover for an absent employee without having to train somebody up to the job. It can be assumed that the threshold, i.e. the period when it becomes worthwhile to employ an additional employee, is higher in small businesses. Small firms are also less likely to experience long-term absences and have therefore less experience with the management of this form of absence.

Nature of the business

The nature of the business will also affect how easy it is for employers to cope with absences. One relevant factor is how employment is dispersed across different workplaces. Large companies with networks of small workplaces (e.g. retail sector, banking) may find it more difficult to reallocate labour than similar size firms where employment is concentrated in larger workplaces. The nature of the relationship with the customer is also important. Findings from the research suggest that prolonged absences of key employees can cause problems when client relationships are especially important.

Skills of the employee

Highly skilled employees who are in short supply on the temporary jobs market will be able to command higher wages, if indeed they are available at all. Preliminary research findings show that employers have

39 A third option would be to do neither and accept a loss in output. The costs in this case are likely to be similar to those of reorganising work.

40 In some cases, such as very short term unplanned absences, part of the firm's response may be through increased amounts of unpaid overtime worked by other employees. Hence some of the costs may be borne by other employees rather than by the employer.

41 Bevan, S. et al (2004) How employers manage absence. BIS Employment Relations Research Series No. 25, available at: www.bis.gov.uk/files/file11503.pdf

problems recruiting short-term temporary cover for employees with specialised skills. Within those labour markets for highly skilled workers (such as lawyers, accountants, consultants, IT specialists etc.) an increased use of temporary employees may lead to serious bottlenecks. In some occupations there exist well-established markets for temporary workers. Examples are nurses and teachers. In principle, the existence of these temporary jobs markets should help employers to find temporary cover. Of course, this will depend on the overall recruitment situation in the labour market. In turn, this implies that there may be a geographical dimension: employers may find it more difficult to arrange temporary cover in particularly tight labour markets.

Cost assumptions

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

- Short-term absences are assumed to be met through reorganisation of work, longer term absences primarily through employment of temporary cover;
- There should be variation in costs by size of business (25 employees is used as the threshold in this IA);
- What constitutes a 'short term' absence varies by size of firm. Nearly all large businesses are assumed to use temporary cover for absences of 6 months plus, whereas a significant proportion of smaller businesses would continue to use internal reorganisation;
- The costs of meeting absences through internal reorganisation are assumed to be between 9-15% of labour costs. This mark-up appears consistent with the (limited) evidence available. It is assumed not to drop off 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.
- The costs of arranging temporary cover are greater for smaller businesses than larger ones, because larger firms are likely to have greater 'buying power' in the temporary jobs market and may be able to benefit from economies of scale in recruitment processes.
- Some of the costs of arranging temporary cover are fixed costs incurred regardless of the length of period over which cover is required. Examples include recruitment costs and initial training. Employers will only incur these costs when policies increase the number of cases when temporary cover is required. In addition, there are likely to be some on-going variable costs as the replacement rises up the 'learning curve'. These in practice are likely to vary according to the skill requirements of the job being covered.
- On this basis, it is assumed that the one-off costs of temporary cover are 5% of annual labour costs for firms with 50+ employees and 8% for firms with less than 50 employees, with on-going variable costs set at 3-5% for both types of firm.

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