HM Government

CONSULTATION ON MODERN WORKPLACES

The Parental Leave (EU Directive) Regulations 2013 – Impact Assessment

NOVEMBER 2012

Title: Parental Leave Directive **IA No:** 0379 **Lead department or agency:** BIS **Other departments or agencies:**	Impact Assessment (IA) **Date:** 06/08/2012 **Stage:** Final **Source of intervention:** EU **Type of measure:** Secondary legislation **Contact for enquiries:** Kim Wager/ Ciaran Devlin

Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£-7.7m	£-5.4m	£0.59m	No	NA

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

In order to fulfil our European obligations the Government needs to amend existing UK legislation to comply with EU Directive 2010/18 on Parental Leave by 2013. The Government intends to implement the Parental Leave Directive in a manner that will support its wider policy objectives of encouraging shared parenting and maintaining attachment to the labour market whilst minimising burdens to business.

What are the policy objectives and the intended effects?

To ensure compliance with our European obligations under the Parental Leave Directive in a way that supports and is consistent with the proposed new system of flexible parental leave due to be introduced in 2015.

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

1. Do Nothing: this would amount to a failure to implement the Directive and a breach of European law.

2. Minimum Implementation of EU requirements (preferred option): Implement the necessary legislative changes to meet the minimum requirements of the Directive by increasing the parental leave allocation from 13 to 18 weeks and giving employed agency workers the right to request flexible working on return from parental leave.

3. Non-regulatory option: A non-regulatory option is not feasible in this case as minimum compliance with the Directive requires legislative changes.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 03/2018

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

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

Signed by the responsible SELECT SIGNATORY: Date:

Summary: Analysis & Evidence

Policy Option 1

Description: Minimum Implementation of EU requirements (preferred option)

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -38.9	**High:** 0	**Best Estimate:** -7.7

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Negligible		0	**0**
High	Negligible		4.52	**38.9**
Best Estimate	Negligible		0.89	**7.7**

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

Absence costs to employers of between £0 and £3.79m due to additional leave taken, and recurring administration costs of between £0 and £0.73m due to additional requests for periods of parental leave.

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

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate	not quantified		not quantified	**not quantified**

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

Not quantified

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

Employers benefit from reduced turnover of staff as additional periods of parental leave may mean fewer parents have to leave the labour market to care for children. Employers may invest more in training as a result, which may lead to productivity benefits. Benefits to families and children through parents having more time to care for their child and develop deeper bonds early in the life of the child.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

Estimated take-up of extra weeks of parental leave of between 0% and 15% of those eligible to take the additional unpaid leave. Amount of time taken is unlikely to be the full 18 weeks. The existing limit of 4 weeks leave per year (unless the employer agrees otherwise) will be retained in order to minimise costs to business. Only a nominal increase in take up of the right to request flexible working on return from parental leave as a result of the extension to employed agency workers.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.59	**Benefits:** 0.0	**Net:** 0.59	No	NA

Parental Leave Directive Final Stage Impact Assessment - Evidence Base

Problem Under Consideration

1. Both at domestic and European level there has been recognition of the need to achieve greater gender equality in attachment to, and position in the labour market and to support the reconciliation of parental and professional responsibilities within the family unit. In Europe, this led to the first Parental Leave Directive in 1994 (94/36/EC).

2. The Government also recognised the importance of this issue in relation to the operation of the UK labour market and related economic growth. Therefore, a new system of flexible parental leave is planned for implementation in 2015. The EU Commission has separately updated the original Parental Leave Directive and adopted a new Directive on Parental Leave (Council Directive 2010/18/EU) to improve and build upon the common minimum standard of protection already in place across all Member States for parents with young children. The implementation deadline for this Directive is the 8th of March 2013.

3. The Government intends to implement the Parental Leave Directive in a manner that will support its wider policy objectives of encouraging shared parenting and maintaining attachment to the Labour Market. The Directive leaves the age limit within which leave must be taken to the discretion of Member States. Currently, the UK allows parents of disabled children 18 years in which to take their allocated amount of unpaid parental leave, whereas parents of all other children are required to take their leave within the first 5 years of their child's life. The Modern Workplaces Consultation signalled the Government's intention to raise the age limit so that all parents will have up until the time that their child turns 18 to take their leave entitlement. This policy element is key to demonstrating that the new system will provide for shared parenting and labour market attachment, but, will not be implemented until 2015.

4. This impact assessment only details the minimal changes necessary to ensure compliance with Parental Leave Directive which need to be made in 2013. There are 2 changes: an increase in the amount of (unpaid) parental leave available to eligible employees from 13 to 18 weeks and an extension of the right to request flexible working on return from parental leave to employed agency workers. This impact assessment examines the costs and benefits of these 2 changes – the costs of raising the age limit to 18 have been dealt with as part of the impact assessment on the new flexible parental leave system.

Rationale for Intervention

5. In providing minimum statutory provisions to guarantee rights to parental leave and to request flexible working we need to ensure that we have complied with our European obligations. Transposition of the Parental Leave Directive (2010/18/EU) requires us to increase to 18 weeks the number of (unpaid) weeks of parental leave available to each parent and extend the right to request flexible working on return from parental leave to employed agency workers. This can only be achieved by a legislative amendment.

Policy Objectives

6. To support the proposed new system of flexible parental leave by providing for shared parenting in a way that fulfils our obligations under European law.

7. To increase the availability and uptake of flexible working for employed agency workers to enable individuals to manage their work alongside other commitments and to help employers of agency workers realise the benefits flexible working can have on their business.

Current Policy

Period of Leave

8. The first Parental Leave Directive (94/36/EC) has been implemented in the UK through the Employment Rights Act 1996 and the Maternity and Parental Leave etc Regulations 1999 and corresponding legislation specific to Northern Ireland. Employed parents in the UK have a right to 13 weeks' parental leave for each child to be taken up to the child's 5th birthday. When a child is adopted, the leave may be taken up to the 5th anniversary of the child's placement for adoption (or the child's 18th birthday if that is sooner). Parents of disabled children may take up to 18 weeks' parental leave up to their child's 18th birthday. To be eligible parents must have been continuously employed for one year by the time they want to take the leave.

9. Parents and employers are encouraged to agree how parental leave will be taken. Where there is no local agreement the Government's fallback scheme applies. Under this scheme parents must give 21 days' notice of when they want to take parental leave. The leave must be taken in blocks of one week up to a maximum of four weeks in a year. Employers may postpone parental leave for up to six months if it would unduly disrupt their business but must agree a new date with the employee.

10. There is no statutory entitlement to pay during parental leave. Parents may be able to receive Income Support during parental leave. A period of parental leave may also increase entitlement to child tax credits.

11. The Parental Leave Directive requires 4 months leave be available for each parent. We therefore intend to increase the current entitlement so that all parents are entitled to 18 weeks of unpaid parental leave per child.

Right to Request Flexible Working

12. Current UK legislation allows mothers and fathers of children aged 16 or under, or parents of disabled children under 18 and carers of adults to make a request to change their working arrangements with respect to hours or location of work. The vast majority of UK parents covered by the Parental Leave Directive already benefit from the existing domestic right to request flexible working as this is available to employees with 26 weeks' service with their employer. However at present employed agency workers are not currently covered by the statutory right to request flexible working and UK legislation must be amended to extend the right to make a request on return from parental leave to this group (under the standard right to request flexible working procedure).

Consultation

13. BIS consulted on proposed amendments for the age limit as part of the Modern Workplaces Consultation. The impacts of this are detailed in the Impact Assessment on Flexible Parental Leave. The consultation signalled the Government's intention to implement the Parental Leave Directive 2010/18/EU including extending the amount of parental leave available to each parent to 18 weeks.

14. In order to minimise the costs and disruption to business, we do not propose to raise the age limit in 2013 but to wait until the new system of flexible parental leave is introduced in 2015. We will also maintain the current position where employees will be limited to a maximum of four weeks unpaid parental leave per year, where employers and employees do not agree other arrangements.

Options considered

Option 1 - Do nothing.

15. Choosing not amend the current UK legislation would result in UK employees being denied rights to parental leave that is available to other EU citizens. This would amount to a failure to implement

the Directive and a breach of European law.

Option 2 – Minimum implementation of EU requirements (preferred)

16. Implement the necessary legislative changes to meet the minimum requirements of the Directive by increasing the parental leave allocation from 13 to 18 weeks and giving employed agency workers the right to request flexible working on return from parental leave.

Option 3 – Non regulatory options

17. A non-regulatory option is not feasible in this case as minimum compliance with the Directive requires legislative changes.

18. The European Directive specifies that parental leave shall be granted for at least a period of four months. The current UK maternity and paternity regulations specify that the maximum available amount of unpaid parental is 13 weeks. Only a legislative change increasing the amount of available leave will therefore satisfy the requirements of the Directive. Similarly, current UK regulations on flexible working explicitly exclude agency workers from the right to request flexible working. Only a legislative change extending the right to request flexible working to employed agency workers on return from Parental Leave will satisfy the requirements of the Directive which state that the Directive applies to workers with a contract of employment or an employment relationship with a temporary agency.

Costs and benefits of Option 2

Extension of Parental Leave allocation from 13 to 18 weeks

Number of beneficiaries and take-up of unpaid parental leave

19. Labour Force Survey figures for Quarter 2 (April to June) 2011 show that (excluding parents of disabled children who already have the right to 18 weeks of parental leave), there are 3.4 million parents who are currently eligible for unpaid parental leave, in that their current employer has employed them for over a year and they have a dependent child under the age of 5. This is split between about 1.83 million men and 1.57 million women.

20. 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 DTI in autumn 2000 found that 12% of employed parents who said their employers provided unpaid parental leave also said that they had taken unpaid parental leave since December 1999. Contrary to the assumptions made previously, take-up rates were identical for mothers and fathers.

21. 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.

22. Evidence from the DWP 2009 Maternity and Paternity Rights and Women Returners Survey 2009/10 shows that the take-up figures were lower in the first 18 months. 31% of mothers said they had access to unpaid parental leave but only 6% had used it. It should be noted that maternity leave and pay have increased over this period.[1] 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.

[1] In 2001, paid maternity leave increased from 26 weeks to 39 weeks, and all mothers became entitled to 52 weeks of maternity leave irrespective of the length of service with their current employer.

23. Findings from the Maternity and Paternity Rights surveys 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 most recent and most relevant evidence in this area comes from the Fourth Work Life Balance survey of employees, published in June 2012. The survey asked all parents with dependent children under the age of six whether, since starting their current job or in the last 12 months they had taken unpaid parental leave. The survey found that only 11 percent of these parents had taken unpaid parental leave in the last year. As this figure is the most up to date, and the most directly relevant of the survey evidence available, we use this 11 per cent figure to estimate the impact of extending the parental leave allowance.

24. Each parent is currently entitled to 13 weeks of unpaid parental leave per child. This overall entitlement will increase to 18 weeks. Parents are limited to four weeks unpaid parental leave in any twelve month period, unless the employer agrees otherwise. Evidence on average durations of parental leave is scarce, but the available evidence suggests that few parents currently come close to using their 13 week allowance[2]. Our main data source on uptake of parental leave is the Work Life Balance Survey. In older versions of this survey, respondents were asked about the duration of parental leave taken. However, given that only a small number of those surveyed had actually taken parental leave, the small sample sizes mean that the average duration in the sample can not be relied upon to be completely representative. However, as this is the only source of information on durations of parental leave taken, we use the indications provided by these figures to inform our assumptions around the number of parents likely to be affected by this policy change. Figures from the 2nd Work Life Balance Employee Survey – Technical Report (2003) show that most parents take fairly short periods of parental leave. Nearly 40% of those taking parental leave took only 1 or 2 days, the median amount of leave taken was 4 days, and only fifteen per cent took more than 15 days of parental leave. This question was dropped from more recent iterations of the survey due to the poor response rate.

25. In order for the current limit to bind, over the five years in which parental leave can be taken, a parent would need to average just under three weeks per year of parental leave. The figures presented above suggest that around 15 per cent of parents taking parental leave *in any one year* take more than three weeks of parental leave. To use their full allowance, a parent would have to use (close to) this amount of leave *every year* for five years. Of these 15 per cent, it is likely that many of these parents do not use this amount of leave every year. However we use the 15 per cent figure as our high estimate (see Table 1 below), which we consider to be conservative as this should be an upper bound, not least because some of the parents who currently make use of the maximum allowance may not wish to take any more parental leave, or may already be permitted to take more than 13 weeks parental leave by agreement with their employer. Our low assumption is the lower bound estimate, where no parents take any additional leave as a result of the policy change. For our medium take-up assumption, we take the mid-point of this range and estimate that 7.5 per cent of parents use the full allowance, and would take extra leave if available. We consider this range of assumptions to be a prudent approach.

26. To calculate the impact of extending the amount of parental leave, we need to calculate as follows:

Number of eligible parents x proportion of parents taking parental leave per year x proportion of parents expected to make use of the additional leave per year x average extra amount of leave taken.

27. Since we only have indicative data as to the average duration of parental leave, we must make some assumptions about the proportion of parents taking parental leave who are currently constrained by the 13 week period, and who would take more leave if the period was extended to 18 weeks. We must also make assumptions about the amount of additional leave that these parents would take. Our assumptions are presented in Table 1 below. We consider these to cover a conservative range of options, from the low end

[2] We have not been able to find any international evidence on average durations of parental leave. Moss (2011) International Review of Leave Policies and Related Research 2011 gives a summary of parental leave policy across a wide range of countries, but does not typically provide information on average durations of parental leave. Where average durations are provided, these are not for a comparable form of parental leave.

where no parents take any additional leave as a result of this policy change, to the high end, where fifteen per cent of all parents taking parental leave in any one year currently make use of their full allowance *and* would make use of the full extra week per year as a result of the policy change. Again, the medium estimate is the mid-point of this range.

Table 1: Additional take-up of parental leave due to extension from 13 weeks to 18 weeks

	High	Medium	Low
Eligible Population [a]	3.49m	3.49m	3.49m
Proportion of eligible parents taking parental leave in any 12 month period [b]	11%	11%	11%
Proportion of those parents taking parental leave who currently use the 13 week allowance *and* who would use additional leave if available [c]	15%	7.5%	0%
Average extra days leave taken (max 1 week per year) [d]	5	2.5	0
Total extra days parental leave	288,000	72,000	0

Sources:
[a] Labour Force Survey
[b] 4th Work Life Balance Survey Report, 2012
[c] BIS Assumptions based on 2nd Work Life Balance Employee Survey – Technical Report, 2003
[d] BIS Assumptions

Costs of extending Parental Leave from 13 to 18 weeks

- Increased employer absence costs
- Increased employer admin costs (recurring) if the policy change results in an increased number of discrete periods of parental leave
- Employer familiarisation costs

Employer Absence costs

28. Although parental leave is unpaid, an increase in parental leave taken by parents means that employers will incur increased costs due to employee absence. Table 2 below shows the cost of absence to employers from the increase in parental leave described in Table 1.

29. Due to the short-term nature of the absence, it is assumed that all employers react by reallocating work within their organisations rather than by recruiting temporary replacements[3]. Research commissioned by BIS (then DTI)[4] found that employers are likely to incur short-term absence costs due to overtime payments and opportunity costs from displaced outputs elsewhere.

30. Our approach to estimating the cost of absence follows that of other recent Impact Assessments such as the Flexible Parental Leave Impact Assessment. A full explanation of our approach is given in Annex 3 and for

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

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

brevity we simply outline the assumptions here. Estimating the costs of covering absence is difficult since accurate data on the various components are not available. A recent CBI survey[5] found that few firms collect detailed data on costs, but estimated that on average absence, both planned and unplanned, costs around £760 per employee for 6.5 days. It further estimated that the indirect costs for all absences, once sick pay or salaries are removed are around 29%[6] of this total cost. For this IA have we assumed a lower figure to take account of non-wage labour costs and the fact that these absences are planned (so less costly than unplanned absence). We have thus assumed that the employer cost of dealing with absence is between 7% and 14% of total labour costs (see Annex 3 for more detailed explanation). [7]

31. Table 2 below shows our estimates of the employer absence costs. Wage costs are taken from ASHE 2011 and reflect the average across part-time and full-time workers, as this reflects the mix of parents eligible for parental leave.

Table 2: Employer Absence Costs

	High	Medium	Low
Total number of extra weeks taken	57,500	14,400	0
Median weekly wage (ASHE 2011), up rated by 16.4% to reflect non-wage labour costs	£470	£470	£4700
Employer re-organisation cost (as proportion of total labour costs)	0.14	0.105	0.07
Cost of absence	£3.79m	£0.71m	0

Employer Admin costs

32. Parents could expand the amount of parental leave they take in a number of ways. They could expand the frequency with which they take parental leave, or expand the duration of their parental leave periods, or some combination of the two. If parents take an increased number of discrete periods of parental leave, this will impose some admin costs on employers, as they have to process the request for parental leave and modify their payroll accordingly. If parents simply take longer periods of parental leave, this will not add to employers' admin costs, as these would have been incurred anyway.

33. We have no way to discern how parents will alter their parental leave patterns if they do take a greater amount of parental leave as a result of this policy change. To be prudent, we assume a high estimate that all of the additional leave is taken in the form of additional, discrete periods of leave. Our medium and low estimate is that fifty per cent of the leave is taken in this form. In terms of quantifying the admin costs per additional request for parental leave, our approach to estimating admin costs is consistent with that employed in other recent impact assessments in this area **[Note to RPC – this methodology is the same as that used in the Flexible Parental Leave IA].**

Table 3: Recurring Employer Admin costs

	High	Medium	Low
Half an hour of management time, up rated by 16.4 per cent for non-wage costs (ASHE 2011 median)	£12.75	£12.75	£12.75
Total number of extra weeks taken per year	57,500	14,400	0
Proportion of parents taking extra leave assumed to take an additional period of leave	100%	50%	50%
Admin costs	£0.73m	£0.18m	£0
			34.

5 *Healthy Returns? Absence and Workplace Health Survey 2011*, CBI Pfizer, London.
6 Based on CBI estimate of average earnings of £435 per week in January 2011
7 Throughout this IA all wages data is taken from the ONS Annual Survey of Hours and Earnings 2011

One-off Employer Familiarisation/Transition Costs

35. Employers may incur some costs in familiarising themselves with the policy change and making any necessary changes to HR practices and guidance. As the policy change is relatively minor and not complex, we anticipate that these costs will be small in size and we do not attempt to monetise these. Employers are unlikely to have to make significant procedural or systems changes in response to this policy change. Large employers are likely to familiarise themselves with the policy change when it is implemented since they will deal more frequently with requests for parental leave, whereas smaller employers are likely to familiarise themselves with the new legislation on a case by case basis as and when an employee requests parental leave.

Benefits of Extended Parental Leave Allowance

36. The option of additional parental leave will enable parents to achieve a better balance between work and family responsibilities, providing the environment for increased maternal and paternal employment. Currently, there may be circumstances where the 13 week allowance is insufficient and a parent is forced to resign from their employment in order to care for their child. Extending the allowance to 18 weeks will reduce the number of cases where this occurs. Reducing the risk of parents of young children becoming detached from the labour market brings economic benefits, such as increased labour supply and improved career development for affected parents. Moreover, employers may be more willing to invest in training for their employees if they are less likely to resign their employment in order to care for their child.

b) Costs and benefits of extending the right to request flexible working to employed agency workers on their return from parental leave

37. Employed agency workers are not currently covered by the statutory right to request flexible working but those with more than 12 months service with their employer would become entitled to make a request on return from parental leave as a result of the Directive.

38. It is difficult to estimate the number of employed agency workers; there is little consistency between the findings of official statistics and other studies that seek to quantify this. There are 3 main sources available:

- Office of National Statistics (ONS) Labour Force Survey (LFS, Q1 2012) gives an estimate of 282,000
- Recruitment & Employment Confederation (REC) Census, 2006 – gives an estimate of 1.1 million
- BIS Survey of Recruitment Agencies (SORA), 2007 – gives an estimate of around 1.5 million

39. These estimates differ significantly as they refer to different time periods and draw on different methodologies. The LFS in particular is thought to substantially underestimate the number of short-term agency workers on contracts of limited duration.

40. These differences narrow when we look at the group relevant for this proposal, however, i.e. agency workers with at least 12 months service (12 months qualifying service would be required to take parental leave, the return from which would mean an employed agency worker could request flexible working) . As Table 4 below shows, the sources are reasonably consistent when it comes to the number of agency workers with more than twelve months service.[8] The high proportion of agency workers in the LFS with more than 12 months service indicates that the agency workers omitted from the LFS tend to be the short term agency workers who dominate the figures from other sources. In light of the information in Table 4 below, we estimate that there are between 165,000 and 192,000 agency workers in the UK who may be affected by the policy change.

Table 4: Sources of Agency Worker Population Estimates

Source	Estimated number of agency workers	Proportion with more than 12 months	Estimated number of agency workers

[8] The Recruitment & Employment Confederation (REC) Census, 2006 does not provide a breakdown of agency workers by length of service.

		service	with more than 12 months service
Survey of Recruitment Agencies	1.5 million	11%	165,000
Labour Force Survey	282,000	68%	192,000

41. We do not have detailed information on the proportions of agency workers with children under the age of 5, as sample sizes from the Labour Force Survey do not permit that level of analysis. Instead, we assume that the proportion of eligible employed agency workers with children under the age of five is similar to that in the general population of employees (Table 5 below), and that they are equally likely to make use of parental leave as other employees. Therefore, we assume that 16.7 per cent of these agency workers are eligible for parental leave, and that take-up is 11 per cent of the eligible population (as above). Following this approach, we estimate that between 3,030 and 3,530 agency workers take parental leave per year.

42. The number of employees who become entitled to request flexible working as a result of this change is therefore very small. Analysis conducted in relation to the introduction and extension of the statutory right to request flexible working in the UK suggests that among all requests to work flexibly in any year, the majority should be seen as deadweight. Analysis of data from the Work-life Balance Survey of Employees suggests that the statutory right prompts 1.25% of entitled mothers, and 0.75% of entitled fathers to make a request (an average of 1% of those entitled overall).

43. Therefore we estimate that, as a result of this policy change there will be approximately between 30 and 35 additional requests for flexible working from agency workers upon return from parental leave. We do not attempt to monetise the costs arising from these requests as they will be minor, and it would not be proportionate to do so.

44. For a description of the typical costs faced by an employer when an employee requests a change, see the consultation stage Flexible Working Impact Assessment, available at: UUUUhttp://www.bis.gov.uk/assets/biscore/employment-matters/docs/e/11-744-extending-right-to-request-flexible-working-impact.pdf,

Table 5: Eligible Population of Agency workers and their take-up rates

	Low	High
Number of eligible agency workers (more than 12 months service)	165,000	192,000
Proportion with children under 5 years old	16.7%	16.7%
Proportion of eligible parents taking parental leave	11%	11%
Number of agency workers expected to take parental leave	3,030	3,530
Of which expected to make a request for flexible working as a result of the policy change	30	35

Benefits associated with an employee working more flexibly

- Reduced vacancy costs and increased skill retention. Employees are more likely to stay with their employer following the adoption of a flexible working arrangement because it will enable them to better balance their work and home commitments.

- Increased productivity and profits. Employees are likely to be more productive following the adoption of a flexible working arrangement because of the positive effect on morale, motivation and effort that follows. There can also be productivity improvements as changes in employee working arrangements fit better with business' activities, e.g. newly-negotiated shift patterns better matching peak periods of customer demand.

- Reduced absenteeism. Employees are likely to be absent less following the adoption of a more flexible working arrangement as they are better able to balance work and non-work commitments.

Risks and assumptions

46. As with all impact assessments, the quality of the estimates outlined above depends on the assumptions used and the quality of data available. As mentioned above, the data available to us to assess the impact of the policy change is not perfect or complete. Although our assumptions are evidence based, we would have preferred to have a wider pool of evidence on which to base our analysis. However, given the likely scale of the impacts of this proposal, it would not be proportionate to commission specific research to provide further evidence to support these assumptions.

47. If our assumptions are underestimates or overestimates, the true impact of the policy could be outside the range of estimates presented above. However, we believe that we have taken a prudent approach to calculating the costs and benefits, such that the true impact of the policy is likely to lie within the range presented.

Summary table of costs and benefits

Table 6: Summary table of costs and benefits

	High	**Medium**	**Low**
Costs			
Extension of Parental Leave from 13 to 18 weeks			
Employer cost of absence	£3.79m	£0.71m	£0
Recurring Employer admin cost	£0.73m	£0.18m	£0
One-off familiarisation/transition costs	Negligible	Negligible	Negligible
Extending right to request flexible working to agency workers on return from parental leave	Negligible	Negligible	Negligible
Benefits	Non-quantified	Non-quantified	Nonquantified
Total net costs (annually recurring)	**£4.52m**	**£0.89m**	**£0.0m**
Total Net Present Value	**-£38.9m**	**-£7.7m**	**£0.0m**

48. The best estimate for the net present value of this policy change is £-7.7 million. This best estimate has been calculated by applying medium estimates throughout. The high and low estimates for the NPV are at the extremes of our assessment of the likely impacts of the policy, where either all the high or all the low assumptions hold respectively.

Better regulation issues

49. The proposed legislative change is out of scope for both 'One-in, One-out' (OIOO) and the moratorium on new regulations affecting micro-businesses as it involves the minimum implementation of an EU Directive.[9, 10]

[9] See http://www.bis.gov.uk/assets/biscore/better-regulation/docs/o/11-671-one-in-one-out-methodology for details of regulatory changes which are considered in scope for OIOO.

[10] See http://www.bis.gov.uk/assets/biscore/better-regulation/docs/g/11-1198-guidance-moratorium-on-new-domestic-regulation.pdf for details of regulatory changes which are considered in scope for the moratorium.

Annex 1: Post Implementation Review (PIR) Plan

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];

As per the Government's Guiding Principles for EU legislation it is intended that a duty to review be included in the implementing legislation with a review date of 2018 – 5 years after the legislation comes into force

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 implementing legislation the policy in achieving the following objectives:

Ensuring compliance with EU Directive 2010/18 on Parental Leave in a way that supports and is consistent with the proposed new system of flexible parental leave due to be introduced in 2015.

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 Work Life Balance series of surveys will continue and these can be designed to form a central part of the evaluation process. Other sources of data will be available from the Labour Force Survey.

Stakeholder views will be taken into consideration as to whether the legislation has been designed in a way that minimises administrative burdens for business.

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

The 4th Work Life Balance Survey has recently been published. This will provide a baseline on the use of parental 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 choice and flexibility for families in arranging time-off and child care as measured by an increase in take up of parental leave and the amount of parents who report that they have requested the right to work flexibly.

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

Data and information will be monitored post implementation through a the Work Life Balance Survey

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.

The overall costs of these changes are very small and the costs to small business will also be very small.

Equality Duties Impact Test

Race/ Disability/ Gender

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, race or gender. Furthermore, we do not expect that employers employing individuals with disabilities or of a particular race or gender will be unduly affected by the proposed adjustments in this impact assessment as all groups are equally entitled to the additional leave and rights to request flexible working.

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 with children 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. 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 and impact of firms' production decisions.

Annex 3: Estimating Employer Cost of Absence

The policy changes assessed in this IA may mean that some parents spend a greater amount of time away from their place of work than would otherwise have been the case. Employee absence has cost implications for employers, even though the employers do not incur wage costs for the periods of parental leave discussed in this Impact Assessment.

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

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

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

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

Cost assumptions

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

Moreover, whilst studies may seek to identify the cost of absence in general, including both planned and unplanned, and paid and unpaid absence, the absence covered in this impact assessment is unpaid and planned – for example parents must give notice to their employer before taking parental leave.

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

In 2011 the CBI published a survey on absence and workplace health.[11] The survey found a median cost of absence of £760 per employee per year, based on an average of 6.5 days absence per employee. This figure includes the wage costs of absence, as well as an estimate of the reorganisation costs and loss of productivity. Therefore the weekly cost of absence is estimated to be £585, and subtracting the average weekly wage costs of £453 leaves indirect costs of £132, or 29% of wage costs. However, this does not account for standard non-wage costs such as employer national insurance contributions and employer pension contributions.

Based on Eurostat data, we assume throughout this Impact Assessment that non-wage labour costs are 16.4% of wage costs. Up rating the average weekly wage costs by 16.4% to £527 means that only about £58 (or 11% of total labour costs) of the weekly cost of absence can be attributed to reorganisation costs – the rest of the costs are due to the capital spent on unproductive labour. However, this 11% figure is likely to be an underestimate, as for the reasons discussed above, the re-organisation costs of absence may be difficult for employers to observe. On the other hand, the CBI figure refers to both unplanned and

[11] Healthy returns? Absence and workplace health survey 2011, Confederation of British Industry

planned absences, whilst the leave discussed in this Impact Assessment is all planned, which should mean that the reorganisation costs covered here are smaller than for absence in general.

The CIPD published a similar survey, also in 2011. They identified a median cost of absence of 7.7 days per employee per year, with a median cost of absence of £673 per employee per year. It is not clear what wage data is used to calculate this figure, but using data from the Annual Survey of Hours and Earnings (ASHE) 2011, which found that median full-time weekly earnings were £499, we find that the cost of five days of absence ((673/7.7)*5), at £437 is less than the median full-time weekly earnings. This suggests further that employers find it difficult to identify the cost of absence, and indeed the CIPD present a table highlighting the costs that employers took into account when calculating the cost of absence (Table A1 below). Only 27 % of employers took the cost of temporary cover into account, 23% factored in the cost of additional overtime, and 21% included the costs due to lost production. One explanation for the median weekly cost of absence being lower than median weekly earnings may be that if reorganisation costs are not accounted for, employees may receive only a proportion of their salary if they are on long-term sick leave.

Table A1: Criteria included in employer's calculation of average cost of employee absence per employee

	%
Occupational sick pay	81
Statutory sick pay	65
Temporary cover	27
Additional overtime costs	23
Lost production or service provision	21
Other	6

Source: Absence management – Annual survey report 2011, Chartered Institute of Personnel and Development

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

The costs of meeting absences through re-organisation are assumed to be between 7-14% of total labour costs (both wage and non-wage costs). This mark-up appears prudent given the evidence presented above, which for example in the case of the CBI survey suggests re-organisation costs of around 11% of total labour costs, but as the CIPD survey shows, employers may not fully take into account the reorganisation costs when considering cost of absence. Therefore we opt for a range of 7% -14% re-organisation costs, consistent with the (limited) evidence available.

We think this is justified and prudent, and that the true value is likely to lie in this range, because whilst on the one hand we anticipate that the studies quoted above underestimate the reorganisation costs, at the same time the absences assessed in this Impact Assessment are planned, meaning that employers can optimise their re-organisation to minimise costs.

This approach is consistent with that of previous Impact Assessments covering absence, and stakeholders have broadly voiced their support for this approach, recognising that this is a difficult area in which to monetise costs.

Re-organisation costs are assumed to stay constant as length of absence increases: this is because many of the costs involved (overtime payments, opportunity costs from displaced outputs elsewhere) are unlikely to diminish over time.

Short-term absences are assumed to be met through reorganisation of work, longer term absences primarily through employment of temporary cover;

We recognise that there may be variation in absence costs by size of business, as different sizes of organisation may respond to absence in different ways. However as the studies presented above average out the costs of absence over organisations of all sizes, we apply the 7% - 14% assumption equally across all firms.

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